WORLDWIDE PICTURES

In the context of a recession and losses due to the effects of the Covid-19 pandemic, the world has witnessed aggressive moves of central banks. This "Black swan" event has a profound effect on the economy, not only decreasing demand but also upsetting the global supply chain. Accordingly, the measure to loosen monetary policy is appropriate and urgent in the current context.

Table 1. Policy rate adjustments

	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	Rate
US	↓ 0.25	↓ 0.25					↓ 1.50						0.25
EU	↓ 0.10												0.50
Japan													0.10
China			↓ 0.05			↓ 0.10		↓ 0.20					2.95
India		↓ 0.25					↓ 0.75		↓ 0.40				4.00
Indonesia	↓ 0.25	↓ 0.25				↓ 0.25	↓ 0.25			↓ 0.25	↓ 0.25		4.00
Korea		↓ 0.25					↓ 0.50		↓ 0.2				0.50
Malays a					↓ 0.25		↓ 0.25		↓ 0.50		↓ 0.25		1.75
Philippines	↓ 0.25					↓ 0.25	↓ 0.50	↓ 0.50		↓ 0.50			2.25
Thailand			↓ 0.25			↓ 0.25	↓ 0.25		↓ 0.25				0.50
Vietnam	↓ 0.25						↓ 1.00		↓ 0.50				4.50

Source: ADO

Most recently, the Fed announced the first change in the monetary policy framework since 2012 at the Jackson Hole conference. The inflation target was directly changed from 2% to the average long-term 2%. This message means that the Fed should sustain an easing monetary policy to ensure the number of jobs generated and the stable stability of the financial market.

Many international organizations such as the OECD, the IMF, or the World Bank simultaneously forecast that Covid-19 pandemic could drive the world economy into the worst recession since World War II. Accordingly, even with vaccines, the world economy will only partly rebound by 2021 and will take 2-3 years to rebound, and people will get used to the "new normal", even live with the pandemic. Based on these arguments, **there is a high possibility that central banks over the world will continue to expand or at least maintain loosening monetary policies for a long time in parallel with fiscal measures.**

UPDATED MEASURE FROM THE SBV

Circular No. 08/2020/TT-NHNN

The State Bank has issued Circular No. 08/2020/TT-NHNN amending and supplementing some articles of Circular No. 22/2019/TT-NHNN on prescribing limits and prudential ratios in operations of banks and foreign bank branches. This circular takes effect from October 1, 2020.

Following this Circular, banks and foreign bank branches shall comply with the maximum ratio of short-term capital used for medium and long-term loans according to the schedules below.

Table 2. Maximum ratio of short-term capital used for medium and long-term loans schedule

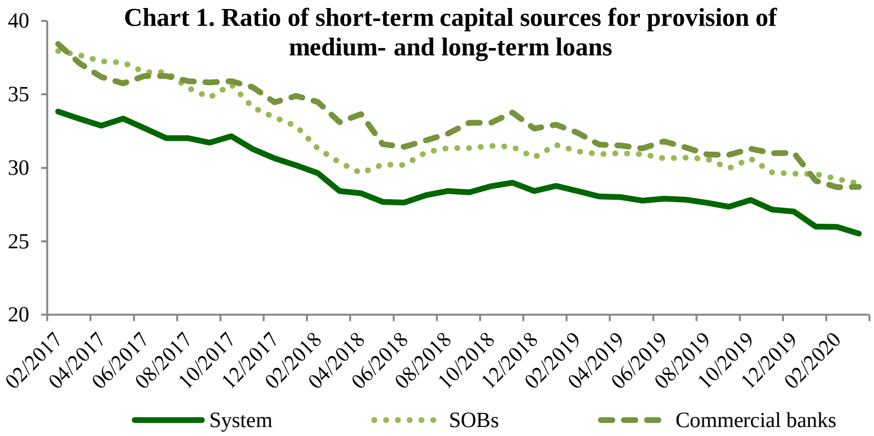
Circular No. 22/2019/TT-NHNN	Circular No. 08/2020/TT-NHNN	Ratio
01/01/2020 – 30/09/2020	01/01/2020 – 30/09/2021	40%
01/10/2020 – 30/09/2021	01/10 2021 – 30/09/2022	37%
1/10/2021 – 30/09/2021	01/10/2022 – 30/09/2022	34%
From 01/10/2022	From 01/10/2023	30%

Source: SBV

Ratio of short-term capital sources for provision of medium- and long-term loans at financial institutions

Data from the SBV as of March 31, 2020 generally showed that financial institutions are responding to the ratio of short-term capital for medium and long-term loans. In detail, this ratio in the State Commercial Bank was 28.92%, in Joint stock commercial banks was 28.70%. Although the highest number was recorded at finance and leasing companies, it still meets the Circular 22/2019/TT-NHNN.

