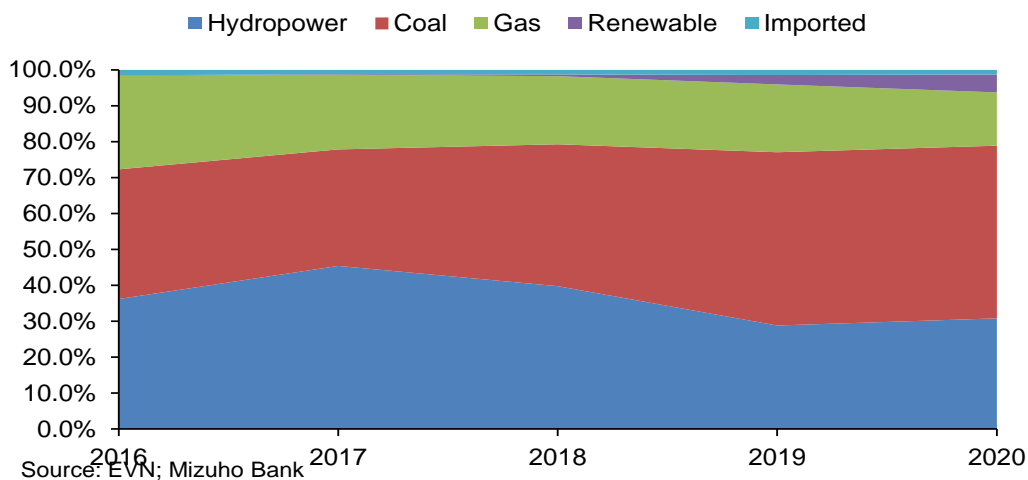
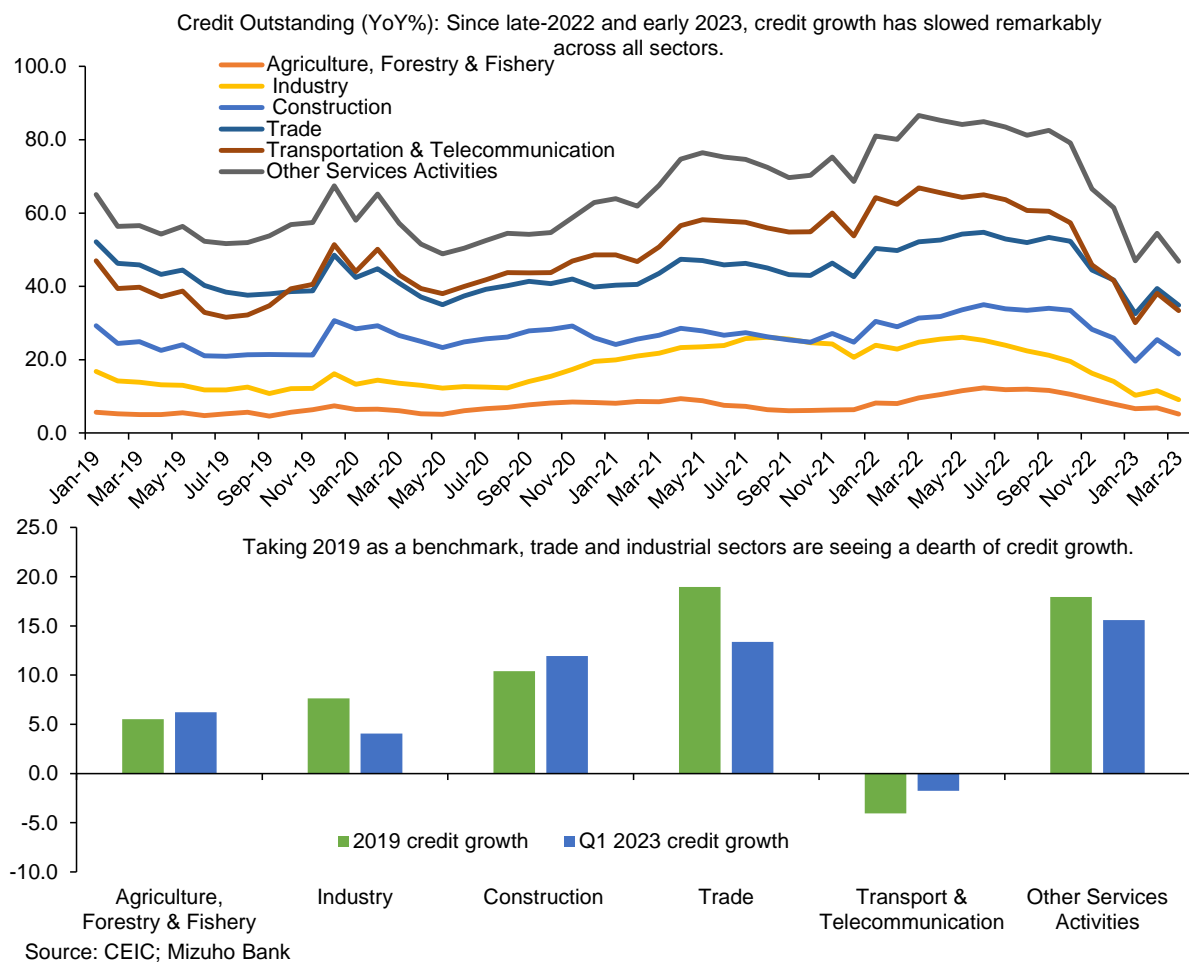


