

## The State Bank of Vietnam (SBV) announced the increase of several key interest rates effective from October 25, 2022

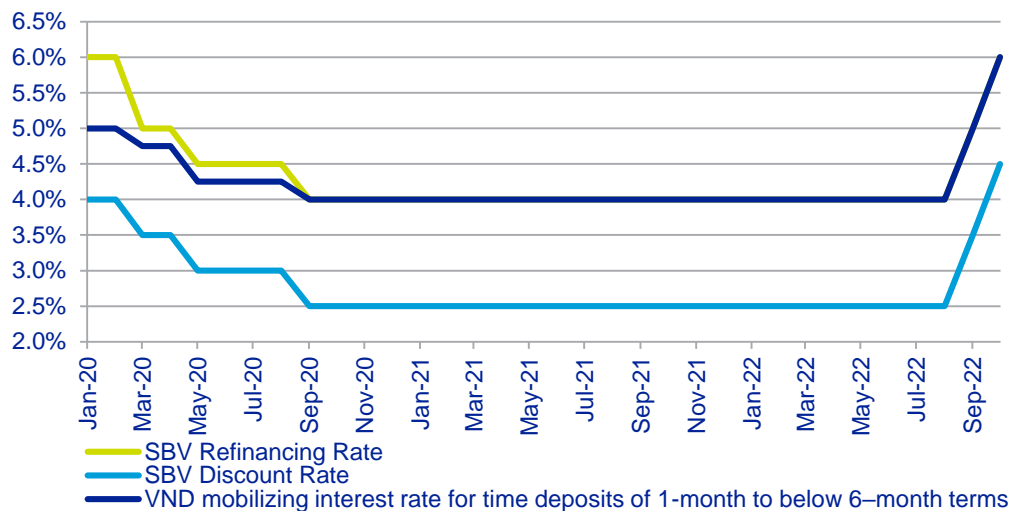
Following the continuing rate hikes by the US FED and other major central banks to tame surging inflation, pressure has been increasing on domestic interest rates and exchange rates, which in turn has been putting pressure on inflation. In order to stabilize the recent macro-economic developments in Vietnam, the SBV has issued series of Decisions dated 24/10/2022 on increasing some key interest rates (the second times in 2022) applicable from October 25, 2022. Accordingly:

- SBV issued **Decision No.1809/QĐ-NHNN** dated 24/10/2022 to raise **the refinancing rate** from 5.0% p.a up to 6.0% p.a; **the discount rate** from 3.5% p.a to 4.5% 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 6.0% p.a to 7.0% p.a;
- SBV issued **Decision No.1812/QĐ-NHNN** dated 24/10/2022 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 **0.5% p.a to 1.0% p.a**; the maximum VND mobilizing **interest rate for time deposits of 1-month to below 6-month terms** increases from **5.00% p.a to 6.00% 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 **5.50% p.a to 6.50% p.a**; **interest rate for time deposits of 6-month terms or more** are set by credit institutions on the basis of **market capital supply and demand**.
- SBV issued **Decision No.1813/QĐ-NHNN** dated 24/10/2022 on the cap for VND short-term lending rate charged by the credit institutions to borrowers to meet the capital demand in several economic sectors in line with Circular No. 39/2016/TT-NHNN dated December 30, 2016. Accordingly, the maximum **VND short-term lending rate** is increased from **4.5% p.a to 5.5% p.a**; the maximum **VND short-term lending rate at the People's Credit Funds and the Micro Finance Institutions** is lowered from **5.5% p.a to 6.5% p.a**.

### Interest rates summary:

	Previous (p.a)	Updated (p.a)
<b>Refinancing rate</b>	5.0%	6.0%
<b>Discount rate</b>	3.5%	4.5%
<b>The overnight interest rate in the inter-bank electronic payment</b>	6.0%	7.0%
<b>VND mobilizing interest rate</b>		
<i>for demand and below 1-month terms</i>	0.5%	1.0%
<i>for time deposits of 1-month to below 6-month terms</i>	5.00%	6.00%
<i>for time deposits of 1-month to below 6-month terms at the People's Credit Funds and the Micro Finance Institutions</i>	5.50%	6.50%
<b>Maximum VND short-term lending rate charged by the credit institutions to borrowers to meet the capital demand in several economic sectors in line with Circular No. 39/2016/TT-NHNN dated December 30, 2016</b>		
<i>charged by the credit institutions</i>	4.5%	5.5%
<i>charged by the People's Credit Funds and the Micro Finance Institutions</i>	5.5%	6.5%

