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Central bank cuts policy rate

SBV takes action to minimize COVID-19 impact

Interest-rate cuts the first official move by SBV in the fight against COVID-19

— The State Bank of Vietnam issued Decision No.418, 419, 420 and 421/QD-NHNN on March 16 to lower interest rates effective from March 17 (Table 1). Cuts were made to the refinancing rate, rediscount rate, repo rates, term deposits and the short-term special lending facility and a boost to interest payments on reserve deposits (a tool used by the central bank to subsidize lower lending rates at the banks).

SBV rate adjustments probably more of a safety net rather than aggressive easing

— We expect little benefit from lower rates for reverse repos, refinancings and the rediscount window due to: 1) infrequent use of reverse repos in OMO given abundant liquidity conditions, especially in the last three months; and 2) lack of need by the banks to tap the central bank's refinancing facility or rediscounting window as banks are not facing any liquidity squeeze and interbank loans are being issued smoothly (but it does ease the burden should any bank need to turn to the central bank to back stop liquidity needs).

— The cut to rates for term deposits less than six months should not have any meaningful impact to the banks as these rates have already been adjusted down in line with market supply and demand over the past six months and the cut itself is only nominal at a mere 25 bps.

— The hike in interest rates for reserves held at the SBV was likely given as a subsidy for the VND285,000 billion credit support package agreed with the banks for businesses negatively impacted by the COVID-19 outbreak. With reserve deposits held by the commercial banks at the end of 2019 amounting to VND330 trillion (based on bank financial reporting), we estimate nearly VND660 billion in support from this action.

Downtrend in lending rates likely but less chance of further cuts for now

— Overall, we expect average lending rates to continue to trend down in the near future (another 0.5 percentage points) due to: 1) much lower credit demand amid the COVID-19 pandemic and ample system liquidity as already reflected in meagre credit growth for the past two months of only 0.06% YoY (the lowest in six years); and 2) cheaper interbank funding costs following government support measures.

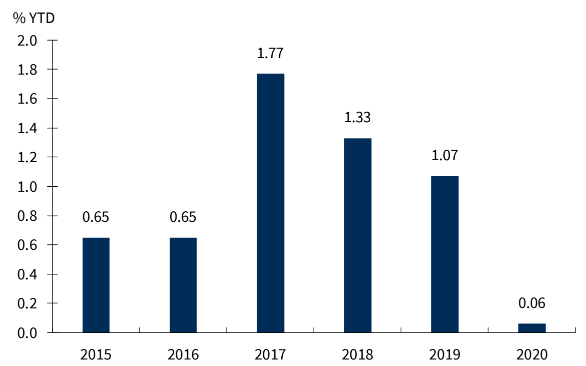
— Inflation remains the main impediment to additional rate cuts, in our view, which still runs close to the top range of the central bank's comfort zone. Alternatively, we believe further support measures will come in the form of fiscal stimulus from the government (including extending payment deadlines and reimbursing taxes) or promoting lower fees, preferential interest rates and insurance premiums from the private sector, which can support the liquidity of businesses without pressuring inflation.

Table 1. Vietnam – Interest-rate cuts

	Old	New
Refinancing rate	6.0	5.0
Rediscount rate	4.0	3.5
Reverse repos (OMO)	4.0	3.5
Term deposits at banks (under 1 month)	0.8	0.5
Term deposits at banks (1-6 months)	5.0	4.8
Short-term lending facility for priority areas	6.0	5.5
Interest rate on reserves held at SBV	0.8	1.0

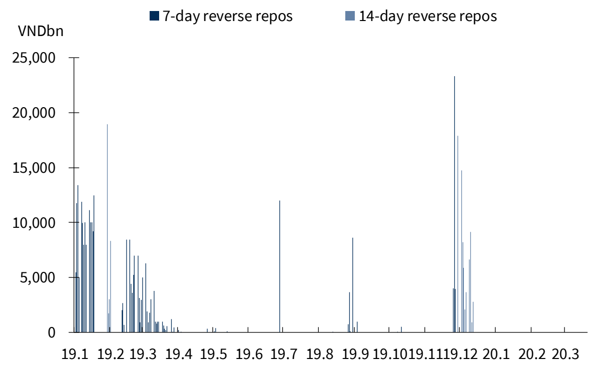
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 1. Vietnam—Credit growth in the first two months, 2015-2020 (% YTD)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 2. Vietnam – Reverse repos via OMO, Jan 19-Mar 20 (VNDbn)



Source: State Bank of Vietnam, 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