Vietnam: Crunch Time

Lower water levels exposes vulnerabilities of hydropower generation.



- Amid the dry season in Vietnam this month as temperatures reach record highs of 44 degrees Celsius, plunging water levels in Vietnam has led to a **literal power crunch**.
- About **20% of large reservoirs have water levels are too lower for operation** by hydropower plants which generate a third of the country's electricity. Even those who meet the minimum requirement have low levels and poor flows which **do not utilise the full electricity production capacity**.
- The severity of the situation has led to the state electricity operator EVN to explicitly communicate **power saving measures** which range from **reducing street lights usage** and **billboards for business** to the need for households to maintain air-conditioner temperatures at no lower than 26 degrees Celsius. The irony is certainly the **adverse feedback loop** between higher temperatures and the increased desires for air-conditioning.
- Furthermore, the **agricultural sector at 10% of GDP** will inadvertently be subject to El Nino's tyranny impacting crop yields, export revenues and even domestic food supplies.
- The **consequent need for imported coal** also puts the EVN's bottom line under more pressure as the authorities approved a **3% rise in average retail electricity prices** which was effective in early May. Margin pressures saw the EVN call on coal suppliers to lower prices and delay debt repayment.
- The marginal impact on current account from higher import expenditures as well as diminished crop supplies and utilities cost on inflation add to an already stressful situation.



- Unfortunately, **credit channels are also subject to restriction** as credit growth largely slowed in **March**. Relative to 2019 credit growth, the construction sector in fact shows higher credit growth which underscore the extent of stress and associated assistance needed to alleviate capital issues.
- Meanwhile the likes of the trade and industrial sectors see their **credit channels shrink on reportedly contracting export orders** which in turn puts their repayment capabilities in doubt.
- Admittedly, the SBV's earlier measures to lower refinancing rates and **allow 1-year loan extension on repayment** may have already provided **some** relief.
- Nonetheless, the water crisis led power crunch perpetuates the **dual risk of high prices and lower output** and accentuates the SBV's dilemma. This results in the attendant need for SBV to **enhance moral suasion for banks to lower lending rates** as well as promote the government 2% loan interest package for sectors in need.
- Given these difficulties, it was somewhat inevitable that **the authorities have characterised that earlier growth target of 6.5% as challenging** with a rising risk of bad debts in their National Assembly session yesterday.
- All in, the **stage is increasingly set for the SBV to proceed with another rate cut** to lower the credit hurdle and reduce the cost of borrowing. That said, this should be done with an abundance of caution as the SBV will be wary of triggering VND weakness as rate differentials narrow.

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