

ISRG Journal of Economics, Business & Management (ISRGJEBM)



ISRG PUBLISHERS

Abbreviated Key Title: Isrg J Econ Bus Manag

ISSN: 2584-0916 (Online)

Journal homepage: <https://isrgpublishers.com/isrgjebm/>

Volume – III Issue - VI (November-December) 2025

Frequency: Bimonthly



THE IMPACT OF EXCHANGE RATE FLUCTUATIONS ON THE PROFITABILITY OF VIETNAMESE IMPORT–EXPORT ENTERPRISES

Hoang Thi Thu Hien

Banking Academy of Vietnam 12 Chua Boc, Kim Lien, Hanoi.

| **Received:** 14.11.2025 | **Accepted:** 19.11.2025 | **Published:** 20.11.2025

***Corresponding author:** Hoang Thi Thu Hien

Banking Academy of Vietnam 12 Chua Boc, Kim Lien, Hanoi.

Abstract

Exchange rate fluctuations have long been recognized as a critical factor influencing the financial performance of import–export enterprises, particularly in emerging economies such as Vietnam, where international trade plays a central role in economic growth. This study investigates the impact of exchange rate volatility on the profitability of Vietnamese import–export enterprises through a qualitative descriptive analysis based on secondary data from the State Bank of Vietnam (SBV), the General Statistics Office (GSO), the World Bank, and industry reports from 2015 to 2023. The findings indicate that fluctuations in the USD/VND exchange rate exert significant effects on revenue, production costs, and profit margins of businesses involved in international trade. Import–dependent enterprises face rising input costs when the domestic currency depreciates, while export-oriented firms may benefit from improved price competitiveness abroad. However, the advantages for exporters are often moderated by factors such as exchange rate pass-through, contract rigidity, and rising costs of imported raw materials. The study also reveals that many Vietnamese import–export enterprises still lack effective exchange rate risk management strategies, relying primarily on short-term contract adjustments rather than financial hedging tools. Overall, the results suggest that exchange rate volatility poses substantial challenges to the profitability and long-term competitiveness of Vietnamese import–export enterprises. Strengthening risk management capabilities, expanding the use of hedging instruments, and enhancing financial resilience are essential for mitigating adverse impacts. The findings provide meaningful insights for firms, policymakers, and financial institutions in formulating strategies to stabilize earnings and support sustainable development in the context of increasing global economic uncertainty.

Keywords: Exchange rate fluctuations; profitability; currency risk; trade competitiveness.

1. Introduction

Exchange rate movements play a vital role in shaping the performance and competitiveness of firms engaged in international trade. In open economies, exchange rate fluctuations influence both import and export activities by altering the relative prices of goods, production inputs, and financial obligations (Krugman, Obstfeld, & Melitz, 2018). For emerging markets such as Vietnam where trade volume exceeds over 180% of GDP currency volatility has increasingly become a significant source of business risk (World Bank, 2023). As Vietnam continues to integrate into global value chains, exposure to exchange rate risk has become more pronounced, directly affecting the operational efficiency and profitability of import–export enterprises.

Theoretically, exchange rate changes affect firms through several channels. A depreciation of the domestic currency may enhance the competitiveness of export-oriented enterprises by making Vietnamese products cheaper in international markets. However, the same depreciation tends to increase the cost of imported inputs, machinery, and intermediate goods, thereby reducing profit margins for firms dependent on foreign materials (Bahmani-Oskooee & Aftab, 2017). Conversely, an appreciation of the VND can lower import costs but weaken the competitiveness of exporters, making it more difficult to sustain revenues. These opposing effects highlight the complexity of managing exchange rate exposure and the importance of understanding its implications for business performance.

In Vietnam, the exchange rate especially the USD/VND rate has exhibited measurable fluctuations over the past decade due to global financial instability, shifting U.S. monetary policy, geopolitical tensions, and domestic macroeconomic adjustments. Between 2015 and 2023, periods of strong volatility occurred in response to the U.S. Federal Reserve's tightening cycles, COVID-19 disruptions, and commodity price shocks (State Bank of Vietnam, 2023). These fluctuations generated significant financial pressures on import–export enterprises, many of which operate with thin margins and high dependency on imported raw materials. Despite the critical importance of exchange rate exposure, risk management capabilities among Vietnamese firms remain limited, with most enterprises relying on short-term pricing adjustments rather than hedging instruments such as forward contracts, options, or swaps (Vietnam Chamber of Commerce and Industry, 2022).