Chart 1. Ratio of short-term capital sources for provision of medium- and long-term loans



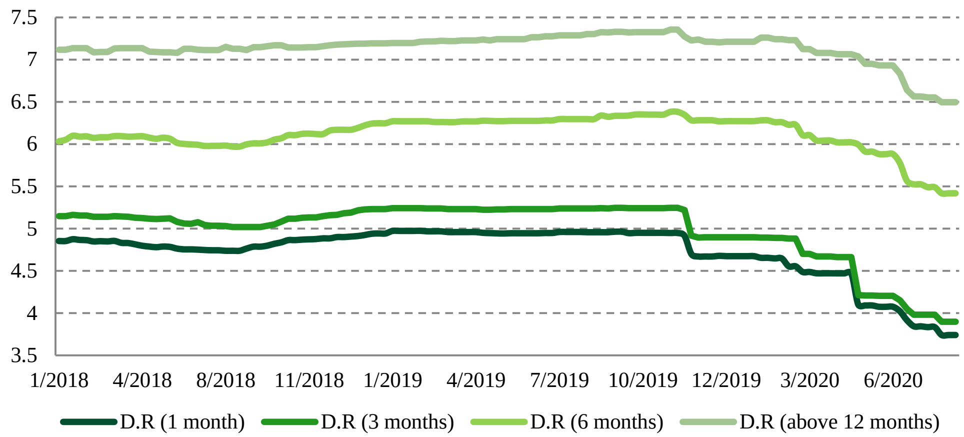
Source: CEIC, VCBS

Comments on Circular 08/2020 / TT-NHNN

The measurements imply the message of supporting business activities, while maintaining a low interest rate level.

The measure which extends the roadmap applying the short-term capital ratio for medium and long-term loans expresses a consistent view in operating the monetary policy proactively, flexibly and prudently, in order to stabilize the macro-economy and ensure the operational safety of the banking system. Given that complicated developments of Covid-19 pademic caused disruptions to the supply chain, the measurement is appropriate and urgent with the orientation of supporting business activities, while maintaining a low interest rate level.

Chart 2. Average deposit rates (Unit: %)



Source: Commercial banks, VCBS

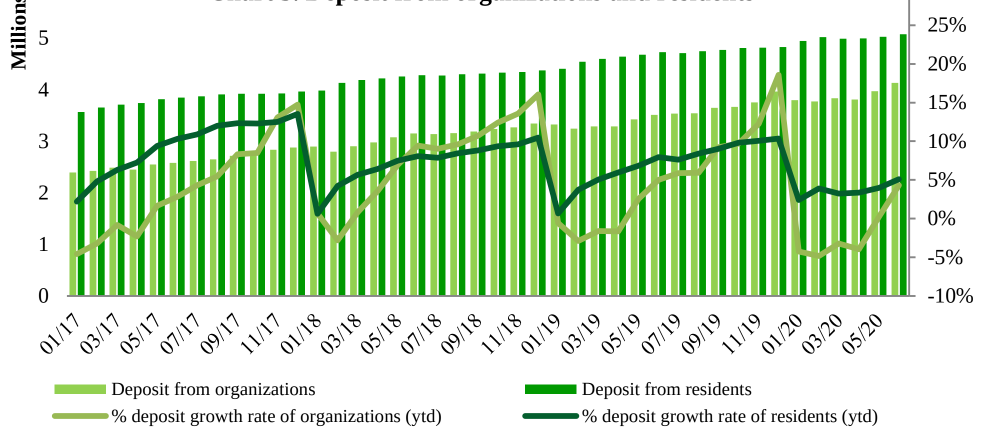
In our opinion, this new circular is unlikely to have a major impact on the banking operations in the short term, as the bank was preparing resources to achieve the SBV's oriented ratios (Chart 3). **This is considered as a necessary move to support banks have abundant resources to achieve the goal of keeping low lending rates; and implement Circular 01 on restructuring the repayment period to support the economy.** Accordingly, we believe that deposit rates shall decline further especially in short tenors (less than 12 months). In the meantime, deposit rates fell in August and the first week of September also saw all tenors drop by 5-10 bps. Accordingly, deposit rates declined by 65 - 85 bps from the beginning of the year till now. In the context of abundant liquidity and low credit growth, VCBS maintains the forecast that deposit rates may drop by 80-100 bps at all tenors this year.

The deposit growth rate of organizations and residents was not high as previous years, but not alarmed.

