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SBV rate cuts

Lower pressure on State budget spending

SBV decided to cut some rates on early-August

— State Bank of Vietnam (SBV) has decided to slash some of its policy interest rates for the third time this year by 20–50 basis points, with immediate effect. Most noteworthy, interest rates of deposit of required reserves in Vietnamese dong (VND) were down by 0.5 percentage points to 0.5% per annum.

This SBV action was aimed at reducing pressure on State budget expenditure

- The reduction of interest rates of deposit of required reserves having little impact on the earnings of credit institutions as the reserve requirement ratio at banks is small, only about 3% for demand deposits and deposits for term less than 1 year and 1% for deposits for term over 1 year. According to our preliminary estimate, the impact of this cut on earnings of the banking system is about VND 600 billion, of which the most affected by SOCBs is about VND 60 billion per bank.
- Meanwhile, this move also helps reduce pressure on the budget spending, which is expected to be high due to the government's economic support policies this year under the influence of Covid-19 (including small and medium corporate income tax reduction packages, increasing public investment spending...).

Fig 1. Vietnam - Interest rate cut, 2019 - 2020 (%)

| Unit: %/year | Jul-19 | Dec-19 | Mar-20 | Aug-20 |
|---|--------|--------|--------|--------|
| VND interest rate on reserve requirements | 1.20 | 0.80 | 1.00 | 0.50 |
| VND deposit rate for the Vietnam Development Bank (VDB) and Vietnam Bank for Social Policies (VBSP); People's Credit Funds and microfinance institutions at SBV | | 0.80 | 1.00 | 0.80 |
| Interest rate for State Treasury deposits at SBV | | 1.00 | | 0.80 |

Source: State Bank of Vietnam, KB Securities Vietnam

Fig 2. Vietnam banks - Estimated earning reduces (VND billion)

| | Reserve requirements VND trillion | Deposits at SBV VND trillion | Estimated earning reduces at banks VND billion |
|-----|--------------------------------------|---------------------------------|---|
| BID | 13.5 | 28.1 | 67.7 |
| CTG | 11.7 | 12.9 | 58.7 |
| VCB | 11.9 | 72.9 | 59.4 |
| MBB | 3.4 | 9.2 | 17.1 |
| TCB | 3.7 | 8.8 | 18.3 |
| TPB | 1.3 | 7.7 | 6.6 |
| HDB | 1.8 | 3.2 | 9.0 |
| VPB | 3.3 | 3.1 | 16.6 |

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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