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Deposit rate updates

Rates cut as liquidity surplus

Decreasing deposit rates on most terms

- In early of July, some state-owned banks decided to reduce deposit rates which triggers some other commercial banks to follow the same action. Rate cut is around 20 – 30bps or even cutting down 50bps despite the fact that there is no new instruction of the State Bank of Vietnam (SBV) on the policy rate (Table 1).

Excess liquidity and cost reduction are 2 main reasons for the cut

- This unexpected action when there was no action from the SBV on the policy interest rate may originate from the surplus liquidity in the banking system: abundant capital together with sluggish credit growth in 1H20 under the influence of Covid-19 epidemic (as of June 19, the credit growth is only 2.45% YTD, much lower than 2019's 6.22%YTD). Besides, a large amount of SBV-bills has been matured from April (indicating that the SBV has pumped about VND150 trillion to the market). Therefore, interbank interest rate in June dropped to nearly 0% while investment cash flow to Government bond went up. This enables the State Treasury's issuance of government bonds to reach a climax in June 2020 and the offering value to always maintain at 3 times higher than registering value.
- The cut in deposit rate also helps banks reduce capital costs and support net interest income as well as protect the net profit margin (NIM) when lending rates are under pressure to support customers impacted by Covid-19 pandemic. For instant, in the case of BIDV, from July 1, the bank also announced a reduction of up to 0.5%/year on lending rates at the same time with a decrease in deposit rates.

Deposit rate is likely to increase slightly

- KBSV anticipates that the trend of deposit interest rate level in the coming time will depend on three main factors: 1) credit growth in 2H20; 2) SBV's policy rate; and 3) the roadmap to tighten the rate of short-term funding for medium and long-term lending to be effect in October 2020.
- In the base case scenario, we believe that deposit rates will increase slightly in 2H20 in line with recovering credit growth and the tightening schedule for short-term funding for medium and long-term lending to be in effect in October 2020 (which will intensify the competition on deposits and reverse the current downward trend of deposit rates). The adjustment will be expected to increase only slightly by 30–50 bps as we assess that there is still a possibility that the SBV will lower policy rates (in the context that inflation may cool down in 2H20 thanks to high base price in 2H2019).



Table 1. Vietnam banks – Reduction in deposit rate, June 2020 (%)

Bank	Reduction level <i>(in comparision with the lastest deposit rate)</i>	Deposit range after reduction
Vietcombank	0.4%-0.5%	3.7% (1M) – 6.1% (12M)
BIDV	0.25%-0.5%	3.7% (1M) – 6% (>12M)
Vietinbank	0.25%-0.5%	3.7% (1M) – 6% (>12M)
Agribank	0.1%-0.5%	3.7% (1M) – 6% (>12M)
Techcombank	0.1%	3.8% (1M) – 6.2% (12M)
VPBank	0.3%-1%	3.8% (1M) – 6.5% (under VND300 million, 13M) or 7.35% (over VND50 billion, 13M)
Sacombank	Giảm 0.1% -0.25%	3.9% (<6M) – 7.8% (over VND100 billion, 13M)

Source: KB Securities Vietnam

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Investment Ratings for Stocks

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

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

Investment Ratings for Sectors

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

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

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