MACRO INSIGHTS: LATEST MONETARY POLICY ACTIONS BY THE SBV

Flashnote 23 May 2024

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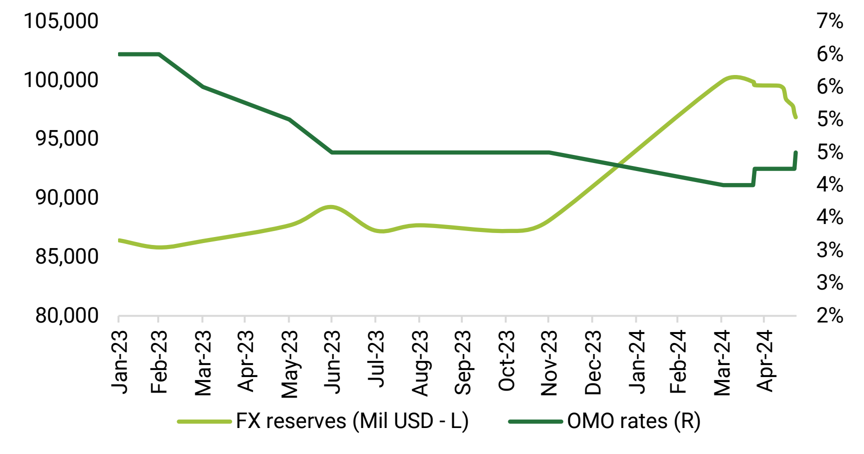
SBV EFFORTS TO STABILIZE THE FOREIGN EXCHANGE MARKET

- In less than a month, the SBV has had to make two interest rate adjustments with a total increase of 50bps.
- Exchange rate developments have been noteworthy in recent times as upward pressure has continued despite the cooling of the global USD.
- In parallel with raising the OMO interest rate, the SBV also implemented a raise in the winning yield of SBV Bill. This will create a new interest rate corridor for interbank market rates. We expect interbank market rates to remain high, around 4.5 – 5.5%, at least until the end of Q3.
- The exchange rate remains a tough challenge for the SBV. Exchange rate pressure is not expected to ease soon in the second quarter, and the SBV will need to continue intervening in the foreign exchange market by selling an additional 2-3 billion USD.
- We forecast that the USD/VND exchange rate could reach 25,700-25,800 in the second and third quarters, representing an increase of approximately 1-1.5% from the SBV's current spot selling rate of 25,450.

The SBV has officially raised the OMO interest rate to 4.50% for the 7-day term in today's session (22/05/2024), corresponding to a 25bps increase. Previously, on April 23, the SBV raised the OMO interest rate from 4.00% to 4.25%. Thus, in less than a month, the SBV has had to make two interest rate adjustments with a total increase of 50bps.

Figure 1: OMO interest rate and foreign exchange reserves of Vietnam



**FX reserve updated until April according to data announced by the State Bank*

Sources: Bloomberg, SBV, PHS compiled

Previously, as we stated in our notes sent on March 27 & April 23, we believe that exchange rate pressure is still ongoing. Information from the interbank market shows that the SBV has sold over USD 3 billion in this period (from the end of April to now), equivalent to about 3% of foreign exchange reserves according to SBV data. Although both exchange rate intervention and interest rate hikes have been implemented, the exchange rate trend has not yet stabilized as expected by the SBV and the Government.

Exchange rate developments have been noteworthy in recent times as upward pressure has continued despite the cooling of the global USD. In fact, the exchange rate is facing pressure from increased demand for