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Vietnam Cuts Key Policy Rate to Quicken Economic Recovery (1)

By Nguyen Xuan Quynh and Nguyen Kieu Giang

(Bloomberg) -- The State Bank of Vietnam announced it will cut the refinancing rate to 5% from 5.5% effective May 25 to boost a struggling economy, according to a statement on the government's website.

The overnight lending rate in the inter-bank market will be reduced to 5.5% from 6%, the statement said. The discount rate will remain at 3.5%. The dong deposit rate cap for terms of one month to less than six months will be reduced to 5% from 5.5%, according to the statement.

The reduction in the refinancing rate will help commercial lenders cut deposit rates, resulting in lower lending rates to quicken economic growth, according to the statement.

The central bank's move follows growing calls by parliament members for more policy rate cuts to jump-start the economy and banks to lower lending rates lower to aid businesses.

Vietnam Sees 6.5% Economic Growth Target in 2023 as Challenging

Vietnam's economic growth target of 6.5% this year may be at risk amid a global slowdown weighing on exports, lingering crisis in the local property sector and higher interest rates hampering businesses, according to lawmakers. Vietnam's exports make up about 100% of the economy, making it one of the most trade-dependent nations in the world.

While the adjustment may not help the economy in the short term, "it does provide a platform for support once economic momentum begins to pick up," said Ruchir Desai, co-fund manager of the AFC Asia Frontier Fund.

The regulator cut its discount rate and the overnight lending rate in the interbank market by 100 basis points on March 15. Nearly three weeks later, it reduced the refinancing rate by half a point, continuing the reversal of the monetary tightening it implemented last year.

The central bank also empowered lenders to facilitate debt restructuring and allow up to 12 months in payment suspension.

(Updates the story with more details beginning in the third paragraph.)

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