

Credit Insights

Recent surge in overnight interbank rates pose limited risks to the banking sector

Over the past 2 months (April – May), the VND overnight interbank rate has risen by almost 400 basis points (bps) to its peak level over the past 12 months. As of 30 May 2024, the VND overnight interbank rate stood at 4.79%, compared with below 1% level in January 2024.

We view the surge in interbank rates reflects the tighter liquidity in the banking system following the withdrawal of market liquidity by the State Bank of Vietnam (SBV) to manage currency volatility. Small and some mid-sized banks in Vietnam are relatively more reliant on interbank funding for their operations and liquidity management. However, we expect the impact of higher interbank rates on banks to be manageable. Firstly, banks have coped with much higher funding costs in the past. And we expect interbank rates to normalize over the course of 2024 as currency pressures stabilize.

In April and May, we estimate that the SBV withdrew VND90 trillion worth of market liquidity through the sale of over USD3.5 billion to the banks. On May 22, the SBV raised its Open Market Operations (OMO) rate by 0.25% to 4.5% following the rise in the VND overnight interbank rate. VND/USD has depreciated by 4.3% since January 2024, and the devaluation appeared to have stabilized following SBV's recent actions.

Across the banking system, we view small and some mid-sized banks to have the weakest liquidity profiles due to their small deposit base, heavier reliance on short-term interbank funding for their business activities, and lower level of liquid resources on their balance sheets. For example, the average CASA deposits over total funding for these banks in Q1 2024 was 7%, lower than the industry average at 14%; mid-sized banks on average have market funds that exceed liquid assets and hence, are more vulnerable to liquidity risks.¹

Nonetheless, small banks will continue to benefit from lower deposit rates since late 2023 when SBV reduced policy interest rates by a total of 100 basis points. We view small banks have sufficient headroom in their net interest margins to absorb the higher interbank funding costs as well as higher deposit costs. Since the start of May, the average 6-month deposit rate increased by 50-80 bps among medium and small-sized banks and by 10-30 bps among large banks as deposit competition picked up to meet rising credit demand. Banks will be able to pass on part of the deposit cost increases to their borrowers.

We believe that SBV typically manages the OMO rate in tandem with the overnight interbank rates to ensure that the OMO funding can serve as a reliable liquidity source for banks in times of need.

In our base case, we expect SBV will continue to prioritize the balance between supporting economic growth and managing risks such as inflation and currency devaluation. Domestic inflation - mainly driven by supply-side factors - has been under control. SBV has also utilized various tools to prop up its foreign currency reserves and manage currency expectations. As such, we expect interest rates to remain low over the course of 2024.

We view the negative gap between the VND interest rates and the US Federal Reserve (FED) rates since 2023 has a significant impact on market sentiment and has led to stronger market demand for USD. The recent OMO increase will help to narrow this gap as the market keenly awaits the normalization of Fed rates in the coming months.

CONTACTS

Nguyen Ly Thanh Luong,
CFA, FVMA
Lead Analyst
luong.nguyen@visrating.com

Tran Quoc Thang
Associate Analyst
thang.tran@visrating.com

Nguyen Dinh Duy, CFA
Director - Senior Analyst
duy.nguyen@visrating.com

Phan Duy Hung, CFA, MBA
Director - Senior Analyst
hung.phan@visrating.com

Simon Chen, CFA
Head of Ratings & Research
simon.chen@visrating.com

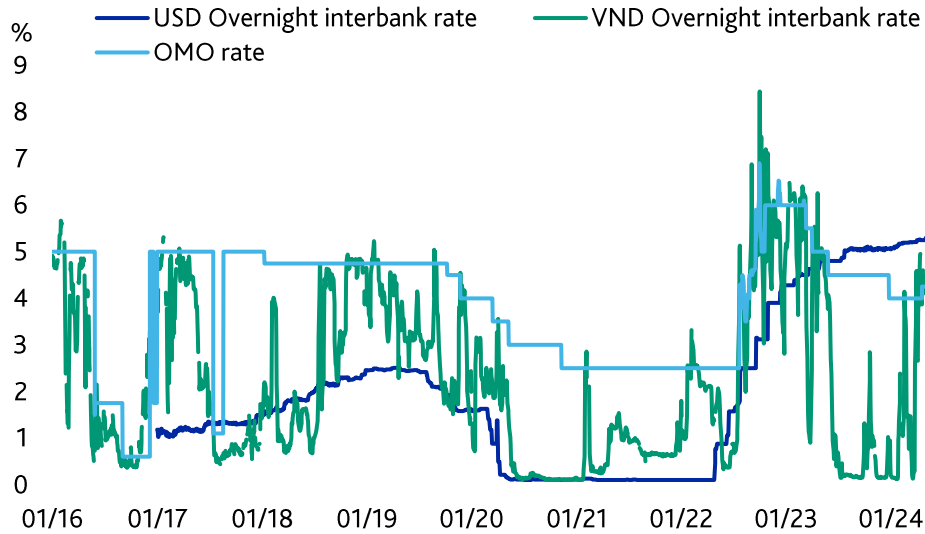


www.visrating.com

¹ Refer to [Sector Comment: Banking Sector – 3M2024 Update \(24 May 2024\)](#)