Although existing international literature extensively examines the relationship between exchange rate volatility and firm profitability, research in the Vietnamese context remains relatively fragmented. Prior studies primarily utilize quantitative models focusing on macro-level impacts or sector-specific effects, leaving a gap in understanding the qualitative dimensions of how exchange rate fluctuations affect business operations, cost structures, and risk management practices among Vietnamese import–export enterprises (Nguyen & Pham, 2020). Therefore, a comprehensive qualitative analysis based on secondary data is necessary to better capture contextual factors that may not be fully reflected in econometric studies.

This study aims to fill this gap by providing an in-depth qualitative assessment of how exchange rate fluctuations influence the profitability of Vietnamese import–export enterprises. By synthesizing secondary data from SBV reports, market analyses, financial disclosures, and trade statistics from 2015 to 2023, the paper offers insights into the mechanisms through which currency

volatility affects firms' revenues, expenses, and competitiveness. The research also identifies key challenges in exchange rate risk management and discusses strategic implications for strengthening financial resilience. The findings contribute to the literature by illuminating the real-world impacts of exchange rate fluctuations on businesses operating in an increasingly uncertain global economic environment.

2. Literature review

Exchange rate movements play a crucial role in international trade and investment decisions. In theory, fluctuations in exchange rates affect the cost of imported inputs, the competitiveness of exports, and firms' foreign-currency denominated liabilities (Krugman, Obstfeld, & Melitz, 2018). When the domestic currency depreciates, export-oriented firms may benefit from improved price competitiveness in foreign markets. However, depreciation also increases the cost of imported raw materials, machinery, and intermediate goods, which may reduce profit margins for firms heavily dependent on imported inputs (Bahmani-Oskooee & Aftab, 2017). Conversely, an appreciation of the domestic currency lowers input prices for importers but can negatively affect the revenues of exporters by making their products relatively more expensive abroad. The impact of exchange rate fluctuations is also explained under financial risk theory, which emphasizes that exchange rate volatility introduces uncertainty in cash flows, operating costs, and investment planning (Bartram, Brown, & Minton, 2010). Firms operating in open economies thus face translation risk, transaction risk, and economic exposure, depending on their currency composition of revenues and expenses. The degree of exposure can vary substantially across industries, depending on their reliance on imported materials and export markets.

Exchange rate fluctuations influence firm profitability through several direct and indirect mechanisms. The most immediate channel is the price effect, where changes in exchange rates alter export prices and import costs. Exporters generally gain from currency depreciation, while importers benefit from currency appreciation (Auboin & Ruta, 2013). However, the extent of this effect depends on the degree of exchange rate pass-through the extent to which exchange rate changes are reflected in domestic prices. In markets with low pass-through, firms may not fully benefit from favorable exchange rate movements. Another important mechanism is the cost channel, where depreciation increases the cost of imported inputs, production equipment, and logistics services. For countries like Vietnam that rely heavily on imported intermediate goods, this cost channel may offset the benefits gained from improved export competitiveness (World Bank, 2023). The third mechanism involves financial exposure, particularly for firms with foreign-currency loans. Exchange rate depreciation increases the burden of debt repayment and interest expenses, which can erode profitability (Eichengreen & Gupta, 2015). Many Vietnamese import–export enterprises have used USD-denominated loans due to lower interest rates, increasing their vulnerability to exchange rate volatility. Finally, exchange rate fluctuations can affect business planning through uncertainty effects, as volatility complicates forecasting, contract negotiation, and inventory management (Bartram et al., 2010). Firms with limited financial and managerial capacity face greater challenges in managing these uncertainties.

A substantial body of empirical research has examined how exchange rate volatility affects firm-level profitability and trade

performance. In advanced economies, studies such as Goldberg and Kolstad (1995) and Campa and Goldberg (1999) found that exchange rate fluctuations significantly influence multinational firms' revenues and cost structures. In developing economies, Bahmani-Oskooee and Aftab (2017) showed that exchange rate volatility negatively affects profitability in import-dependent industries, confirming the asymmetric effect of currency movements. Additionally, research suggests that firms with diversified markets and advanced hedging capabilities are better able to mitigate exchange rate risks. Bartram et al. (2010) demonstrated that firms using derivatives such as forward contracts and currency swaps experienced lower exposure to exchange rate fluctuations. In contrast, small and medium-sized enterprises (SMEs) in emerging markets often lack access to such tools, making them more vulnerable to currency volatility. Studies in Asia provide further evidence of the significance of exchange rate exposure. Misati et al. (2020) found that exchange rate volatility reduced export performance in East Asian economies. Similarly, Ito and Shimizu (2015) reported that Japanese firms with higher import content faced substantial profit losses during periods of yen depreciation, despite gains from increased export competitiveness.

