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Central bank cuts policy rate

SBV takes further action to lower lending rates

SBV conducts second rate cut in the fight against COVID-19

— The State Bank of Vietnam cut the refinancing and rediscount policy rates by 50 bps in its fight against the COVID-19 outbreak as part of Decision 918, 919 and 920/QD-NHNN. The refinancing rate moves down to 4.50% from 5.00% and rediscount rates falls to 3.00% from 3.50%. The lower rates will take effect from May 13 and also include cuts for reverse repos used for open-market operations (3.00% from 3.50%), 1-month or below term deposits (20 bps from 50 bps), 6-month or below term deposits (4.25% from 4.75%) and the short-term lending facility for priority areas (5.00% from 5.50%).

Rates lowered to ultimately tease down lending rates at the banks

- We expect limited impact to domestic short-term rates from lower policy rates and reverse repo rates due to the fact that: 1) SBV action is mainly aimed at reducing capital costs to support the large commercial banks and encourage lower lending rates for the priority sectors; and 2) system liquidity remains abundant, with overnight interbank rates already low at about 2% on average since the beginning of the year and 10-year government bonds yielding at about 3% (well below those seen in other frontier countries).
- That said, the cut to 6-month or below deposit rates should continue to add downward pressure to rates for medium-term deposits as seen in the 50-100 bps fall in rates for term deposits over six months that we saw after March's rate cut. This should alleviate some of the burden on the net interest margins at the banks arising from preferential rates on loans during the coronavirus.
- We expect the State Bank of Vietnam's latest move to prove successful in lowering average lending rates due to: 1) relatively weak credit demand, with the central bank saying credit only grew by 1.3% YTD vs 4.5% during the same period last year as of April 28 due to tepid growth for industrial & construction loans (up 1.0% YTD), agriculture (up 0.3% YTD) and sharp falls seen for the service sector (trade, tourism and retailing); and 2) the various relief programs offered by the banks, including fresh loans at preferential lending rates (amounting to VND630 trillion or more than double the original commitment level since the program was started on January 23), restructured payment terms (VND130 trillion in loans as of May 8) and lower rates or interest-rate payment holidays for outstanding loans (VND1,080 trillion as of May 8).

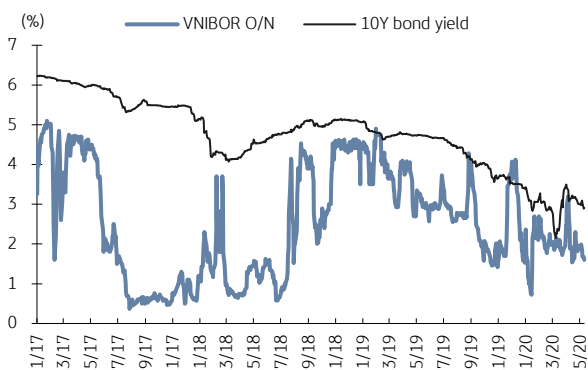


Table 1. Vietnam – Interest-rate cuts

	Old	New
Refinancing rate	5.00	4.50
Rediscount rate	3.50	3.00
Reverse repos (OMO)	3.50	3.00
Term deposits cap at banks (under 1 month)	0.50	0.20
Term deposits cap at banks (1–6 months)	4.75	4.25
Short-term lending facility for priority areas	5.50	5.00

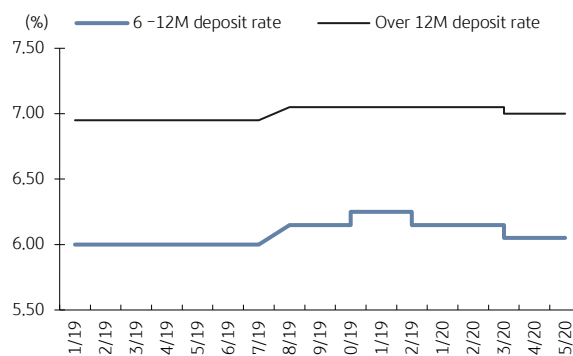
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 2. Vietnam – O/N interbank rate & 10-year bond yields, Jan 17–May 20 (%)



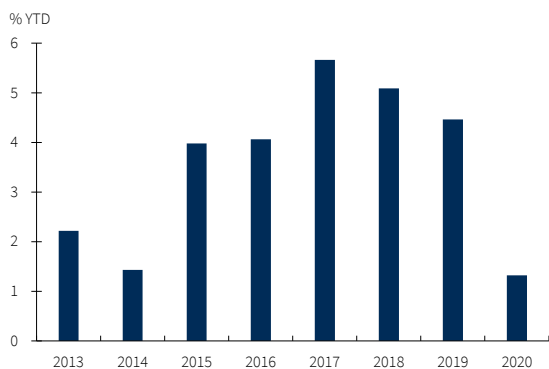
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 3. Vietnam – Deposit rates for terms over six months, Jan 19–May 20 (%)



Source: FinPro, KB Securities Vietnam

Fig 4. Vietnam – Credit growth in the first four months, 2013–2020 (% YTD)



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

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