

15/03/2023

The State Bank of Vietnam (SBV) announced the adjustment of several key interest rates effective from March 15, 2023

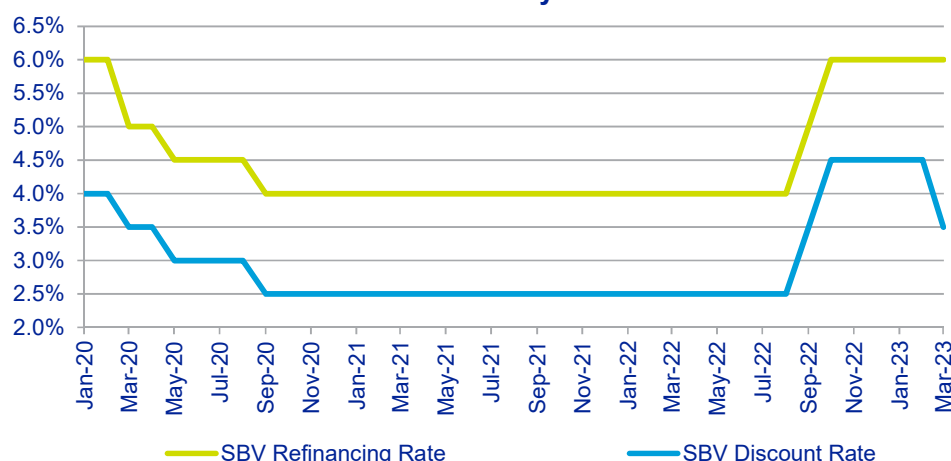
The SBV has issued series of Decisions dated 14/03/2023 on adjusting some key interest rates applicable from March 15, 2023. Accordingly:

- SBV issued **Decision No.313/QĐ-NHNN** dated 14/03/2023 in which **refinancing rate** will remain at **6.0% p.a**; the **discount rate** will decline from **4.5% 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** will also decline from **7.0% p.a to 6.0% p.a**;
- SBV issued **Decision No.314/QĐ-NHNN** dated 14/03/2023 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 will decrease from 5.5% p.a to 5.0% p.a**; the **maximum VND short-term lending rate at the People's Credit Funds and the Micro Finance Institutions will lower from 6.5% p.a to 6.0% p.a**.

Interest rates summary:

	Previous (p.a)	Updated (p.a)
Refinancing rate	6.0%	6.0%
Discount rate	4.5%	3.5%
The overnight interest rate in the inter-bank electronic payment	7.0%	6.0%
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		
<i>charged by the credit institutions</i>	5.5%	5.0%
<i>charged by the People's Credit Funds and the Micro Finance Institutions</i>	6.5%	6.0%

SBV key interest rates



15/03/2023

What does the recent SBV rate adjustment mean to Vietnam?

This is relatively positive news in a time of massive bad news, but the impact might not be too significant and might be limited to liquidity of interbank market..

To be more specific about the rediscount rate (reduced from 4.5% to 3.5%), this is the short-term lending rate of the State Bank of Vietnam (SBV) to commercial banks and other credit institutions, applied in the form of discounting on valuable papers (mainly government bonds). We believe that it might only help to reduce capital costs for commercial banks if they need short-term funding from the SBV to avoid upward pressure from increasing interest rate in order to attract deposit in the M1 (from businesses and households) and interbank interest rates in upcoming months. The refinancing interest rate (usually used as reference interest rate on the OMO and interbank market) remains unchanged at 6%.

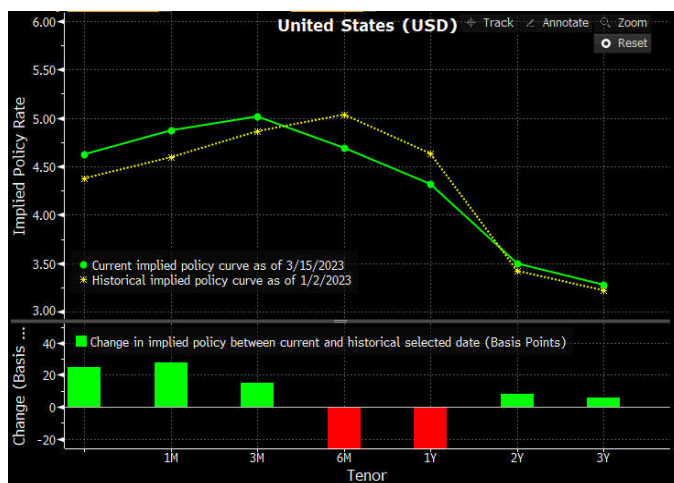
The Decision regarding the lending interest rate to banks acts as the SBV's official forward guidance to push commercial banks to decrease lending interest rates. However, in our opinion, it might not really have strong impacts as the adjustments aim at short-term rates. Commercial banks may even find this unfavorable because if the deposit rate cannot be reduced in line with lending interest rate, this might badly affect the NIM and profits of commercial banks in upcoming months.

