
October 1, 2020

Policy rate cuts

Deposit rates expect to dip with slower pace

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

The State Bank of Vietnam (SBV) cut its policy rates, including refinancing, rediscount and reverse repos rates by 50 bps to boost economic growth

Deposit rates plunged after the May policy rate cut

Stable credit supply and weaken credit demand and lending rate cut to support Covid-19 affected businesses led to the adjustment of commercial banks in deposit rates to maintain a reasonable net interest margin (NIM).

Deposit rates expect to follow the downward momentum with slower pace in the next three months

Third policy rate cuts for the year

SBV cut its policy rates for the third time in 2020, following by tame inflation

The State Bank of Vietnam (SBV) cut the policy rates for the third time in 2020 in its fight against the COVID-19 as part of Decision 1728, 1729 and 1730/QĐ-NHNN (Table 1). In the context of tame inflation (9-month average CPI increased by 3.85% YoY), the SBV decision is reasonable and consistent to our base case scenario. All the above measures are aimed at facilitating cheap capital for commercial banks, thereby reducing lending rates and supporting economic growth. It is also the trend of global central banks, besides other fiscal support package to deal with Covid-19's severe impact.

Table 1. Vietnam – Policy rate cuts effective from October 2020

	Old	New
Refinancing rate	4.50	4.00
Rediscount rate	3.00	2.50
Reverse repo rate for OMO	3.00	2.50
Deposit ceiling for term under 1 month	0.20	0.20
Deposit ceiling for term from 1 month to under 6 month	4.25	4.00
Short-term lending facility for priority areas	5.00	4.50

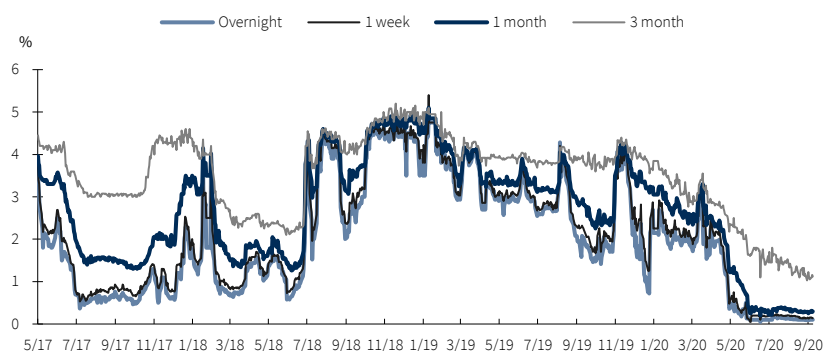
Source: State Bank of Vietnam, KB Securities Vietnam

These rediscounting, refinancing and OMO rate cuts will more be seen as SBV's guideline for deposit and lending rate as the liquidity in the system remains abundant for months

We believe that SBV's action to lower policy rates and reverse repo rates will be more to provide a clear message to commercial banks for further lowering lending rates than to provide liquidity to the system as it remains abundant for months. OMO operation has not been performed successfully although SBV has regularly called for bids for many months, as well as the interbank interest rate has dropped to the lowest level in 3 years, showing that the liquidity is relatively abundant in the banking system.

Interbank rates are at the lowest level in three years

Fig 1. Vietnam – Interbank rates, Jan 17-Sep 20 (%)



Source: Bloomberg, KB Securities Vietnam

Deposit rates for all term have fallen more sharply than usual after May rate cut

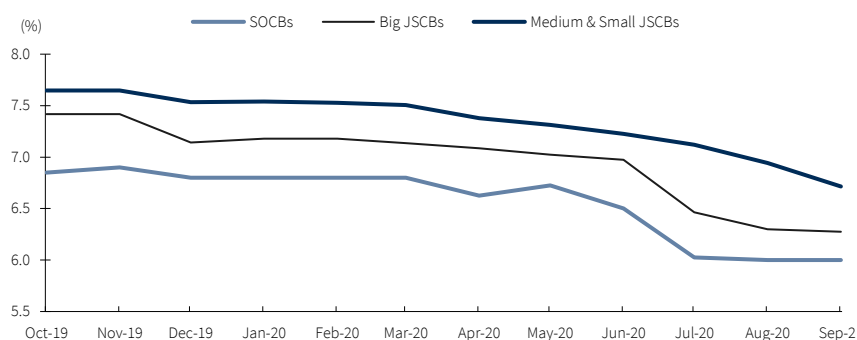
In fact, deposit rate has plunged since the policy rate cut in May 2020. Deposit rates are now at lowest level for ten years and in a downward trend stemming from two reasons: 1) on the supply side, credit supply is abundant, from both SBV (foreign currency accumulation for FX reverses) and from saving deposits and enterprises (capital mobilization in 9 months increased by 7.7% YTD) and on the demand side, weak credit demand (9 months' credit outstanding increased only 5.12% YTD); and 2) pressure to maintain a reasonable NIM ratio to compensate for the lending rate cut to support Covid-19 affected businesses.

Deposit rates expect to follow the downward momentum with slower pace in the next three months

Deposit interest rate has decreased 50–200bps YTD in total for all terms. Rates for less than 6 months term are currently at 2.50% – 4.00% per annum, much lower than the new ceiling rate of 4.00%, therefore room for further rate cut for term less than 6 months is limited. The downward trend is also clear in the medium and long-term deposit rates over the past three months, with the deposit rates for more than 12 months term currently at 6.00 – 7.00%. Credit growth is expected to recover in the last quarter of the year (with leading indicators such as industrial production, PMI and retail growth recovering in September), we expect medium and long-term deposit rates will tend to only decrease marginally (10–20 bps).

Deposit rate for 12-month term dropped significantly from June 2020

Fig 2. Vietnam – Deposit rate for 12-month term, Oct 19–Sep 20 (%)



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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