

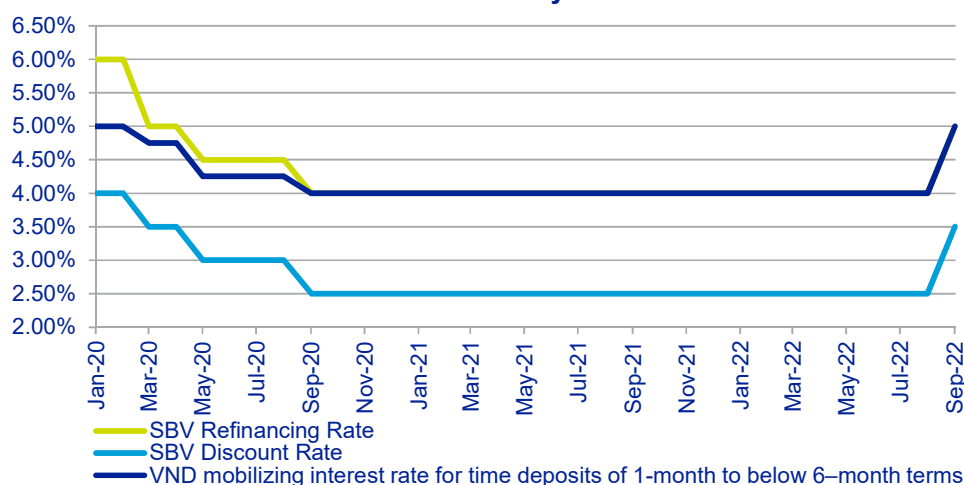
23/09/2022

## The State Bank of Vietnam (SBV) announced the increase of several key interest rates effective from September 23, 2022

Following the continuing rates hike of FED and other major central banks aggressively to tame surging inflation. In order to advocate businesses and production, and ensuring social security in response to recent macro-economic developments of Vietnam, the SBV has issued series of Decisions dated 22/09/2022 on increasing some key interest rates (the first times since October 2020) applicable from September 23, 2022. Accordingly:

- SBV issued **Decision No.1606/QĐ-NHNN** dated 22/09/2022 to raise **the refinancing rate** from 4.0% p.a up to 5.0% p.a; **the discount rate** from 2.5% p.a to 3.5% p.a; **the overnight interest rate in the inter-bank electronic payment and the rate of loans to finance short balances in clearing transactions between SBV and commercial banks** from 5.0% p.a to 6.0% p.a.
- SBV issued **Decision No.1607/QĐ-NHNN** dated 22/09/2022 stipulating the caps for VND mobilizing interest rates applied for entities and individuals' deposits at the credit institutions as stipulated in Circular No. 07/2014/TT-NHNN dated March 17, 2014. Accordingly, the maximum VND mobilizing **interest rate for demand and below 1-month terms** is increased from **0.2% p.a to 0.5% p.a**; the maximum VND mobilizing **interest rate for time deposits of 1-month to below 6-month terms** increases from **4.00% p.a to 5.00% p.a**; the maximum VND mobilizing interest rate for time deposits of 1-month to below 6-month terms at the People's Credit Funds and the Micro Finance Institutions is lowered from **4.50% p.a to 5.50% p.a**.

SBV key interest rates



### Interest rates summary:

	Previous (p.a)	Updated (p.a)
<b>Refinancing rate</b>	4.0%	5.0%
<b>Discount rate</b>	2.5%	3.5%
<b>The overnight interest rate in the inter-bank electronic payment</b>	5.0%	6.0%
<b>VND mobilizing interest rate</b>		
<i>for demand and below 1-month terms</i>	0.2%	0.5%
<i>for time deposits of 1-month to below 6-month terms</i>	4.00%	5.00%
<i>for time deposits of 1-month to below 6-month terms at the People's Credit Funds and the Micro Finance Institutions</i>	4.50%	5.50%

## What does the recent SBV rate hike mean to Vietnam

With recent aggressive rate hike of SBV (100bps), we continued to be positive about controlling inflation of Vietnam and maintain our expectation of **Vietnam's CPI for 2022** will increase in the range of 3.2% - 4% and remain within Government's target of 4%.

Despite fears that **Vietnam's growth prospects** could slow in the upcoming quarters of 2022 due to higher interest rate, Vietnam's economy has essentially regained its growth momentum as the post-COVID recovery carries on with good fundamentals in 8M2022. We also maintain our expectation that Vietnam's GDP will continued to record strong growth which will grow in range between 7.1% - 10.4% YoY in 2H2022 (10.4%-14.7% in 3Q and 4.5%-6.8% in 4Q) and 6.8% - 8.5% YoY in 2022 but the Vietnam's performance will likely higher than our "Less Favourable Scenario" but might not be as high as our "Favourable Scenario" due to the unexpected and aggressive rates hike of SBV. However, we maintain our positive view that Vietnam's economic performance through GDP in 3Q2022 will reach 10%+ growth, supported by:

- (1) The continuing recovery of all industrial activities (IIP increased 15.6% YoY in August 22 and 9.4% YoY in 8M22), which will push activities from FDI sector in term of investment and export;
- (2) Vietnam emerged as a substitute manufacturing center to cover output losses caused by the zero-COVID-19 strategy in China; and
- (3) The strong recovery of the service sector, after relaxing all COVID-19 related restrictions on service businesses, coming from (1) improvement of domestic consumption (total retail sales of goods and services August 22 increased 50.2% YoY and 8M22 increased 19.3% YoY), (2) reopening international tourism (retail sales of travelling services August 22 increased 51x YoY and 8M22 increased 12x YoY); and (3) normalization of transportation of goods help push trading activities especially export from FDI sector.