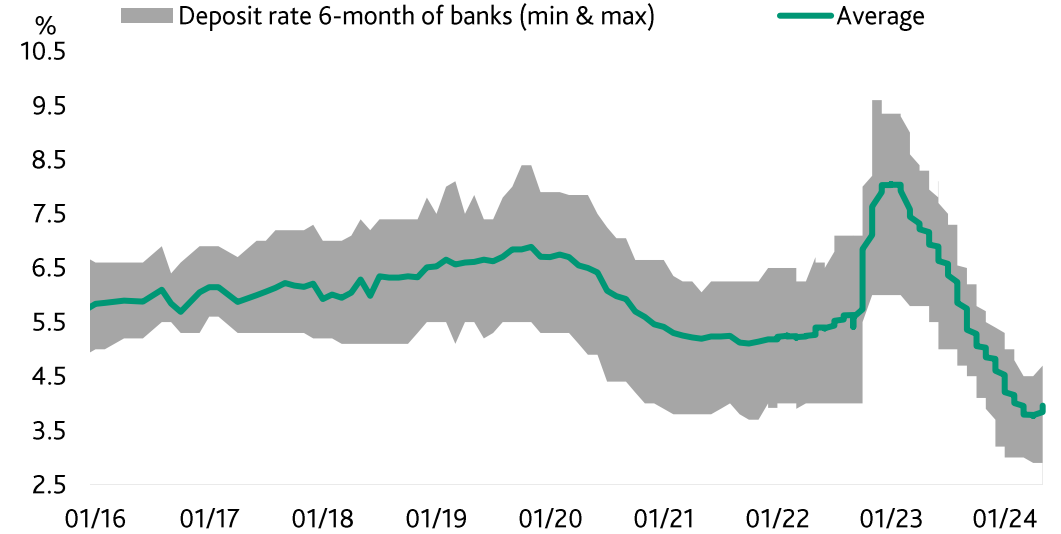
Banks can maintain their profit through stable NIM

Exhibit 1: OMO rate is typically higher than overnight interbank rate



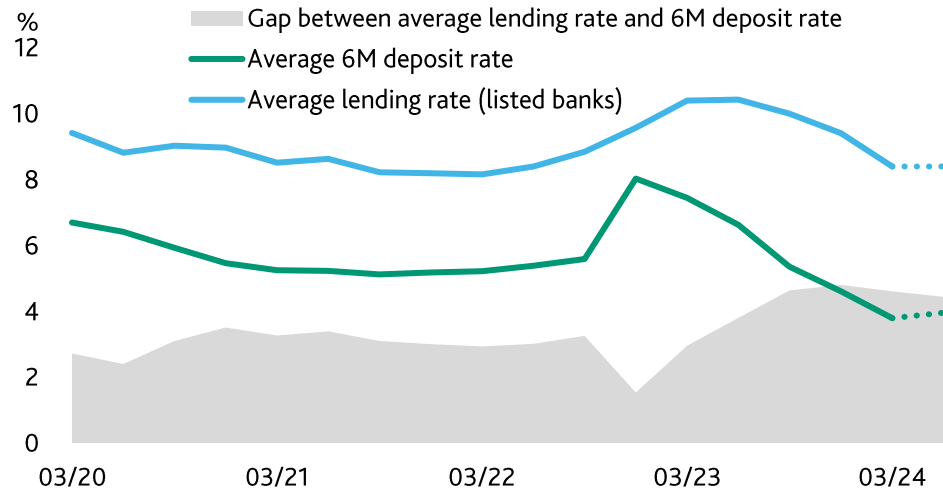
Source: SBV, Vietnam Investors Service

Exhibit 2: Deposit rate started to increase marginally in May 2024



Source: Bank data, Vietnam Investors Service

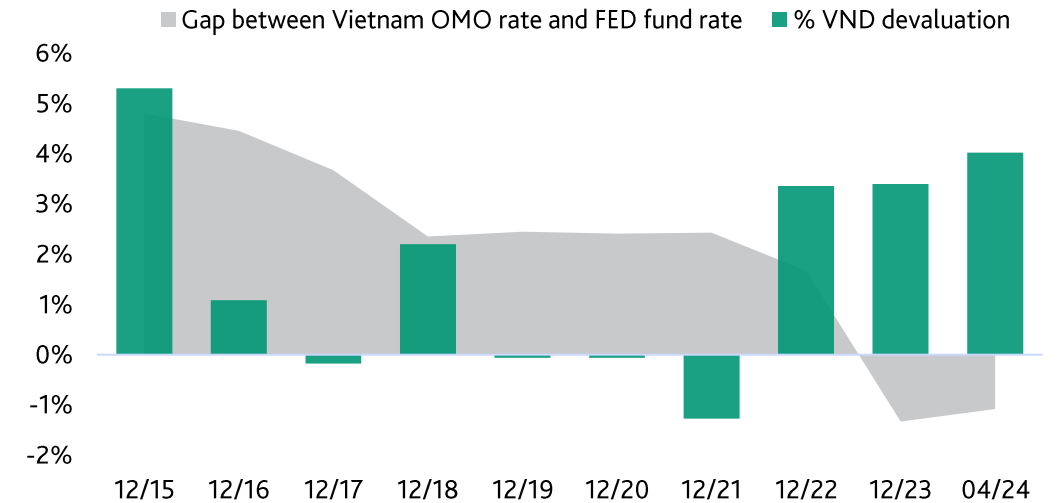
Exhibit 3: Bank NIMs will improve in 2024



