

Macro Note

Vietnam: SBV Lowers Its Key Interest Rate Further

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- The State Bank of Vietnam (SBV) announced a further lowering of its key refinancing rate by 50 bps to 5.0%, effective Thu (25 May), extending its previous 50bps cut announced on 31 Mar.
- The SBV's move to lower its key refinancing rate further was within our expectation as the SBV took action to support economic growth, after the surprisingly soft 1Q23 GDP report. Latest monthly data suggest the near-term outlook remains challenging.
- With the latest announcement matching fully our expectation of a total rate cut of 100 bps in 2Q23, the scope for further rate reduction may be limited given considerations for domestic inflation as well as potential implications for the VND exchange rate. As such, we expect the SBV to approach additional rate cuts in a cautious and deliberate manner, with the refinancing rate staying at 5.0% at least through 3Q23, if not longer.

SBV Cuts Its Key Policy Rate By Another 50bps

The State Bank of Vietnam (SBV) announced a further lowering of its key refinancing rate by 50 bps to 5.0%, effective from Thu (25 May), extending its previous 50bps cut announced on 31 Mar.

The discount rate – which SBV unexpectedly reduced by 100bps to 3.5% (from 4.5%) on 16 Mar – will be kept unchanged at 3.5%. However, the overnight lending rate in the inter-bank market will be reduced to 5.5% from 6%.

In addition, the central bank also said in the latest announcement that it would further lower the caps on interest rates of deposits in Vietnamese dong by 50 bps to 5% from 5.5% for maturities below six months.

The latest move came after local media quoted National Assembly's head of economic committee Vu Hong Thanh at the opening session of the parliament earlier in the week, as saying that the country's growth target of 6.5% this year may be "at risk" amid a global slowdown. Lawmakers also reiterated calls for the central bank to consider more policy rate cuts and for banks to lower lending rates to support businesses.

Potential For Rates To Head Lower

SBV's move to lower its key refinancing rate was within our expectation of a total 100bps of rate cuts by end-2Q23, while the central bank had also signaled earlier in May that further interest rate cuts may be needed.

The move came slightly earlier than our expectation, likely due to the continued weakness in a series of recent data, including for exports and manufacturing. Exports remained under pressure as external demand faltered as a result of monetary policy tightening in developed markets. Exports contracted in 5 of the last 6 months, declining by more than 16% y/y in Apr after the 14.5% drop in Mar. YTD, Vietnam's exports had fallen nearly 13% y/y, the worst performance since 2020. Meanwhile, manufacturing output has been on a declining streak since Jan 2023, and a turnaround remains elusive with the purchasing manager's index (PMI) staying in the sub-50 region in 5 out of the last 6 months.

With the latest rate action coming in within our expectation of a total 100bps cuts in 2Q23, the SBV has shifted towards a more accommodative stance. However, this does not suggest that the SBV is embarking on a rate cut cycle, at least not just yet. The central bank is likely to approach further rate cuts cautiously and deliberately. One area of focus for the SBV is clearly on the domestic inflation trend.

While some easing signs have surfaced on the inflation front, with Vietnam's headline consumer price index slowing to 2.8% y/y in Apr, well below government's target of 4.5%, core inflation has yet to see a substantial slowdown. Core inflation (which excludes food, energy, and other public services prices) rose by 4.56% y/y in Apr 2023, slightly slower than the 5.01% y/y pace in 1Q23. This trend is likely to be of concern to the central bank with core inflation hovering above the 4.5% pace for the 6th straight month.

With the latest move matching our expectation of a total rate cut of 100 bps in 2Q23, we see limited scope for further rate reduction in the near term, given considerations for domestic inflation as well as potential implications for the VND exchange rate. As such, we expect the SBV to approach additional rate cuts in a cautious and deliberate manner, with the refinancing rate to stay at 5.0% at least through 3Q23, if not longer.

