NEW MECHANISM FOR CONTROLLING FOREIGN DEBTS

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In the development trend of the world economy in recent decades, the participation of companies in both local and foreign capital markets had become common. It's the inevitable in the modern economy.

In Vietnam, before the 1990s when the economy was under the old-style management, the Government allowed 10 enterprises only to get foreign loans directly (among them there were Vietnam Cement Corportion, Hoàng Thị Loan Knitwear Factory, Thái Bình Jute Mill, Legamex, Liksin, etc.). The total foreign debt at that time (inclusive of interest) amounted to US$51 million (about VNĐ560 billion). With the seal of approval given by the Government, the Vietnam State Bank has succeeded in settling these debts in the international finance markets.

The development of the open economy in Vietnam has helped Vietnam enterprises take part in international finance markets. With help from the Paris Club, Vietnam has settled overdue debts. In 1993, relationship between Vietnam and international financial institutions (such as WB, ADB, IMF) was normalized. On August 30,1993, the Government issued the Decree 58/CP relating to management of borrowing and repaying foreign debts. The Vietnam State Bank has also made regulations on bank guarantee to foreign creditors.

Realizing these regulations, the Credit Information Center (CIC) of the Vietnam State Bank has cooperated with branches of foreign banks in Vietnam, international organizations and related government bodies to detect and prevent nearly 30 cases of fraud committed by Vietnamese expatriates and other foreigners, supply loans of hundred million, or even billion, dollars to Vietnamese companies, ministries and other government bodies (most of these loans are of low interest, long maturity and high accessibility), reduce unnecessary expenses for Vietnam companies and help local enterprises secure possibly soft loans from foreign sources according to international practices.

Up to February 1996, the Vietnam banking system has guaranteed the payment of 148 loans totalling US$1,459.5 million (not inclusive of national debts). The number of loans increased year after year, from 18 loans (representing 9.7% of total foreign debt) in 1994 to 113 loans (70%) in 1995 and 17 loans (20.2%) in the first two months of 1996. At present, some tens of projects to get foreign loans are under consideration.

As for maturity, most loans are of medium and long term: 116 loans (48% of total foreign debt) reach maturity 5 to 12 years after; 5 loans have maturity of over 12 years (6.9% of foreign debt); 27 loans (13% of foreign debt) have maturity of 1-5 years.

Thus in recent years, besides investment from foreign investors, ODA sources, national debt, etc. foreign debts secured by Vietnam enterprises and organizations directly have also represented a large sum of capital employed in Vietnam. Over the past two years, foreign debts equalled 25% of foreign investment put in Vietnam from 1988 to the beginning of 1996. Of these loans, the majority (113 loans representing 87.8% of total debt) lent to enterprises, and 15 loans (representing 12.2% of total debt) to commercial banks. The interest rate of these loans is reasonable and suited to international rate of interest: Floating interest rate varies from LIBOR + 1.5% to LIBOR + 2.5%, and fixed interest rate at 6.8%.

The realization of the Decree 58/CP of the Government has helped Vietnam companies secure foreign debts needed for technological innovation, modernization of production lines and improvement of their competitiveness in foreign and domestic markets. In borrowing and repaying foreign debts, international regulations are respected, companies took full responsibility for repayment of debts. Vietnam banks, at present conditions where laws and regulations on state company assets, auditing and annual financial statements are unstable and unreliable, have tried their best to make bank guarantee to foreign creditors according to international regulations.

By borrowing and repaying foreign debts, Vietnam banks and companies have got chances to get accustomed to international finance markets and international practices in this operation. However, there are many problems needed to be solved in this operation:

- The State Bank hasn't set limit on debt owned by Vietnam companies and banks to foreign creditors, so it's difficult for it to allocate quota of foreign debt to enterprises, to control capital movements to and from the country and therefore it couldn't control all factors affecting the monetary policy, whereas commercial banks and companies who need more capital and have completed negotiation with foreign creditors are limited by government credit control.

- Some regulations set forth by the Government recently are incomplete: there is no regulation on procedure and conditions for securing loans made by private companies and foreign invested companies, and no detailed regulations on estimation of plans to secure loans. In the interdepartmental circular 09/TC-NH issued by the Ministry of Finance and the State Bank, there is no detailed regulation of procedure for securing loans from public funds, so it's difficult to control allocating funds and repaying debt.

- The State Bank has only realized the first procedure that is to allow Vietnam companies to sign agreement with foreign creditors, but it hasn't controlled realization of the agreement, inluding receiving money, employing and repaying debts. The State Bank hasn't also gathered full information about companies' need for loans.

Controlling borrowing and repaying foreign debts is a new and complicated task whereas the demand for foreign loans becomes more and more urgent. Therefore, it's necessary to make deregulation, give priority to the task of developing the economic rather than to the task of controlling inflation, that is, to loosen the credit control, encourage the capital inflow and take measures to ensure that debtors will repay debts on time■