Note: The average lending rate is annualized, calculated by dividing total interest income from loans by total loans across listed banks.

Source: Bank data, Vietnam Investors Service

Exhibit 4: Interest spread will continue to narrow in 2024, lowering risk of further VND devaluation



Source: Federal Reserve Bank of St. Louis, SBV, Vietnam Investors Service

© 2024 Vietnam Investors Service And Credit Rating Agency Joint Stock Company (“Công Ty Cổ Phần Xếp Hạng Tín Nhiệm Đầu Tư Việt Nam” in Vietnamese) (“VIS Rating”). All rights reserved.

CREDIT RATINGS ISSUED BY VIS RATING ARE OUR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, DEBT OR FINANCIAL OBLIGATIONS, DEBT SECURITIES, PREFERRED SHARES OR OTHER FINANCIAL INSTRUMENTS OR OF ISSUER OF SUCH DEBTS OR FINANCIAL OBLIGATIONS, DEBT SECURITIES, PREFERRED SHARES OR OTHER FINANCIAL INSTRUMENTS IN VIETNAM AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY VIS RATING (COLLECTIVELY, “PUBLICATIONS”) MAY INCLUDE SUCH CURRENT OPINIONS. VIS RATING DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE VIS RATING’S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY VIS RATING’S CREDIT RATINGS. APART FROM FUNDAMENTAL RISKS NEEDED TO BE ASSESSED AS REQUIRED UNDER THE VIETNAMESE LAW (INCLUDING DECREE 88/2014 DATED 26 SEPTEMBER 2014 OF THE GOVERNMENT) ON CREDIT RATING SERVICES FROM TIME TO TIME, CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS (“ASSESSMENTS”), AND OTHER OPINIONS INCLUDED IN VIS RATING’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. VIS RATING’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE FOR REFERENCES ONLY AND DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND VIS RATING’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO INVEST INTO, CONTRIBUTE CAPITAL, PURCHASE, SELL, OR HOLD PARTICULAR DEBT INSTRUMENTS OR FINANCIAL INSTRUMENTS. VIS RATING’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. VIS RATING ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY OR DEBT INSTRUMENTS THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

VIS RATING’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY NON-PROFESSIONAL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR NON-PROFESSIONAL INVESTORS TO USE VIS RATING’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN (INCLUDING INFORMATION OF VIS RATING AND/OR THIRD PARTIES WHO LICENSE VIS RATING TO INCORPORATE THE INFORMATION HEREIN (“VIS RATING’S LICENSORS”)) IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT PRIOR WRITTEN CONSENT OF VIS RATING OR VIS RATING’S LICENSORS. VIS RATING’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by VIS Rating from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. VIS Rating adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources VIS Rating considers to be reliable including, when appropriate, independent third-party sources. However, VIS Rating is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, VIS Rating and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if VIS Rating or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by VIS Rating.

To the extent permitted by law, VIS Rating and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, VIS Rating or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY VIS RATING IN ANY FORM OR MANNER WHATSOEVER.

VIS RATING MAY MAKE MODIFICATIONS AND/OR CHANGES TO ITS PUBLICATION AT ANY TIME, FOR ANY REASON. HOWEVER, VIS RATING UNDERTAKES NO OBLIGATION (NOR DOES IT INTEND) TO PUBLICLY SUPPLEMENT, UPDATE OR REVISE ITS PUBLICATION ON A GOING-FORWARD BASIS. YOU ASSUME THE SOLE RISK OF MAKING USE OF AND/OR RELYING ON VIS RATING’S ASSESSMENTS, OTHER OPINIONS AND PUBLICATION.

VIS Rating maintains policies and procedures to address the independence of VIS Rating’s credit ratings and credit rating processes. Information regarding, among others, entities holding more than 5% of the contributed charter capital of VIS Rating, any change to the shareholding ratios of entities holding more than 5% of the contributed charter capital of VIS Rating and a list of rated entities with a credit rating service charge accounting for over 5% of VIS Rating’s total revenue from credit rating activities in the fiscal year prior to the time of information disclosure, are posted at <https://visrating.com> under the heading “Corporate Disclosure”.

