



MAKING THE BANKING SYSTEM STRONG AND MODERN TO SERVE ALL DEVELOPMENT GOALS

by LÊ VĂN CHÂU

Vice-Governor of the Vietnam State Bank



1995, the Ministry of Finance will pilot the issuance of a small amount of bonds in foreign capital markets before state commercial banks and qualified state enterprises could be allowed by the Government to issue their bonds in foreign markets to raise capital necessary for investment projects.

- Studying ways of selling Vietnam shares to foreign countries in the future.

- Forming the stock market in Vietnam as soon as possible: At present, legal infrastructure and other preconditions for forming a stock market in Vietnam are taking shape.

+ Stabilizing the economy and raising savings level.

+ Creating favorable legal infrastructure.

+ Diversifying commodities exchanged in the stock market.

+ Forming financial intermediaries: finance company, insurance fund, trust fund, etc.

+ Consolidating independent auditing system, reforming state accounting system.

+ Training personnel.

We hope that next year, stock markets will take shape in Hà Nội and HCMC.

With these measures taken, the capital market in Vietnam will be brought into operation. It will supply capital to Vietnam business and supply opportunities to foreign investors.

(This is the speech given by Mr. Vice Minister of Finance at the World Economic Forum held in HCMC from April 6 to April 8, 1995).

of a stock market in the near future.

Progress in external and internal affairs can't be made without reformations in monetary, financial and credit businesses. In the early stage of the renovation process, the reformations have oriented the economy towards the market mechanism. The reformation of banking system includes:

- Changing to bi-level banking system and forcing the central bank to control the monetary system according to the market mechanism. By doing so, the role and managerial skill of the Vietnam State Bank have been enhanced.

- Using monetary system to control the economy.

- Diversifying financial institutions and organizations and forcing them to enhance managerial skill and efficiency.

In the past years, the Vietnam banking system has achieved many good results and played an essential

Since 1990, the Vietnam economy has changed from the centrally planned to the market-oriented one under the management of the Government. In this process, Vietnam banking system has also changed itself. The renovation process of the banking system began to pick up speed when two banking ordinances were issued in 1990 to change the mono-level banking system to the bi-level one in which the Vietnam State Bank acting as the central bank who controls monetary policies and issues currency notes; and a number of state commercial and joint-stock banks providing banking services to the economy.

From 1993 on, the inter-bank foreign exchange market and domestic currency market came into operation and played a useful role in regulating sources of capital. In April, 1995, an auction of treasury bills (T-bills) is carried out as part of a drive to create preconditions for formation

role in helping the economy achieve new goals. The Government has carried out an effective monetary policy to stimulate the economy to obtain a growth rate of 8% per year, reduce inflation rate from three-digit level in the first years of the 1990s to a mono-digit level now, and stabilize the exchange rate to support the foreign trade and improve the living standard.

The system of commercial banks has developed well. Up till now, there are four state commercial banks and 60 joint-stock banks, two finance companies, and hundreds of rural credit unions providing banking services to the people and businesses. The demand for capital in the market has been partly satisfied. The system of Vietnam commercial banks is forced to develop by the presence of 17 branches and 40 representative offices of foreign banks and 3 joint-venture banks. Their presence verified the open policy in financial business of the Government.

Activities of the branches, representative offices of foreign banks and joint-venture banks have created conditions favorable for the capital inflow, and moreover, these activities have made foreign investors believe in bright future of the Vietnam economy.

The Vietnam State Bank adopts a flexible exchange control policy, gives certain preferential treatment to foreign banks and investors in order to help them do business successfully in Vietnam and send remit-

tances to their home countries. Due to this open policy, foreign banks and investors have taken part in developing the Vietnam economy.

The Government has co-ordinated monetary policy and financial policy, put an end to issuing more currency notes to make up the budget deficit. The State Bank and the Ministry of Finance co-ordinate their efforts to find out measures to make up the deficit without harming the monetary policy.