In Vietnam, existing research confirms that exchange rate fluctuations have meaningful implications for trade performance and firm profitability. Nguyen and Pham (2020) found that exchange rate volatility negatively affects the financial performance of manufacturing enterprises, particularly those dependent on imported inputs. Meanwhile, Do and Hoang (2019) showed that export-oriented firms benefit from VND depreciation, but the effect is limited by high import content in production. Industry reports from the Vietnam Chamber of Commerce and Industry (VCCI, 2022) indicate that most Vietnamese import-export enterprises still lack effective exchange rate risk management capabilities. Many firms rely on short-term price adjustments rather than financial hedging instruments such as futures, options, and swaps due to limited knowledge, high costs, and underdeveloped derivative markets. Despite these findings, research in the Vietnamese context remains predominantly quantitative and macroeconomic in focus. Few studies provide qualitative insights into how exchange rate fluctuations affect operational decisions, cost structures, supply chain dynamics, and strategic responses of firms. Moreover, there is insufficient analysis of how different sectors experience exchange rate exposure differently. Therefore, this study contributes to existing literature by offering a descriptive qualitative assessment of exchange rate impacts on the profitability of Vietnamese import-export enterprises, helping to fill the gap regarding contextual and operational factors that shape exchange rate vulnerability in Vietnam's trade-dependent economy.

3. Current situation of exchange rate fluctuations and their impact on vietnamese import and export enterprises

Over the past decade, the USD/VND exchange rate has exhibited considerable fluctuations, significantly affecting Vietnam's import-export sector. Between 2015 and 2019, the Vietnamese đồng (VND) maintained relative stability due to proactive interventions by the State Bank of Vietnam (SBV), with annual depreciation averaging only 1–1.5% (SBV, 2023). However, the onset of the COVID-19 pandemic in 2020 triggered greater

volatility: disruptions in global trade, declining foreign investment, and uncertainty in global markets led to stronger depreciation pressures on the VND. The most substantial fluctuations occurred in 2022–2023, when the U.S. Federal Reserve raised interest rates aggressively, causing the USD to appreciate globally. As a result, the VND depreciated nearly 9% in 2022, marking its sharpest annual depreciation in two decades (World Bank, 2023). This surge in volatility significantly affected firms' cost structures and earnings. Although the exchange rate stabilized somewhat in 2023 due to improved foreign reserves and macroeconomic adjustments, the period highlighted Vietnam's vulnerability to global monetary shocks and exchange rate risks.

For export-oriented enterprises, VND depreciation theoretically boosts price competitiveness in international markets. In practice, however, the benefits for Vietnamese exporters have been significantly diluted due to two structural constraints. First, Vietnam's exports rely heavily on imported intermediate inputs. Industries such as electronics, textiles, and machinery depend on foreign raw materials, with import content averaging 50–60% for major export sectors (VCCI, 2022). When the VND depreciates, the cost of these inputs rises, offsetting gains from improved export prices. Second, many export enterprises operate under fixed long-term contracts denominated in USD. Thus, when the exchange rate fluctuates, exporters cannot immediately adjust their selling prices, limiting the benefits of depreciation (Nguyen & Pham, 2020). However, some sectors particularly agriculture, seafood, and wood products have benefited more noticeably from depreciation due to lower import dependency. For example, seafood exporters recorded higher revenues during periods of VND depreciation, although input costs still rose due to imported feed and equipment (World Bank, 2023). Overall, exchange rate fluctuations have created both opportunities and challenges for exporters, with the net impact depending on input structure, contract terms, and financial resilience.

Import-oriented enterprises face even greater vulnerability to exchange rate volatility. Firms importing raw materials, machinery, pharmaceuticals, and chemical products experience direct cost increases during periods of VND depreciation. For businesses operating on thin profit margins such as retail, food processing, and industrial materials exchange rate spikes significantly compress profit margins. During 2022, when the VND depreciated sharply, several import-reliant firms reported substantial increases in costs. For example, enterprises in the plastics, steel, and manufacturing sectors saw import input prices rise 10–15%, prompting production adjustments, contract renegotiations, and even temporary reduction in operations (VCCI, 2022). Import-dependent SMEs fared worse due to limited financial buffers. Many reported difficulties meeting existing contracts, reduced liquidity, and higher borrowing costs, especially for USD-denominated loans. According to SBV (2023), SMEs accounted for the largest share of enterprises negatively affected by exchange rate volatility during this period.