In the context of lower deposit rates, there were concerns about the possibility in mobilizing terms deposit. However, we do not speak highly that it would happen because terms deposit still expand though at a lower pace than last year. In detail, the deposit of organizations and residents in 6M.2020 were **VND 4,134,046 billion (+ 4.32% ytd)** and **VND 5,075,951 billion (+ 5.09% ytd)** while the deposit growth of organizations were

+9.5% ytd, +5.0% ytd and residents were +8.1% ytd, +8.0% ytd in 6M.2018 and 6M.2019. The reason is a sentiment "cash is king" while the pandemic has expanded rapidly. In the upcoming time, we believe that businesses and residents will prioritize safe and liquid assets in the context of favorable inflation condition. Therefore, VCBS expects that deposit is still considered as the main investment channel given while rising risk of global economic recession.

Chart 3. Deposit from organizations and residents



Source: Fiinpro, VCBS

VCBS expects no pressure on liquidity in the banking system from now to the end of this year.

Banking liquidity is still abundant due to weak credit demand stemming from the disease. In detail, credit growth in 1H2020 was +3.45% ytd while the figure of the same period last year was +7.36% ytd. However, deposit growth at banks is still higher than credit growth. With the assumptions about consistency in monetary policy, we expect that banking system shall witness no pressure on liquidity from now until the end of the year.

Chart 4. Credit growth ytd

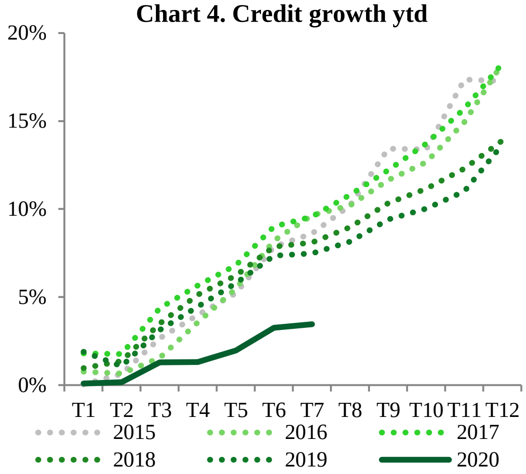
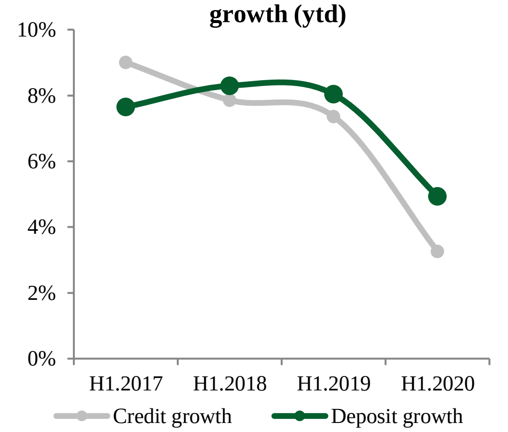


Chart 5. Credit and deposit growth (ytd)



Source: Fiinpro, VCBS

Summary

The decision of extending the roadmap to apply ratio of short-term loans to medium and long-term loans according to Circular 08/2020/TT-NHNN shows SBV's consistent guidance on **monetary policy management proactively, flexibly and appropriately**. The policy is **reasonable with the general management actions of central banks over the world**, and still ensured the goal applying some ratios for banks. Given that many countries have had to move towards "Stay safe with the pandemic" and the forecasts of long-lasting negative effects from the Covid-19 pandemic, expansionary monetary policies and fiscal policies will remain for the next 2-3 years. Accordingly, depending on the world circumstances, the State Bank of Vietnam is forecasted to take appropriate measures to support macroeconomic stability.

These are supporting ideas for **VCBS to forecast (i) low deposit interest rates, (ii) a decline in the yield of risk-free assets.**

DISCLAIMER

This report is designed to provide updated information on the fixed-income, including bonds, interest rates, some other related. The VCBS analysts exert their best efforts to obtain the most accurate and timely information available from various sources, including information pertaining to market prices, yields and rates. All information stated in the report has been collected and assessed as carefully as possible.

It must be stressed that all opinions, judgments, estimations and projections in this report represent independent views of the analyst at the date of publication. Therefore, this report should be best considered a reference and indicative only. It is not an offer or advice to buy or sell or any actions related to any assets. VCBS and/or Departments of VCBS as well as any affiliate of VCBS or affiliate that VCBS belongs to or is related to (thereafter, VCBS), provide no warranty or undertaking of any kind in respect to the information and materials found on, or linked to the report and no obligation to update the information after the report was released. VCBS does not bear any responsibility for the accuracy of the material posted or the information contained therein, or for any consequences arising from its use, and does not invite or accept reliance being placed on any materials or information so provided.

CONTACT INFORMATION

Tran Minh Hoang
Head of Research
tmhoang@vcbs.com.vn

Le Thu Ha
Senior Economic Analyst
ltha_ho@vcbs.com.vn

Luong Van Hoan
Senior Equity Analyst
lvhoan@vcbs.com.vn

Dang Khanh Linh
Economic Analyst
dklinh@vcbs.com.vn