

Impact Assessment: Policy Rate Cut by SBV

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Interest rate adjustment. At July 7th, 2017, State Bank of Vietnam (SBV) announced a document of reducing policy rate (-0.25%/year) and lowering short-term lending interest rate for VND of credit institutions (CIs), branches of foreign banks to some segments and economic sectors. This policy will be effective from July 10th, 2017.

Lending interest rates are expected to decline. In comparison to the previous policies and orientations of reducing lending interest rate of SBV, the policy rate cut this time demonstrates clearly the determination of lowering lending interest rate, thereby boosting economic growth.

- The policy rate cut is the basis for commercial banks to lower the lending interest rate through policy orientation and reduction of funding cost
- A number of commercial banks have already announced lending rate reduction such as: LienVietpostbank, VPBank, Agribank và Vietinbank. The effect is expected to follow.

For commercial banks. NIM may decline as lending interest rate down more rapidly than deposit rate and low cost saving from this policy rate cut (about VND 354 billion within 23 commercial banks).

For enterprises. Capital cost and business results of companies are expected to be improved due to lower interest rates. In particular, companies which are operating in priority sectors or industries are the first direct beneficiaries.

For stock market. The stock market is expected to rise in the long term due to better business results of companies and lower capital cost.

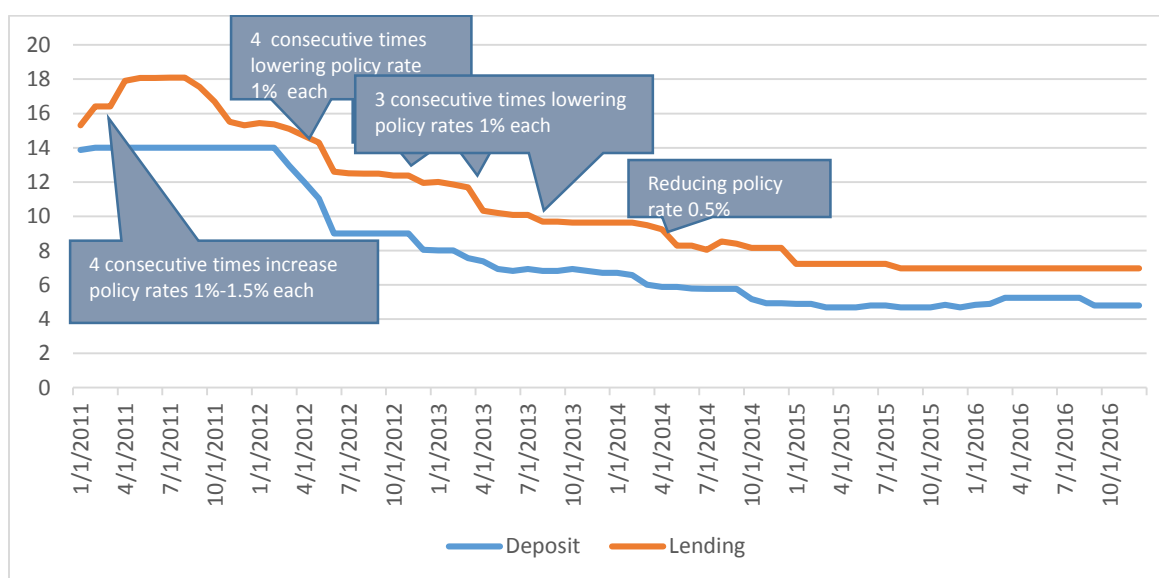
Impact Assessment of Policy Rate Cut by SBV

Policy rate cut. (1) Refinancing rate decreased from 6.5% to 6.25% annually; Rediscount rate decreased from 4.5% to 4.25% annually; overnight interest rates in inter-bank electronic payments and loans to offset shortfall in capital for clearing payments by the SBV to banks decreased from 7.5% to 7.25% annually. **(2)** Maximum short-term lending interest rates in VND for loans of agriculture, rural area, supporting industries, small and medium enterprises, and high technology firms decreased from 7% to 6.5% annually, the maximum short-term lending interest rate in VND of the People's Credit Fund and the microfinance institution will decrease from 8% to 7.5% annually.