Thus, while exporters may benefit selectively from depreciation, importers consistently experience negative profitability outcomes when the VND weakens.

A major challenge facing Vietnamese import-export enterprises today is the limited capacity for effective exchange rate risk management. Despite being increasingly exposed to currency volatility due to deeper global economic integration, many firms remain underprepared to handle exchange rate risks properly. According to the Vietnam Chamber of Commerce and Industry

(VCCI, 2022), more than 70% of Vietnamese import–export enterprises do not utilize any formal hedging instruments such as forward contracts, futures, or swaps. This low adoption rate reflects significant gaps in financial risk management practices and highlights the vulnerability of enterprises to external market shocks. Several structural factors contribute to this limitation. First, many firms particularly small and medium-sized enterprises—lack adequate knowledge about hedging instruments and modern financial risk management techniques. Second, the high transaction costs associated with derivative products offered by commercial banks discourage firms from adopting these tools, even when they are aware of their potential benefits. In addition, Vietnam’s derivative market remains underdeveloped, characterized by low liquidity and limited product diversity, making it difficult for enterprises to access appropriate hedging solutions tailored to their needs. Furthermore, numerous enterprises believe that exchange rate fluctuations can be managed through short-term operational adjustments, such as renegotiating contract prices or modifying procurement strategies. This perception leads firms to underestimate the long-term financial risks associated with persistent exchange rate volatility. Compounding this issue is the absence of specialized financial risk management personnel within most enterprises, resulting in exchange rate risk assessments that are often subjective and lacking methodological rigor. Consequently, Vietnamese firms tend to rely on passive coping strategies, including delaying import orders, renegotiating supply contracts, or adjusting selling prices. Although these approaches can provide temporary relief, they are insufficient for protecting profit margins during periods of prolonged or significant exchange rate movements. This situation is especially critical for businesses that depend heavily on imported inputs or hold substantial foreign-currency-denominated debt. Moreover, the financial reporting practices of many enterprises still lack transparency regarding their level of exchange rate exposure. This lack of disclosure hinders investors, regulators, and financial institutions from properly assessing systemic risks within the business environment. The limited transparency highlights the pressing need to strengthen financial governance, enhance corporate disclosure practices, and improve firms’ capabilities to manage exchange rate risks effectively. Addressing these gaps is essential for building greater resilience among Vietnamese import–export enterprises in an increasingly volatile and unpredictable global economic landscape.

4. Conclusion

The findings of this study demonstrate that exchange rate fluctuations exert a profound and multifaceted influence on the profitability of Vietnamese import–export enterprises. Although depreciation of the Vietnamese đồng can enhance the price competitiveness of export-oriented firms, the overall benefits remain limited due to Vietnam’s high dependence on imported intermediate inputs and the prevalence of fixed-price export contracts. Conversely, import-dependent enterprises experience immediate and significant cost pressures when the domestic currency depreciates, leading to compressed profit margins and heightened financial vulnerability. The qualitative evidence further highlights that most Vietnamese enterprises still rely on short-term coping strategies rather than systematic risk management approaches, exposing them to substantial profitability volatility during periods of exchange rate instability. These challenges collectively underscore the systemic nature of exchange rate risk within Vietnam’s trade-dependent economy and the need for more resilient financial and managerial frameworks.

Given these findings, several policy implications emerge that could support enterprises in strengthening their capacity to manage exchange rate risks more effectively. First, at the national level, policymakers should prioritize the development of a more sophisticated and liquid financial derivatives market. Enhancing the availability and accessibility of hedging instruments such as forwards, futures, options, and swaps—would provide enterprises with practical tools to mitigate exposure to currency volatility. The State Bank of Vietnam (SBV) could also facilitate this process by improving regulatory frameworks, promoting transparency, and encouraging commercial banks to diversify their derivative products while lowering transaction costs for firms, especially SMEs.

