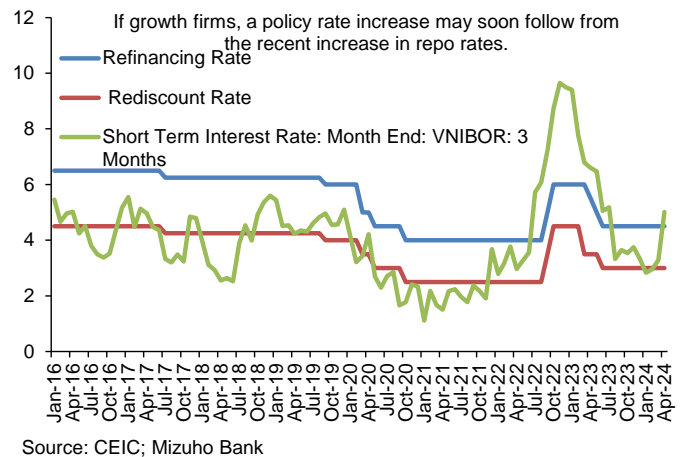
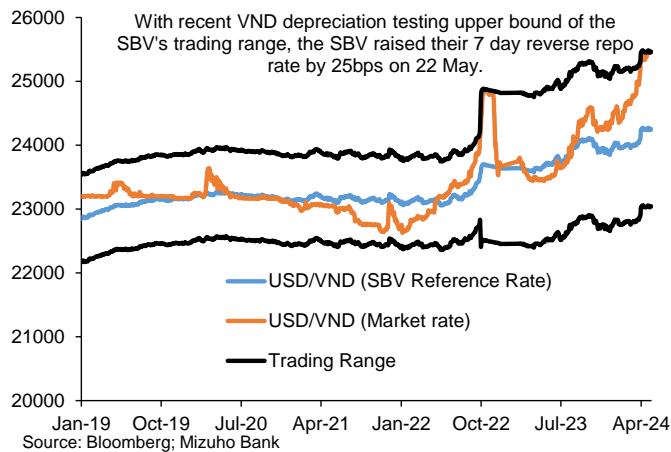


Vietnam: VND and SBV Under Pressure



- The SBV raised their 7-day reverse repo rate by 25 bps on 22 May from 4.25% to 4.50%. Admittedly, this rate is the open market operations rate **rather than their policy rates such as the refinancing rate or even the discount rate**. That said, this is the second increase since 23 April when the rate was moved from 4.00% to 4.25%
- **VND depreciation pressures appear to be the prime motivation** behind this move as the **USD/VND tested the SBV's upper limit** of the trading range of +/- 5% in recent days.
- Given that the increase in reverse repo rate is likely aimed at raising the interbank interest rates, **an imminent increase in longer term policy related rates (rediscount and refinancing rates) may be on the cards** should the depreciation pressures not abate soon.
- In **Q3 2022, short term interest rates had surged before the increase in rediscount and refinancing rates**. VND depreciation pressures also resulted in a widening of the trading band on 17 October 2022.
- Rate moves could be **implemented in a staggered manner via different instruments** depending on the extent of VND depreciation pressures. The SBV could initiate a rediscount rate hike to tightening liquidity at **the front end** (<3 months) followed by an increase in rediscount rate (1 year) to further increase efficacy at the longer end.
- The SBV is **likely to hike in the magnitude of 50bps** rather than a mild 25bps given the intensity of the depreciation pressures.
- With Vietnam poised to enjoy some growth tailwinds from the semiconductor recovery, **policy room might be available for the SBV to raise rates in consideration of the wider macro-financial stability risks from VND instability**. In addition, FX reserves ratio hovering just around the 3 months of import remains a bugbear cautioning against excessive FX intervention. Given that growth remain a firming one rather than a clear outperformance, **100bps hike to both rediscount and refinancing rate last seen in Q3 2022, when GDP growth was around 14 % YoY, is unlikely**.
- **As for timing, it remains a fluid dynamic between VND depreciation and growth concerns**. In fact, a firmer industrial production print and more resilient retail sales at the **end of this month** may allow the SBV flexibility to raise rates should the USD/VND persistently test the SBV's upper limit.

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