## SBV key interest rates

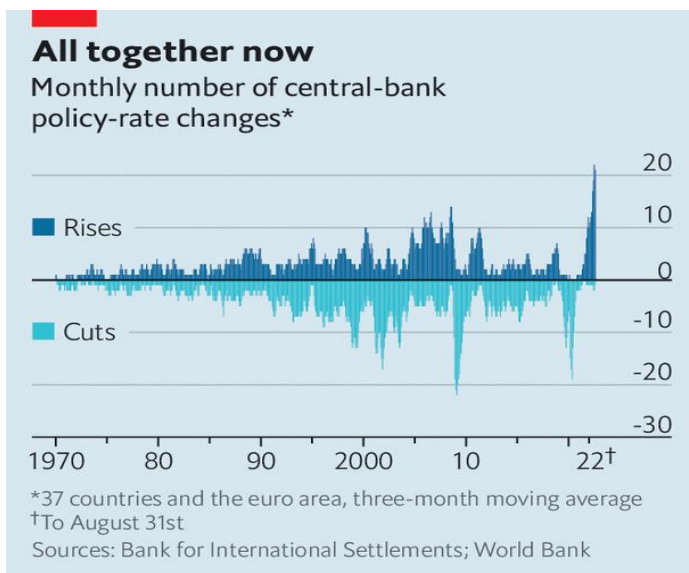


## What does the recent SBV rate hike mean to Vietnam?

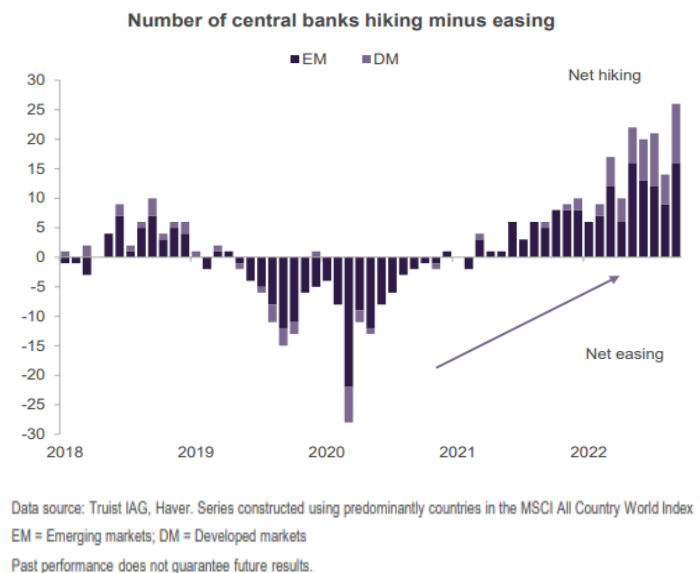
In general, the USD has been on a strong run with the Dollar Index (DXY) surpassing the 110 level, reaching a two-decade high, and appreciating just under 16.6% YTD. The strong dollar has been contributed to by several factors including the aggressive interest rate hikes by the US Fed and weaknesses seen in the Pound Sterling and Euro as those economies are facing the fallout of surging energy costs and the weaponization of the gas markets by Russia in response to economic sanctions placed upon them by many Western nations. The VND has historically been under pressure when the DXY is strengthening, which is contributing to the actions from the SBV.

We believe that the SBV moves were due to risks and potential risks that SBV is currently facing which put depreciation pressure on VND, including:

- (1) Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds;



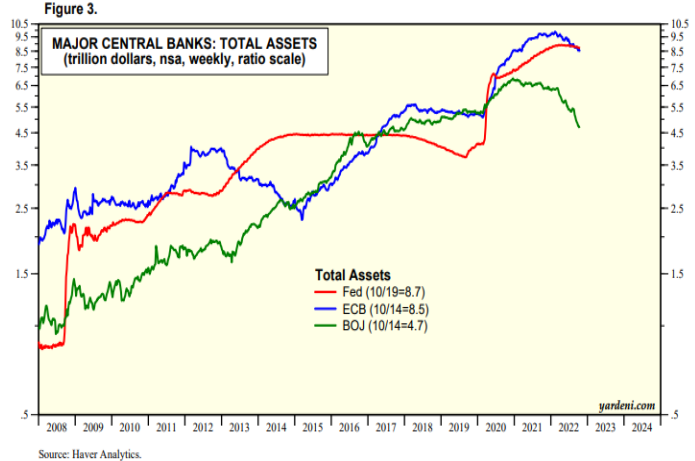
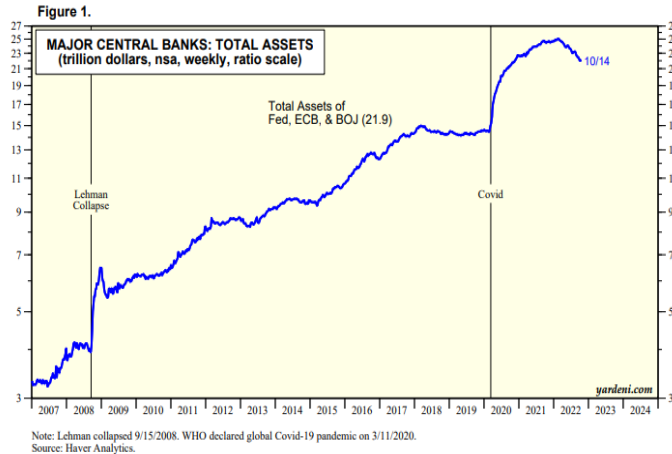
The Economist



