

RESEARCH DIVISION

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FED'S CAUTION AND VIETNAM'S DOMESTIC ECONOMIC STIMULUS POLICY

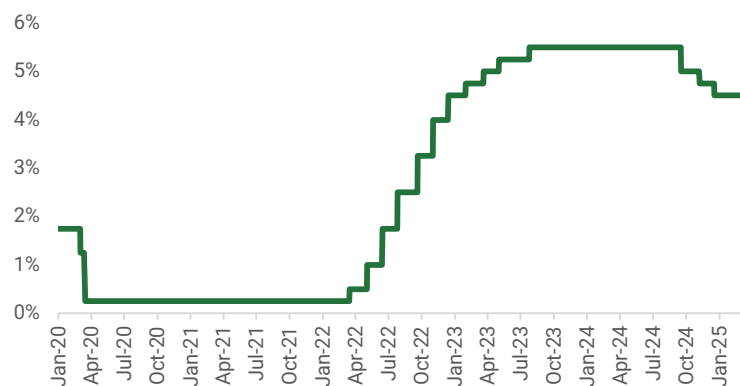
- The Fed has decided to keep interest rates unchanged at 4.25-4.5% and plans to cut rates twice this year, with each cut being 25bps. Additionally, the Fed Chair has left open the possibility of maintaining high rates if necessary. However, PHS believes that if inflation declines more rapidly and the labor market weakens in the coming months, the Fed may need to adjust its rate-cut trajectory beyond two times, as signs of an economic slowdown in the US have already emerged.
- Slowing the pace of balance sheet reduction can be seen as an indirect step toward monetary easing and the least disruptive option for the Fed in the face of multiple risks. At the same time, it still provides some support to the economy.
- The Fed's projection has sparked concerns over stagflation risks, as GDP growth forecasts have been revised downward while inflation shows an upward trend. Consumer spending sentiment –accounting for two-thirds of US economic activity—is being impacted, which could have significant negative effects on the US economy, with ripple effects globally.
- As a result, domestic growth drivers will be key to supporting Vietnam's economic expansion, corporate earnings, and the outlook for listed companies in 2025.

The Fed holds interest rates steady

After a two-day meeting, the Federal Open Market Committee (FOMC) decided to keep interest rates unchanged at 4.25-4.5%, in line with market expectations. During this meeting, the Fed also released its quarterly update on medium-term economic projections and announced an adjustment to the pace of its quantitative tightening (QT) program.

Fed officials maintained their forecast that the FFR would decrease by 0.5% this year. Given the typical adjustment of 0.25% per cut, this implies two rate cuts in 2025. However, in the post-meeting press conference, Fed Chair Jerome Powell emphasized that the central bank is prepared to keep rates elevated if necessary. **This signals that the Fed will remain data-dependent, making decisions based on evolving economic conditions rather than committing to a predetermined path.**

Figure 1: Fed Fund rate (As of 19/03/2025)



Sources: Bloomberg, PHS compiled