On economic outlook, the surprisingly weak performance in 1Q23 (GDP growth of 3.32% y/y from 5.92% in 4Q22 and well below expectations) had prompted our lowering of Vietnam's full year growth projection to 6.0% (from 6.5% previously; 2022: 8.02%). With recent data remaining lackluster, headwinds to Vietnam's growth outlook at least in the first half are accumulating. While we keep our full year forecast of 6.0% and our view of SBV pausing its rate cut for now, we will reassess projections for these key indicators including policy rate once 2Q23 data releases are available at the end of Jun.

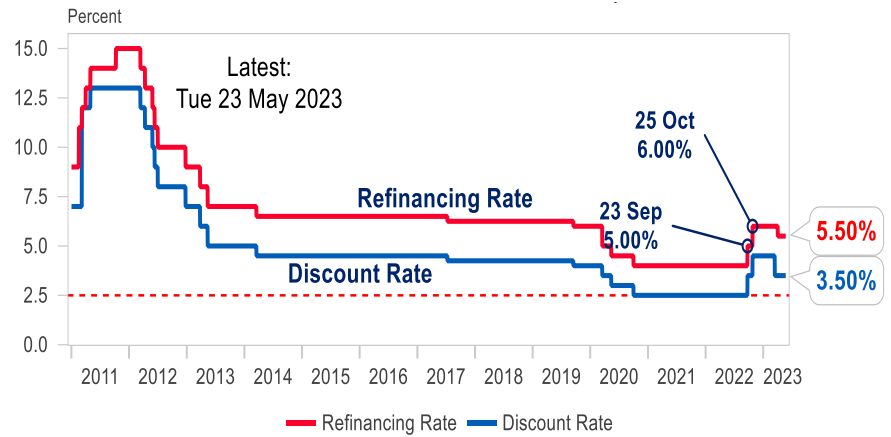
Our Forecast

Source: Global Economics & Markets Research

%	<u>23 May 2023</u>	<u>2Q23F</u>	<u>3Q23F</u>	<u>4Q23F</u>	<u>1Q24F</u>
VND Refi Rate	5.00	5.00	5.00	5.00	5.00