Furthermore, the fiscal and monetary stimulus package, worth VND337tn (VND291tn for fiscal package and VND46tn for monetary package), to support the socio-economic recovery and development program after the impact of the COVID-19 pandemic started disbursement in 2Q2022 (according to minister Nguyen Chi Dung, Ministry of Planning and Investment, by September 2nd, disbursement of fiscal and monetary stimulus package reached VND55.5tn, about 16% of total package) along with over VND244tn (of total VND530tn) of Capital under State Budget needed to disbursed toward the year end of 2022, which will push socio-economic recovery in the last months of 2022.

Besides that, the SBV also confirmed (in the Vietnam socio-economic forum 2022) to maintain the credit growth target at 14% in 2022, which would indicate that another 2% extension of the credit growth quota will released towards the end of 2022, after recent moves to increase system wide credit by 2% in early September. As in our positive scenario, with the hypothesis that the SBV will grant new credit growth quota in 3Q2022, we expected that GDP of Vietnam for 3Q2022 will grow as high as 14.7% YoY.

After recent aggressive rates hike of SBV (100bps), and if the FED keeps raising interest rates as in their economic projections released on September 22, we expect that SBV won't have another rates hike towards the year end 2022. We also maintain our view that **Vietnam's monetary policy management** by the **State Bank of Vietnam** will have no major surprises in 2022, supported by:

- (1) As long as Vietnam's inflation rate under controlled and stay within 4%, monetary policy tends to continue to be expansionary for supporting the economic recovery;
- (2) The main impact of the FED rate hikes expected to be mainly on foreign capital flows. In the short-term, with the history of others FED rate hikes, portfolio capital flows into emerging markets could turn negative and Vietnam could see net selling on the equity markets. After recent aggressive rates hike of SBV (100bps) and with good macroeconomic fundamental and acceptable inflation levels below 4%, Vietnam will continue to be an investment destination for FDI companies, especially in the manufacturing industry; and
- (3) Exports, which are the country's key economic growth driver, will remain strong as manufacturing activities gradually recover and are expected to continue its upward trajectory given the recovery of the global economy. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In

23/09/2022

addition, our trading activities continued to be solid as total export-import turnover in 8M2022 reached USD500bn (+16.3% YoY) with trade balance surplus reach USD5.5bn.

Furthermore, SBV has recently increased spot reference asking exchange rate (for the third time in 2022) in the late afternoon of September 7th, 2022 (which is the rate offering to commercial banks to buy USD from SBV) by 300VND (increased from 23,400 to 23,700 VND/USD) under heavy selling pressure of USD to banks recently. In addition, SBV also took an aggressive rates hike of 100bps of key interest rates which will support and maintain stable of VND in upcoming months.

## Macro Forecast Summary

### Favourable Scenario

#### Key Assumption:

##### + Economic growth remain strong.

- Agriculture, forestry and fishery sector accelerate in 3Q and 4Q.
- Industrial activities continue to accelerate in 3Q and 4Q2022.
- Services sector fully recover in 3Q and 4Q2022 support by normalized transportation, rising domestic consumption and surging international tourism.
- Inflation peaked and remain at this level through out 2H2022.

+ **Fiscal Policy:** fiscal and monetary stimulus package worth VND337tn especially the developing infrastructure package (VND113.85tn) will be disbursed soon in 3Q and 4Q.

##### + Monetary Policy:

- SBV will grant new credit growth quota in 3Q2022.
- Monetary policy tends to continue to be expansionary for supporting the economic recovery
- SBV might raise its benchmark interest rates toward yearend by about half percentage point (50bps)

+ **COVID-19:** no major outbreak in major cities.

GDP		IIP		Ex and Im	FDI	Retail Sales		CPI
2H2022	FY2022	2H2022	FY2022	FY2022	FY2022	2H2022	FY2022	FY2022
%	%	%	%	Bn USD	Bn USD	%	%	%
10.4%	8.5%	16.6%	12.7%	Im: 390 Ex: 394 Net Ex: 4	Disbursed: 21.5 Registered: 26.0	36.5%	22.9%	3.5%

### Less Favourable Scenario

#### Key Assumption:

##### + Economic growth slow in 3Q and 4Q.

- Agriculture, forestry and fishery sector maintained its growth rate
- Industrial activities continue to recover but on a slower trajectory due to weak global demand.
- Services sector could not fully recover in the last two quarters of 2022.
- Inflation pick up a little bit in 2H2022 but remain within 4%.

+ **Fiscal Policy:** fiscal and monetary stimulus package worth VND337tn especially the developing infrastructure package (VND113.85tn) disburse slowly and might extent to 4Q2022.

##### + Monetary Policy:

- SBV will grant new credit growth quota in 4Q2022.
- Monetary policy tends to continue to be expansionary for supporting the economic recovery.
- SBV might raise its benchmark interest rates toward yearend by about 0.5-0.75 percentage point (50 - 75bps)

+ **COVID-19:** minor outbreak in major cities.

GDP		IIP		Ex and Im	FDI	Retail Sales		CPI
2H2022	FY2022	2H2022	FY2022	FY2022	FY2022	2H2022	FY2022	FY2022
%	%	%	%	Bn USD	Bn USD	%	%	%
7.1%	6.8%	12.7%	10.7%	Im: 382 Ex: 383 Net Ex: 1	Disbursed: 20.5 Registered: 25.0	25.9%	17.9%	4.1%

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