Lowering policy rate is a basis for commercial banks to reduce lending rates.

- **Refinancing** is a form of credit funding by the State Bank of Vietnam to provide short-term loans and payment instruments for financial institutions, including loans collateralized by securities or discounted securities, and other forms of financing. The SBV adjusts its refinancing activities through: (1) total refinancing limits; (2) policy interest rates. Thus, lowering the policy interest rate will reduce funding cost of credit institutions when borrowing from the SBV, thereby creating a motivation for commercial banks to reduce the lending interest rate.
- **The deposit and lending interest rates of financial institutions tend to rise / fall in the same direction with changes in policy interest rates.** This trends are observed by the BSC and summarized from the 9 previous SBV adjustments of interest rates (Graph 1). Additionally, we realized that in the periods of time when the deposit rate ceiling was applied (from 2011 to 2012), the gap between lending and deposit rates of CIs widen after SBV made policy rate adjustments. After that, this gap tends to narrow down although the policy rates continue to decline (except for the correction in March 2013).

Chart 1: Deposit and Lending Rates Developments under Policy Rates Cut



Source: Bloomberg, BSC research

A number of commercial banks have announced reducing lending rates. The announcement of policy rate cut is a good signal of liquidity. This action demonstrates stronger determination of SBV to reduce the lending rate than previous directives did. Following, many commercial banks announced to reduce lending rates. Particularly, on 8/7/2017, LienVietPostbank announced to reduce 0.25% in lending rates for the firms ranking AA credit scores or higher. VPBank announced short-term interest rates reduction programs (of 0.5-1%) for small and medium enterprises (SMEs), in effective from 10/7/2017. VietinBank continued to adjust the short-term lending rate in VND to maximum rate of 6.5% annually for priority sectors, includes agricultural and rural development; implementation of projects on business activities of export goods; SMEs; supporting industries; high technology enterprises from 10/7/2017. Agribank announced, from 10/07/2017, the fall of its short-term lending rate from 7% to 6.5% annually and the fall of medium and long-term loans from 8.5% to 8% annually for priority customers, in accordance with Circular No. 39/2016 / TT-NHNN, with transparent and healthy financial status.

Cost saving of CIs are negligible. Due to the scale of loans from SBV and the little reduction, we believe that the cost saving of banks due to this policy rate adjustment is not significant, especially in the scenario that the size of refinancing does not open. For 0.25% reduction in policy rates stated above, we estimate, the cost saving of 23 commercial banks is about VND 354 billion.

- **The 0.25% cut of policy rates isn't significant.** In nine previous adjustments, policy rate was mostly adjusted by 1% each time and there were often 3-4 consecutive adjustment (except for a 0.5% reduction of policy rate on March, 2014).
- **The scale of loans form SBV are small.** We use amount of payable to Government and SBV as a representative for size of loans from SBV. Statistic data from 23 commercial banks in Vietnam showed that this total debt balance is VND 142 trillion at the end of 1Q/2017, equivalent to only 2.46% of total asset and 3.33% of total deposits of those 23 commercial banks. Therefore, the total cost saving of these banks is about VND 354 billion.

The impact on money supply. The interest rate reductions were often viewed as a signal of easy monetary policy. However, this adjustment of SBV has two factors which led us to believe that the money supply may not be loosed: (1) the target credit growth of 2017 is 18% and there have not been any signal to increase credit growth ceiling; (2) we do not know whether the total discount limit ,determined quarterly by SBV, increases or not.

NIM of Banks may decreases after SBV's decision of lowering the policy rate. As we mentioned above, the impact of decreased funding cost from this policy rate adjustment is not high (VND 354 billion cost saving for 23 commercial banks). Meanwhile, the commercial banks face pressure of reducing the lending rate from management and policy orientations of SBV. Deposit interest rate is difficult to be reduced correspondingly due to inflation pressure (over 4% of the year 2017) and foreign exchange rate. Commercial banks' business results shows that NIM of many banks fell in the period 2012 to 2014 (coinciding with the period in which SBV lowered policy rate, commercial banks reduced their deposit rates and lending interest rates).