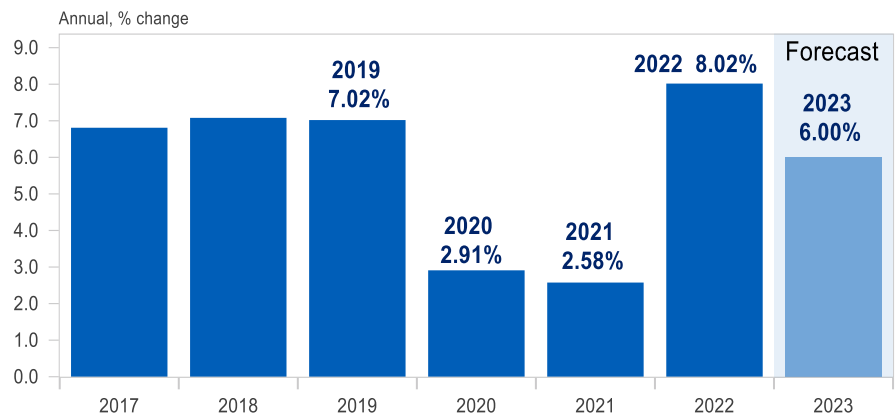
Vietnam: Policy Rates

Source: Macrobond, UOB Global Economics & Markets Research



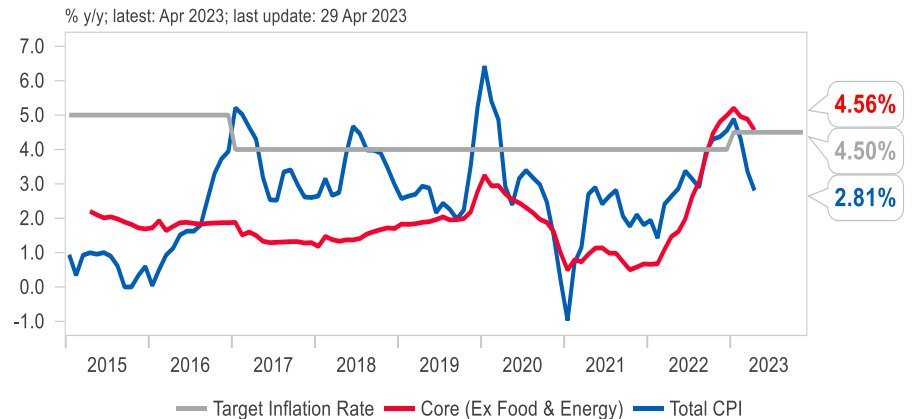
Vietnam: Annual Real GDP Growth

Source: Macrobond, UOB Global Economics & Markets Research



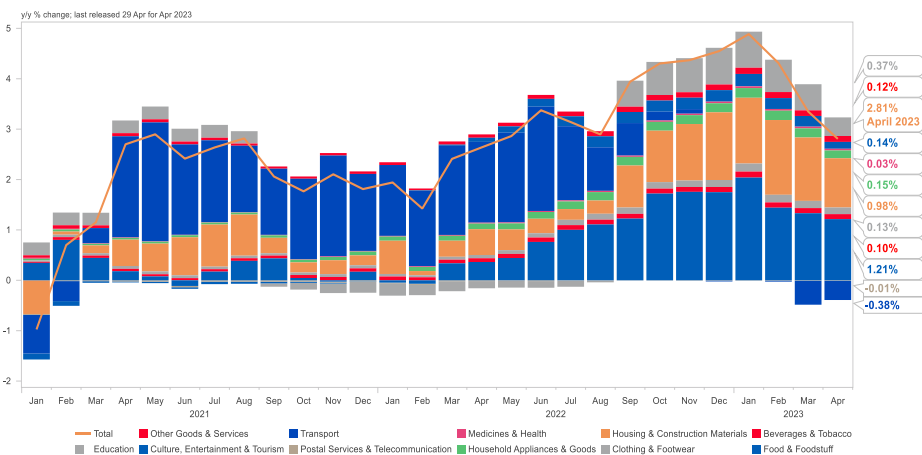
Vietnam: Consumer Price Index (CPI)

Source: Macrobond, UOB Global Economics & Markets Research



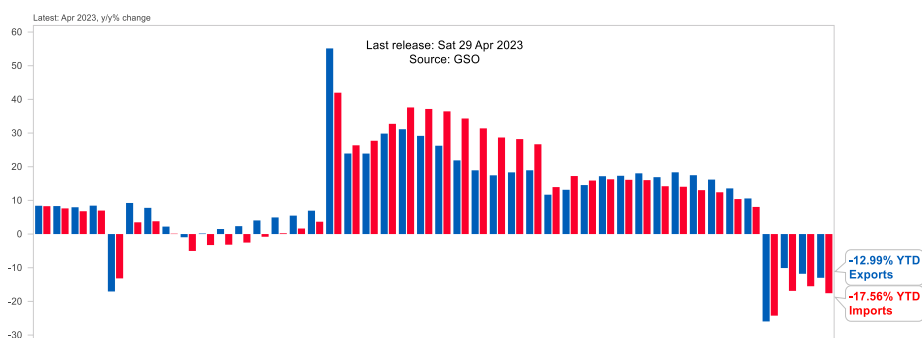
Vietnam: Consumer Price Index (CPI) - Contributions by components