Modernization of the banking system was launched in the end of 1991. This process aimed at improving payment-through-bank activities, applying informatics to banking business and improving the public image of the banking system. The central bank has encouraged commercial banks to join SWIFT.

After nearly 20 years of breaking off relations with international financial organizations, In October 1993, Vietnam resumed its relations with IMF, WB, ADB and banking circle in developed and surrounding countries. The help from international financial institutions to Vietnam is very great. Vietnam receives annually multi-billion soft loans to invest in carrying out reserve program, credit for structural adjustment, infrastructure projects, technical aid program, training program, etc. These achievements enable Vietnam banking system to attract foreign capital and supply an important source of capital necessary for the economic development at the present and the coming years.

Achievements of process of renovating the banking system became a landmark in the history of Vietnam banking system. However, there are many problems need to be solved: the demand for capital is great whereas the supply is limited because of lack of a capital market; mobilized capital from the public, local and foreign businesses is not abundant; financial institutions haven't adapted perfectly to the new mechanism; level of skill, knowlegde and technology of the Vietnam banking system lags far behind foreign countries.

Overall target of the strategy for developing the banking system from now till 2000 is to make it strong in planning, controlling and managing its business; modernize banking facilities in order to keep pace with the new mechanism; integrate into international financial community and serve all development goals of the country. In other words, the banking system needs more reformations in the coming years, and the following targets should be achieved:

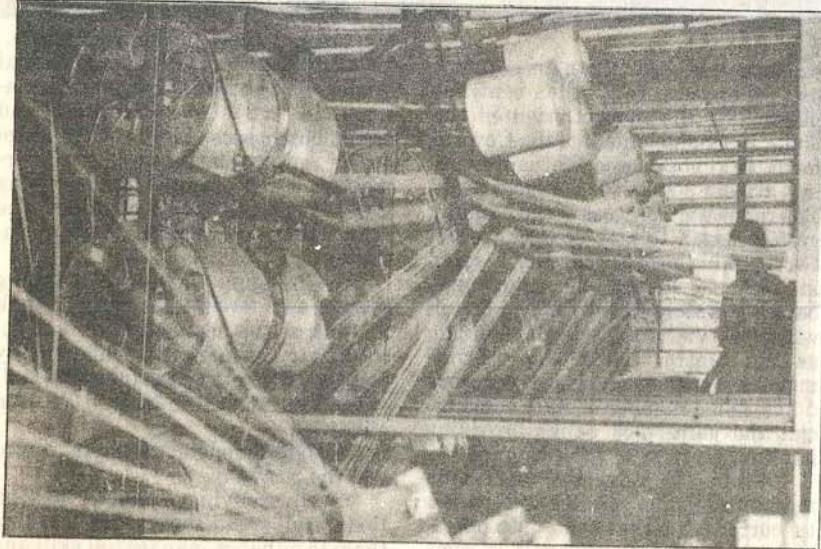
- Perfecting the system of instruments of the monetary policy, preparing the ground for changing from direct management to indirect management, forming financial market and bringing it into operation, and integrating into the market mechanism.

- Modernizing banking technology, adopting international practices in accounting, doing payment, statement, statistics and exchanging information; and controlling short and long-term capital markets

- Summarizing the realization of two banking ordinances in preparation for promulgating the bank law; perfecting banking organization; training banking personnel in professional knowledge, foreign language, ideology and morals in order to help them cope with new situation.

- Reorganizing and consolidating the system of commercial banks and credit unions; carrying out frequent inspections in order to help the system operate according to law and supply good services to all economic sectors.

Among the planned measures of the Vietnam State Bank to keep on renovating the banking system, great emphases are placed on measures to mobilize capital and supply loans to industrialization and development projects, and measures to prepare the ground for the formation of financial market and put it into operation. ■



(This is the speech given by Mr. Vice-Governor at the World Economic Forum, held in HCMC from April 6 to April 8, 1995. The title is Editorial Board's)