- (2) The FED, along with the BOE and ECB are stopping reinvesting maturing assets and starting to sell assets on their balance sheet (also known as Quantitative Tightening program). The FED expected to reduce around USD400bn of its balance sheet by the end of 2022. ECB and BOE also plans to follow FED. Morgan Stanley estimated that the balance sheets of the heaviest-hitting central banks will shrink by roughly USD4tn by the end of next year. Those events will affect VND strength in upcoming months.

Fed+ECB+BOJ in Dollars

Fed+ECB+BOJ in Dollars



- (3) The global energy crisis is still causing great difficulties for many countries as the EU faces a shortage of energy supplies this winter and OPEC+'s oil production reduction plan could raise prices. Surging oil prices again might put upward pressure by directly affect Vietnam's domestic gasoline prices and put upward pressure on transportation fees and will indirectly increase pressures on prices of other raw production materials.

However, 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 final quarter 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 9M2022. We also maintain our expectation that Vietnam's GDP will continued to record strong growth which will grow in range between **5.4% - 7.6% YoY in 4Q2022** and **7.8% - 8.4% YoY in 2022** with supporting factors noted in our latest **Macro Updated Report 3Q2022**. However, 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 & aggressive rates hike of SBV and several exogenous risk factors which may bring uncertainties to Vietnam's economic growth prospects toward yearend 2022.

ACBS projects 3 scenarios for the FX until end of 2022, which will depend majority in interest rate and quantitative tightening program of major central banks (FED, ECB, BOE and BOJ):

- (1) In first scenario, we assume that the FED and major central banks keep their plan on rate hike and quantitative tightening program. In this scenario, FX rate will be around this level (24.800 – 25.200/USD).
- (2) In second scenario, we assume that the FED and major central banks might turn more hawkish on their rate hike plan and speed up quantitative tightening program due to more upward pressure on inflation. In this scenario, if SBV raise their reference rate by 50-100bps, FX rate will be around this level (24.800 – 25.200/USD).
- (3) In third scenario, we also that FED and major central banks might turn more hawkish on their rate hike plan and speed up quantitative tightening program due to more upward pressure on inflation just like second scenario. But in this scenario, SBV do not raise their reference rate, FX rate will be depreciated 1-2% more, which will be 25.200 – 25.500.

We think second scenario will be likely (in which the SBV might have another rate hike by 50-100bps towards the year end) with recent move of SBV to prepare for aggressive FED rate hike, caused by higher than expected recent inflation figures released in US by 0.1-0.2%, so the FED might be more hawkish with their rate hikes as the labour market seems to remain strong. In

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addition, the global energy crisis is still causing great difficulties for many countries as the EU faces a shortage of energy supplies this winter with also put upward pressure on the ECB and BOE on fighting inflation which might push them to be more hawkish on interest rates.

### Macro Forecast Summary (from [Macro Updated Report 3Q2022](#))

#### Favourable Scenario

##### Key Assumption:

##### + Economic growth remain strong.

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

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

##### + Monetary Policy:

- SBV will grant the remaining credit growth quota in 4Q2022.
- Monetary policy tends to be neutral.
- SBV might not raise its benchmark interest rates toward yearend

+ **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	%	%	%
10.3%	8.4%	10.5%	10.0%	Im: 374 Ex: 384 Net Ex: 10	Disbursed: 22.0 Registered: 20.0	37.2%	23.3%	2.9%

#### Less Favourable Scenario

##### Key Assumption:

##### + Economic growth slows in 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 quarter of 2022.
- Inflation pick up a little bit in 4Q2022 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 2023.

