SBV To Cut the Required Reserve Ratio?

Watchlist: STB, BID, VCB, CTG, HDB

Tanh Tran
Bank Analyst
Tel: +84 28 3622 6868 (3874)
tanh.tran@yuanta.com.vn

Event: State Bank of Vietnam (SBV) plans to reduce the required reserve ratio (RRR) for some major commercial banks, according to a report by Vietnam Net.

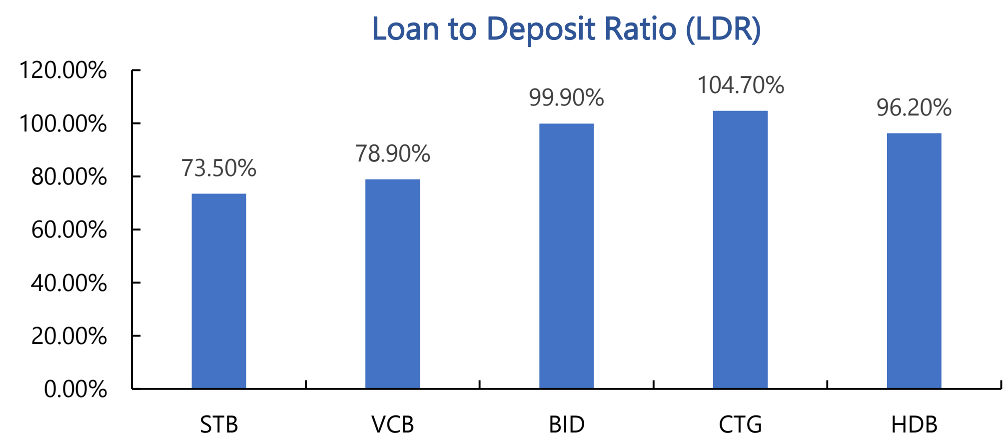
SBV reportedly plans to adjust the RRR for banks that have large deposits such as Vietcombank (VCB VN), BIDV Bank (BID VN), and Vietinbank (CTG VN).

In addition, some troubled banks will reportedly be exempt from any RRR. These include credit institutions that are under special control, have not yet opened, and are undergoing asset liquidation, dissolution, termination of operations, or revocation of operating licenses. Such banks include Dong A Bank, CB Bank, GGGP Bank, and Ocean Bank, as listed by Vietnam Net.

Banks undergoing restructuring will reportedly see RRRs reduced by 50%. Such banks could include Sacombank (STB VN, VND12,950, BUY, Target Price: VND14,049), BID, VCB, CTG, and probably HDBank (HDB) after the PGBank acquisition.

Implications

The current RRR is 3% for term deposits of less than 12 months and 1% for those longer than 12 months. Such RRR cuts would reduce effective funding costs and improve liquidity for the relevant banks. However, the ability to expand loan growth should only accrue to banks that have low loan-to-deposit ratios. These include STB and VCB, both of which have LDRs that are lower than the regulatory maximum (i.e., 80% for private sector banks and 90% for state-owned banks).



Source: Fiinpro

In addition, cutting the RRR for terms deposits of 12 months or more would support the policy to reduce the cap on short-term funding to medium- and long term loans, which is decreasing from 45% to 40% in 2019.

In short, this monetary policy should benefit banking sector liquidity. However, we think the policy's main purpose is to stabilize interest rates, especially lending rates for specific sectors, and to encourage the greater use of medium- to long-term funding for similar tenor loans. To the extent that the policy results in lower or at least stable interest rates, it could also have a positive ancillary impact on stock prices in our view.

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YUANTA SECURITIES NETWORK

YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA
Head of Research
Tel: +84 28 3622 6868 (ext. 3815)
matthew.smith@yuanta.com.vn

Tanh Tran (Banks)
Analyst
Tel: +84 28 3622 6868 (3874)
tanh.tran@yuanta.com.vn

Quang Vo
Analyst (Consumer)
Tel: +84 28 3622 6868 (ext. 3872)
quang.vo@yuanta.com.vn

Tam Nguyen
Analyst (Property)
Tel: +84 28 3622 6868 (ext. 3874)
tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen
Head of Institutional sales
Tel: +84 28 3622 6868 (3808)
Huy.nguyen@yuanta.com.vn

Duyen Nguyen
Sales Trader
Tel: +84 28 3622 6868 (ext. 3890)
duyen.nguyen@yuanta.com.vn