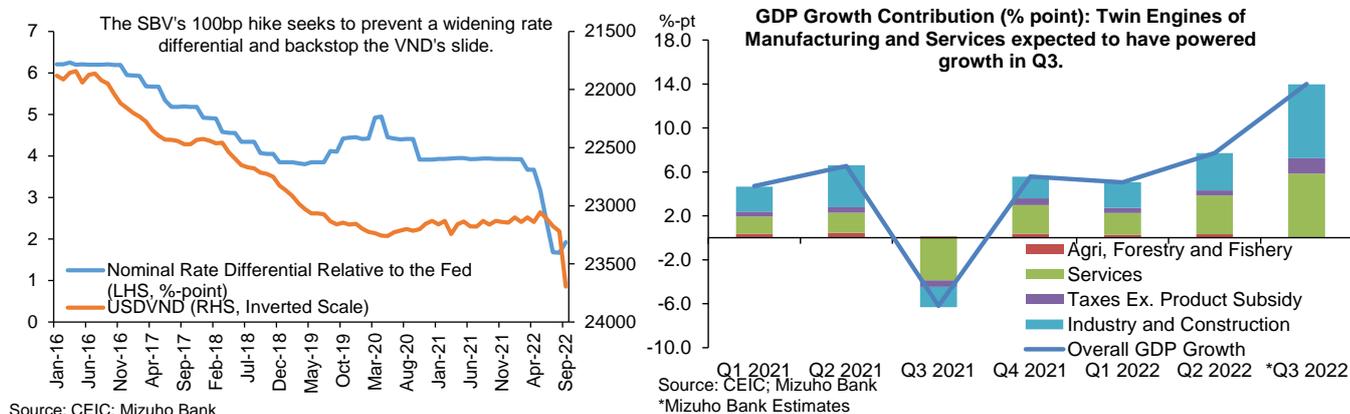


SBV: The Why and How Behind A 100bps Hike



- The State Bank of Vietnam (SBV) was the unexpected guest to join the chorus of central bank tightening action by **hiking a full 100bps**, raising the refinancing rate from 4% to 5%.
- The Why: Given that **both headline and core inflation remains within the SBV's 4% limit at this juncture**, the rationale for a large magnitude move speaks more to the **wider capital outflow risks incited by the Fed**.
- Their rate hike primarily serves to **prevent a narrowing of rate differentials with the Fed which looked to exert depreciation pressures on the VND**.
- At the margin, this move also **pre-emptively arrests rising core inflation** by dampening both imported and demand pull inflation, especially if one is to take into account policy transmission lags of 3-6 months.
- While the VND remains a regional outperformer with a 3.7% YTD depreciation, the authorities through the perspective of a still developing economy and FX reserves which hover just above 3 months of imports, has reason to be cautious and pre-emptive.
- The How: A 100bps hike is the largest single hike taken by central banks in the EM-Asia region. Certainly, given that the SBV has been one of the last central bank in ASEAN to normalise, this represents a quick catch-up.
- More fundamentally, it reflects the **strength of a domestic economy** that has posted stellar growth with 6.4% growth in H1 2022. Underlying growth looks to be **well supported by both engines of services and manufacturing** with Q3 GDP growth set to be released next week.
- A resilient labour market complements the growth in economic activity to provide **ample room for the SBV to take this very outsized hike**.

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