##### + Monetary Policy:

- SBV will not grant the remaining credit growth quota in 4Q2022.
- Monetary policy tends to be slightly tighten.
- SBV might raise its benchmark interest rates toward yearend by about 50-100 percentage point (0.5%-1%).

+ **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	%	%	%
9.1%	7.8%	9.7%	9.6%	Im: 370 Ex: 375 Net Ex: 5	Disbursed: 20.0 Registered: 18.0	31.6%	20.7%	3.6%

Analyst, Research Department

Minh Trinh Viet

[minhtvh@acbs.com.vn](mailto:minhtvh@acbs.com.vn)

25/10/2022

## CONTACTS

**Ho Chi Minh City Head Office**

Leman, 117 Nguyen Dinh Chieu, Dist. 3, Ho Chi Minh City

Tel: (+84 28) 7300 7000

**Hanoi Office**

10 Phan Chu Trinh, HoanKiem Dist., Ha Noi

Tel: (+84 24) 3942 9395

Fax: (+84 24)3942 9407

## RESEARCH DEPARTMENT

**Director - Head of Research****Tyler Cheung**

(+84 28) 7300 7000 (x1040)

[tyler@acbs.com.vn](mailto:tyler@acbs.com.vn)**Associate Director****Gigi Nguyen Binh**

(+84 28) 7300 7000 (x1041)

[gjaonbt@acbs.com.vn](mailto:gjaonbt@acbs.com.vn)**Manager– Property****Truc Pham**

(+84 28) 7300 7000 (x1043)

[trucptt@acbs.com.vn](mailto:trucptt@acbs.com.vn)**Manager– Financials****Hung Cao**

(+84 28) 7300 7000 (x1049)

[hungcv@acbs.com.vn](mailto:hungcv@acbs.com.vn)**Associate – Consumer-related, Technology****Chi Luong**

(+84 28) 7300 7000 (x1042)

[chiltk@acbs.com.vn](mailto:chiltk@acbs.com.vn)**Associate– Oil & Gas****Hung Phan**

(+84 28) 7300 7000 (x1044)

[hungpv@acbs.com.vn](mailto:hungpv@acbs.com.vn)**Associate – Consumer-related, Media****Trung Tran**

(+84 28) 7300 7000 (x1045)

[trungtn@acbs.com.vn](mailto:trungtn@acbs.com.vn)**Associate – Construction materials****Huy Huynh**

(+84 28) 7300 7000 (x1048)

[huyha@acbs.com.vn](mailto:huyha@acbs.com.vn)**Associate – Energy****Toan Pham**

(+84 28) 7300 7000 (x1051)

[toanpd@acbs.com.vn](mailto:toanpd@acbs.com.vn)**Associate –Macro****Hoa Nguyen**

(+84 28) 7300 7000 (x1050)

[hoant@acbs.com.vn](mailto:hoant@acbs.com.vn)**Associate – Macro****Minh Trinh**

(+84 28) 7300 7000 (x1046)

[minhtvh@acbs.com.vn](mailto:minhtvh@acbs.com.vn)**Analyst – Technical****Phuoc Luong**

(+84 28) 7300 7000 (x1047)

[phuocld@acbs.com.vn](mailto:phuocld@acbs.com.vn)**Analyst – Technical****Huu Vo**

(+84 28) 7300 7000 (x1052)

[huvvp@acbs.com.vn](mailto:huvvp@acbs.com.vn)**Associate Director – Institutional sales****Huong Chu**

(+84 28) 7300 7000 (x1083)

[huonggtk@acbs.com.vn](mailto:huonggtk@acbs.com.vn)**Customer Support Institutional Client****Thanh Le**

(+84 28) 7300 7000 (x1089)

[thanhln@acbs.com.vn](mailto:thanhln@acbs.com.vn)**Trader****Huynh Nguyen**

(+84 28) 7300 7000 (x1088)

[huynhntn@acbs.com.vn](mailto:huynhntn@acbs.com.vn)**Trader****Thanh Tran**

(+84 28) 7300 7000 (x1085)

[thanhntt@acbs.com.vn](mailto:thanhntt@acbs.com.vn)**Trader****Thao Nguyen**

(+84 28) 7300 7000 (x1087)

[thaont@acbs.com.vn](mailto:thaont@acbs.com.vn)**Trader****Dung Ly**

(+84 28) 7300 7000 (x1084)

[dungln.hso@acbs.com.vn](mailto:dungln.hso@acbs.com.vn)**Trader****Nhi Nguyen**

(+84 28) 7300 7000 (x1086)

[nhinp@acbs.com.vn](mailto:nhinp@acbs.com.vn)



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