Overall, we think that the SBV may find hard in maintaining low interest rates as the FED is expected to keep increasing interest rates in 1H2023, especially when the current announced US's Core CPI beat market expectations, might put pressure on the VND/USD exchange rate. The SBV might have to keep the gap between the VND and USD interbank interest rate positive in order to support the VND/USD exchange rate.

In addition, as most banks were granted new credit growth quotas in the beginning of 2023, we believe that commercial banks have boosted credit growth and put upward pressure on interest rates. Furthermore, high demand for cash due to major holidays might drain liquidity and put upward pressure on interest rates in early 2023.

As a result, we expect banking system's liquidity might remain tight at the current level as a support for the VND from the SBV. Therefore, we expect that interbank rates may move in the range of 100-150bps, from the current level, and stabilize in 2H2023 due to:

- (1) while inflationary pressures might remain in the early part of the year, we expect that FED and other major central banks might continue to raise rates as planned. If these actions work as expected and inflation is brought under control, we could see a neutral monetary policy in the second half of the year as encouraging economic growth might return to the forefront of policy makers' minds. Overall, we expect the high interest rate environment to continue at least until the end of 2023;



Source: Bloomberg

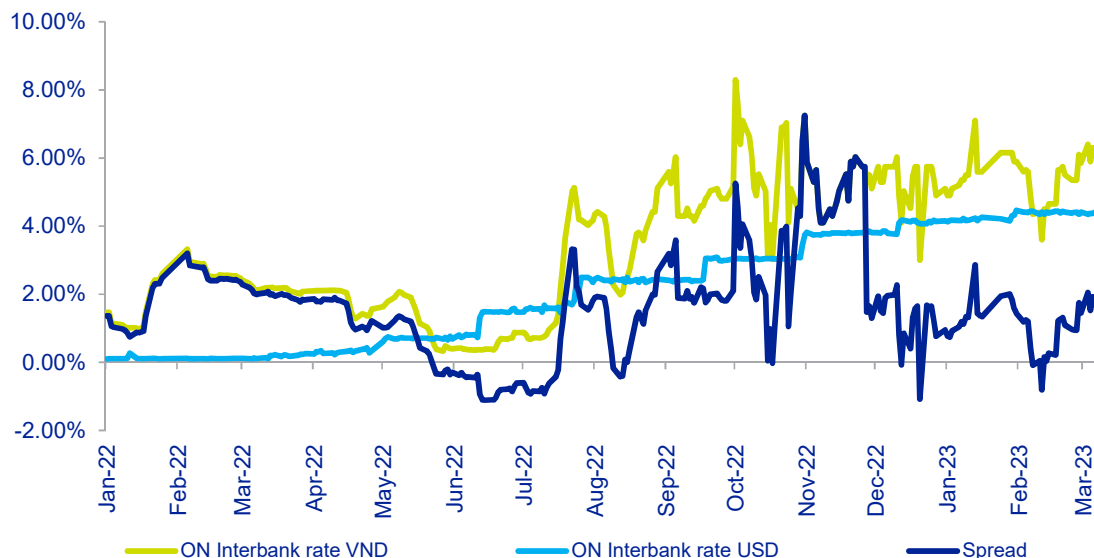
MEETING DATE	MEETING PROBABILITIES						
	350-375	375-400	400-425	425-450	450-475	475-500	500-525
03/22/23	0.0%	0.0%	0.0%	0.0%	19.5%	80.5%	0.0%
05/03/23	0.0%	0.0%	0.0%	0.0%	3.6%	30.9%	65.5%
06/14/23	0.0%	0.0%	0.0%	0.9%	10.1%	39.1%	50.0%
07/26/23	0.0%	0.0%	0.8%	9.3%	36.7%	49.1%	4.1%
09/20/23	0.0%	0.4%	5.6%	24.6%	43.6%	23.9%	1.8%
1/11/2023	0.2%	2.7%	13.9%	33.0%	35.0%	14.2%	1.0%
12/13/23	1.3%	7.8%	22.7%	33.9%	25.5%	8.2%	0.6%
01/31/24	3.8%	13.5%	27.0%	30.7%	18.8%	5.3%	0.3%
03/20/24	9.2%	20.9%	29.0%	24.2%	11.4%	2.5%	0.2%
05/01/24	16.7%	26.1%	25.9%	16.0%	5.7%	1.0%	0.1%
06/19/24	19.3%	26.0%	23.2%	13.2%	4.4%	0.8%	0.0%
07/31/24	20.3%	25.6%	21.6%	11.8%	3.9%	0.6%	0.0%

Source: CME

15/03/2023

- (2) The SBV intends to keep the gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate, so with Fed Fund Rates continuing to be high and higher toward the year-end, we do not expect SBV might lower interbank rates significantly in the upcoming months.

ON Interbank rate spread between VND and USD



We expect that the SBV might try to maintain the current policy with reasonable interest rates to boost economy. However, in the worst case scenario (in which inflation continues to be high while labor market is still strong in the US, FED needs to be more hawkish with its rate hike plan as US's Core CPI beat market expectations), we expect that the SBV might think of gradually increasing policy rates (especially refinancing rate) by 50-100bps toward the end of 2023 in order to maintain stability of the foreign exchange market.

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