NIM of Commercial Banks from 2012 to 1Q/2017

NIM	2012	2013	2014	2015	2016	1Q/2017
VCB	2.90%	2.52%	2.39%	2.58%	2.63%	2.67%
CTG	4.03%	3.59%	3.08%	2.78%	2.73%	2.65%
BID	3.11%	2.85%	2.98%	2.72%	2.64%	2.65%
ACB	3.71%	2.87%	3.03%	3.34%	3.38%	3.28%
MBB	4.53%	3.72%	4.10%	3.81%	3.58%	3.71%
STB	5.29%	4.91%	4.33%	3.33%	2.00%	1.83%
SHB	2.26%	1.83%	1.96%	2.22%	2.10%	2.07%
EIB	3.12%	1.80%	1.84%	2.57%	2.64%	2.46%
NVB	4.09%	2.95%	2.28%	2.24%	1.98%	1.95%
VIB	3.98%	3.15%	3.25%	2.99%	2.86%	2.90%
TCB	3.29%	2.99%	3.93%	4.37%	4.21%	4.07%
VPB	3.73%	4.47%	4.42%	6.36%	7.70%	8.24%
HDB	2.24%	0.56%	2.09%	3.64%	4.07%	3.79%

Source: BSC research

The impacts on other sectors and enterprises. Expected decrease in lending interest rates will have the positively impact to most of industries and sectors (except for insurance) as the business operations of these sectors still highly depend on the debt. The prioritized groups, which are agriculture, rural, supporting industrial, small and medium enterprises and high technology companies, are the first received the direct benefit from short-term lending rate ceiling reduced from 7% to 6.5% annually. Positive impacts to other companies still depends on the timing and the level of the interest rate reduction applied by commercial banks to borrowers.

Long-term positive affect to stock market. Expectation of falling lending interest rates will reduce financial burden, thereby improving the business results, as well as the cost of capital used by individuals and households. Therefore, we believe that this will bring a positive impact to the Vietnam stock market in the long term. From 3/2011 to 3/2014, VN-index rose by 22%, however, in the short term (1 month after policy rate cut), VN-index rose by 0.5 percent, on average. Some sectors which have strong fluctuations in the stock price after the policy rate adjustments are securities companies, real estate, services, banking, logistics, construction materials and construction (Appendix 1).

The market received the information of State Bank reduced policy rate by a sharply falling session. Since last week, Vn-Index has declined when blue-chips stocks simultaneously fell from selling pressure of investors. On the other hand, VN-Index tended to inversely move again the news. At the moment, market movement is also similar, VN-Index had negative developments after a strong rising trend, however, medium and long-term are likely positive due to information from SBV.

Appendix 1: Stocks prices development by sectors 1 month after SBV's policy rate adjustment