Second, building enterprise-level capacity is crucial. Government agencies, industry associations, and financial institutions should collaborate to provide training programs, workshops, and advisory services on exchange rate risk management. Strengthening financial literacy among business owners and managers would enhance their understanding of hedging techniques, risk measurement, and strategic decision-making under exchange rate uncertainty. Enterprises should also be encouraged to establish internal financial risk management units or designate specialized personnel responsible for monitoring exchange rate trends, analyzing exposures, and developing hedging strategies.

Third, improving transparency and corporate governance is essential for reducing systemic risks. Enterprises should adopt standardized reporting practices that clearly disclose their foreign currency exposures, hedging positions, and sensitivity to exchange rate movements. Enhanced transparency not only supports investor confidence but also enables policymakers and financial institutions to better assess the overall risk environment and design appropriate regulatory responses.

Finally, import–export enterprises should consider diversifying their supply chains, negotiating more flexible contract terms, and exploring alternative invoicing currencies where feasible. These strategic adjustments can help reduce vulnerability to external shocks and strengthen long-term financial resilience. By integrating both financial and operational strategies, firms can better withstand fluctuations in the macroeconomic environment and sustain profitability in the face of continued global uncertainty.

In summary, exchange rate volatility will remain a persistent challenge for Vietnamese import–export enterprises as global economic conditions evolve. Strengthening risk management capabilities, deepening financial markets, and enhancing corporate governance are indispensable steps toward building a more resilient and competitive trade sector. These efforts will not only protect firms’ profitability but also contribute to Vietnam’s broader economic stability and sustainable development.

Acknowledgments Funding: The authors gratefully acknowledge the financial support from the Banking Academy of Vietnam.

Competing interests: The authors declare that there are no conflicts of interest regarding the publication of this paper.

REFERENCES

1. Bahmani-Oskooee, M., & Aftab, M. (2017). On the asymmetric effects of exchange rate volatility on trade flows. *Journal of Economic Studies*, 44(4), 666–679.

2. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2018). *International economics: Theory and policy* (11th ed.). Pearson.
3. Nguyen, T. H., & Pham, Q. A. (2020). Exchange rate volatility and firm performance: Evidence from Vietnamese manufacturing enterprises. *Journal of Asian Finance, Economics and Business*, 7(5), 155–164.
4. State Bank of Vietnam (SBV). (2023). *Annual macro-financial report 2023*. Hanoi: SBV Press.
5. Vietnam Chamber of Commerce and Industry (VCCI). (2022). *Vietnam enterprise white book 2022*. Hanoi: VCCI Publishing.
6. World Bank. (2023). *Vietnam economic outlook 2023*. Washington, DC: World Bank.
7. Auboin, M., & Ruta, M. (2013). The relationship between exchange rates and international trade: A literature review. *World Trade Review*, 12(3), 577–605.
8. Bahmani-Oskooee, M., & Aftab, M. (2017). On the asymmetric effects of exchange rate volatility on trade flows. *Journal of Economic Studies*, 44(4), 666–679.
9. Bartram, S. M., Brown, G. W., & Minton, B. A. (2010). Resolving the exposure puzzle: The many facets of exchange rate exposure. *Journal of Financial Economics*, 95(2), 148–173.
10. Campa, J., & Goldberg, L. (1999). Investment, pass-through, and exchange rates. *Journal of International Economics*, 50(2), 287–319.
11. Do, T. H., & Hoang, T. C. (2019). Exchange rate volatility and export performance: Evidence from Vietnam. *Journal of Asian Finance, Economics and Business*, 6(3), 151–162.
12. Eichengreen, B., & Gupta, P. (2015). The real exchange rate and export performance: Evidence from emerging economies. *Journal of Development Economics*, 116, 111–124.
13. Ito, T., & Shimizu, J. (2015). Exchange rate exposure and profit margins: Evidence from Japanese firms. *Journal of International Money and Finance*, 56, 181–198.
14. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2018). *International economics: Theory and policy* (11th ed.). Pearson.
15. Misati, R., Kipyegon, L., & Kamau, A. (2020). Exchange rate volatility and export performance in East Asia. *Asian Economic Journal*, 34(2), 243–263.
16. Nguyen, T. H., & Pham, Q. A. (2020). Exchange rate volatility and firm performance: Evidence from Vietnamese manufacturing enterprises. *Journal of Asian Finance, Economics and Business*, 7(5), 155–164.
17. Vietnam Chamber of Commerce and Industry (VCCI). (2022). *Vietnam enterprise white book 2022*. Hanoi: VCCI Press.
18. World Bank. (2023). *Vietnam economic outlook 2023*. Washington, DC: World Bank