Mizuho Flash: Vietnam Policy

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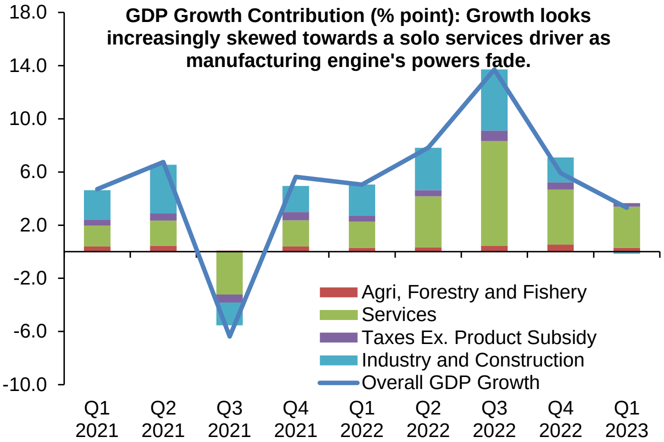
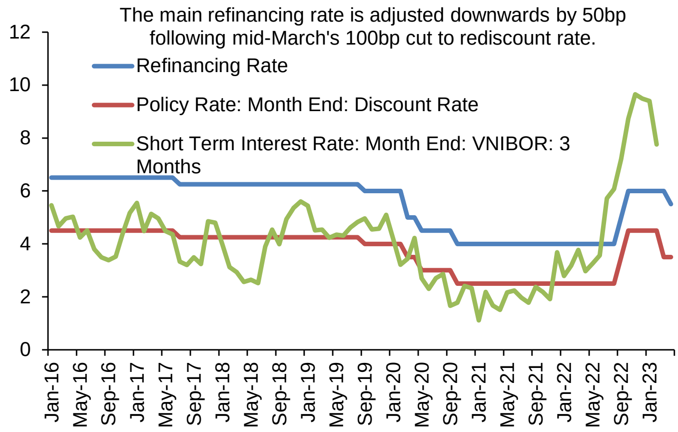
The SBV's Gambit to Widen Liquidity/Credit Cushion



Source: CEIC: Mizuho Bank



Source: CEIC; Mizuho Bank

In a Nutshell: In the latest easing move, **the SBV has eased access to liquidity and credit further out the credit curve with a 50bp Refinancing rate cut** *to complement earlier 100bp Re-discount cut*. Admittedly, **softer than expected Q1 GDP provides validation** to build on the earlier liquidity buffer aimed at stabilizing housing-related banking sector risks. **But** the SBV's easing **comes with its own risks**. In particular, swimming against a still hawkish Fed tide amid external downturn and financial risks, the **SBV is staking VND (and macro-) stability** to arrest implosion (fat-tail) risks in the domestic housing-banking. Notably, relatively **lower FX reserves raise the stakes further**.

For the record, **50bp cut to the Refinancing rate to 5.50%** effective 3rd April 2023, typically impacting longer-term borrowing, **complements an earlier 100bp Re-discount rate cut** (to 3.50%) that was targeted as providing assurance of less onerous access to shorter term liquidity.

Specifically, this is **a move that extends easier conditions to access longer-dated liquidity/credit**, as it **builds on the ability to secure easier credit and liquidity facilities** *whilst diminishing rollover risks.*

In so doing, it **strengthens the transmission of policy easing** from the 100bp cut to the rediscount rate that typically applies to the front-end (less than 3-months); dampening rate volatility.

And so, the **technicality is that this is not deemed to be a cumulative 150bp cut**.

Instead, it is a **two-part easing involving a deeper and more urgent 100bp cut aimed at flushing the system with short-term liquidity** so as to ensure that a liquidity crunch in the housing banking sector does not turn into a solvency crisis; **complemented with easier longer-term liquidity/credit facilities** to keep economic weakness/banking malaise at bay.

A sharp downside surprise to growth coupled with a patch of deceleration in inflation provided were key in providing a window of opportunity for the Refinancing rate cut.

Moreover, the **now slightly wider interest rate corridor** could, at least in theory, **allows for another 50bp Refinancing rate cut** if need be; barring fresh flares in inflation, that is.

Nonetheless, rate cuts to insulate the economy from adverse growth outcomes and more worryingly, potentially large and adverse shocks to domestic banking/asset market, while increasingly urgent, is **not without considerable cost or risks**. Especially as the SBV is swimming against a (still) hawkish Fed tide, thereby conceding risks of being caught wrong-footed.

Point being, whilst domestic housing-banking stability may be bolstered**, threats to macro-/VND-stability from external shocks**; be it real or financial. And with the Fed yet to back down unequivocally from its tightening bias, the **SBV is taking a policy risks with VND stability at stake**; *especially given* that *Vietnam's FX reserve relative (in)adequacy* has been a bugbear.

To be sure, the **SBV's gambit could pay off**, and it could be a trend-setter, front-running with the right mix of macro-stability back-stop and domestic buffer. *But equally*, bucking the (still hawkish) trend **could extract a high cost in terms of currency and macro-stability if caught wrong-footed by global risks sentiments**. Chance features as much as astute policy calculus.

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