Sector	8/3/2011	31/3/2011	29/4/2011	6/10/2011	12/3/2012	10/4/2012	25/5/2012	8/6/2012	29/6/2012	21/12/2012	25/3/2013	10/5/2013	17/3/2014	Average 2012-2014
VN-Index	-2.30%	4.10%	-14.40%	-2.50%	8.70%	7.80%	-3.00%	-4.00%	-2.20%	12.90%	-3.40%	7.90%	-3.30%	2.38%
HNX_Index	0.30%	-8.60%	-15.30%	-8.50%	13.30%	10.30%	-5.70%	-7.20%	-2.50%	13.30%	-3.90%	8.40%	-3.10%	2.54%
Upcom-Index	-5.40%	-4.30%	-8.40%	-1.60%	1.70%	1.70%	0.00%	1.70%	1.40%	1.00%	-0.50%	1.20%	0.80%	1.00%
Real estate	-1.30%	-7.40%	-20.80%	-10.00%	6.50%	15.30%	-6.20%	-7.90%	-3.40%	18.40%	-12.40%	7.20%	-7.50%	1.11%
Rubble	-5.20%	-4.40%	-6.10%	-6.00%	10.60%	24.20%	-2.20%	-5.20%	0.10%	8.70%	0.60%	7.20%	-8.40%	3.96%
Securities	-2.80%	-11.00%	-17.10%	-11.70%	23.80%	10.10%	-6.10%	-14.60%	-0.60%	17.60%	-7.20%	9.70%	-1.50%	3.47%
Technology	0.50%	-4.10%	-12.60%	-4.60%	12.00%	14.60%	-2.90%	-6.20%	0.80%	11.90%	-4.00%	16.60%	1.30%	4.90%
Oils	-1.60%	-4.60%	-11.20%	-9.00%	17.20%	14.60%	-5.10%	-1.50%	-1.60%	10.80%	2.10%	16.40%	5.50%	6.49%
Services	4.00%	-9.60%	3.50%	-18.70%	16.20%	22.20%	-3.70%	-2.00%	-1.50%	10.90%	10.70%	-3.30%	1.60%	5.68%
Medicine	-0.50%	-1.90%	-5.80%	-0.30%	3.90%	-0.70%	-1.00%	-3.00%	1.00%	4.10%	-1.60%	10.10%	-5.20%	0.84%
Education	-3.60%	-6.40%	-13.60%	-4.30%	9.50%	22.00%	-5.00%	-7.20%	3.20%	4.70%	2.20%	6.80%	-1.00%	3.91%
Mineral	0.30%	-3.10%	-2.10%	-1.00%	0.40%	6.30%	-1.70%	-2.80%	-17.40%	-2.50%	-5.40%	-14.40%	-8.80%	-5.14%
Energy	-2.70%	-7.80%	-12.90%	-3.50%	8.10%	24.50%	-7.80%	-5.80%	-0.10%	9.60%	9.40%	15.50%	-3.20%	5.58%
Banks	-7.20%	8.90%	-12.50%	-2.60%	14.60%	1.60%	-5.10%	-5.90%	-2.40%	15.60%	-7.90%	5.80%	-5.00%	1.26%
Plastic	-6.90%	-7.30%	-7.00%	-0.30%	4.70%	10.40%	-4.90%	-5.90%	-1.30%	12.30%	5.60%	16.70%	-3.60%	3.78%
Production	-2.20%	-6.60%	-13.40%	-9.60%	13.20%	23.70%	-5.70%	-12.20%	-4.10%	11.10%	-1.50%	10.70%	-2.10%	3.68%
Steel	4.50%	-6.40%	-13.00%	-9.10%	15.80%	21.30%	-6.90%	-6.20%	-3.00%	7.00%	2.90%	9.20%	3.10%	4.80%
Food	-2.20%	-4.10%	-3.00%	-1.50%	2.40%	-6.80%	-0.10%	0.10%	-4.60%	9.90%	-6.10%	2.30%	-8.00%	-1.21%
Comercial	3.10%	-5.60%	-7.10%	-2.10%	8.90%	13.00%	-0.20%	-2.00%	-1.00%	13.60%	-16.10%	5.20%	-5.60%	1.76%
Fishery	-3.70%	-3.10%	-11.30%	-4.90%	20.10%	23.60%	-4.10%	-5.80%	-1.10%	0.20%	6.80%	2.30%	2.90%	4.99%
Logistics	0.20%	-10.60%	-19.00%	-11.30%	7.90%	18.80%	-5.90%	-9.80%	-3.40%	12.00%	-4.80%	8.40%	-7.20%	1.78%
Construction material	0.00%	-17.10%	-17.30%	-6.70%	13.00%	33.10%	-6.70%	-13.70%	-7.50%	11.10%	-5.00%	9.50%	-3.50%	3.37%
Construction	2.10%	-11.30%	-24.50%	-12.60%	16.20%	14.20%	-5.60%	-10.10%	-6.00%	21.10%	-11.10%	10.60%	-7.60%	2.41%

Source: Bloomberg, BSC research
Sectors Indices are collected from HOSE

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