Source: Macrobond, UOB Global Economics & Markets Research

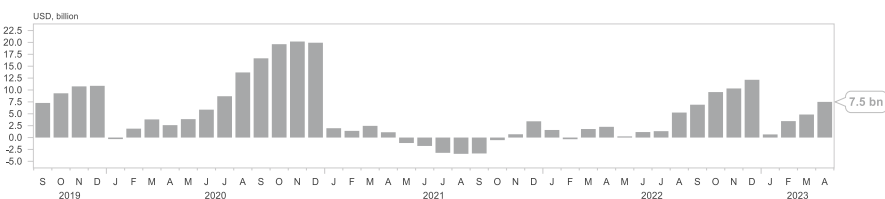


Vietnam: Foreign Trade YTD

Source: Macrobond, UOB Global Economics & Markets Research

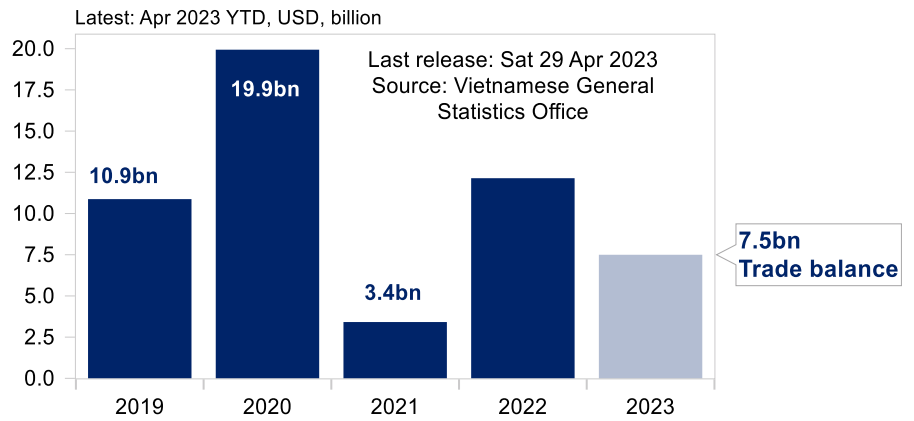


Vietnam: Trade Balance of Goods, YTD Apr 2023



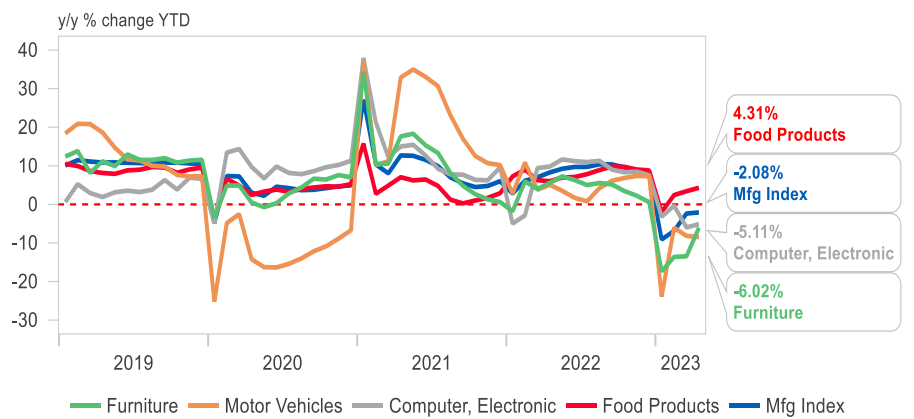
Vietnam: Trade Balance YTD

Source: Macrobond, UOB Global Economics & Markets Research



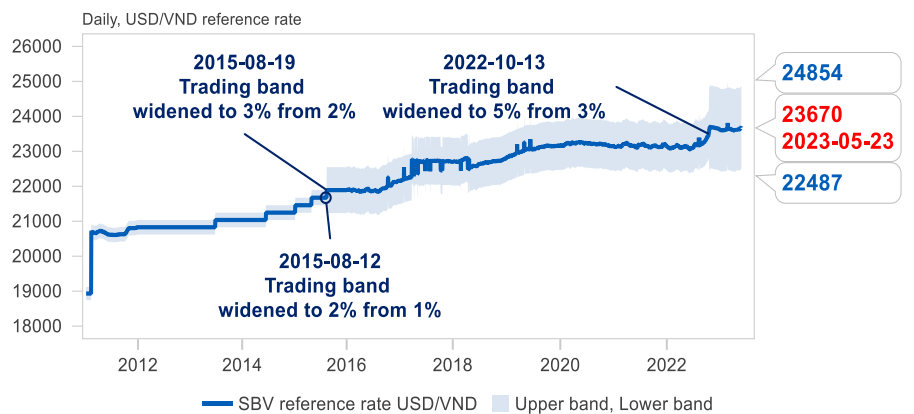
Vietnam: Manufacturing Output YTD

Source: Macrobond, UOB Global Economics & Markets Research



Vietnam: Evolution of USD/VND reference rate and trading bands

Source: Macrobond, UOB Global Economics & Markets Research



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