

BOOSTING THE QUALITY OF VIETNAM'S STOCK MARKET

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Over the past ten years since the first open of HCMC Securities Trading Center (HSTC) on July 28, 2000, Vietnam has witnessed a lot of ups and downs in the so-called stock market. It is also high time we had to glance back at the operation of this market with a view to improving the domestic economy for the time to come.

1. Retrospection of Vietnam's stock market over the period of 2000-2009

In the past decade, Vietnam witnessed fluctuations of its economy and upheavals of the stock market as well over two following stages.

a. The warm-up of stock market (2000-2005):

The birth of HSTC stirred up the investment climate and helped administrators accumulate first-hand experience of stock market, giving the impetus for the expansion of stock market. It was marked by the birth of Hanoi Securities Trading Center on March 8, 2005.

In this period, the scope of market was still very humble with the gross capitalized assets less than 5% of GDP. Although the number of listed companies was on the up and up, it could not satisfy the market liquidity as expected.

Table 1: Scope of Vietnam's stock market over the period 2000-2005

	2000	2001	2002	2003	2004	2005
Number of listed companies	5	10	20	22	26	41
Ratio of capitalized assets to GDP	0.24	0.21	0.49	0.48	0.55	1.21

Source: State Securities Commission of Vietnam

Besides, the operating mechanism of the market has not been perfected; the competence in market management did not satisfy the long-term target of development. Especially, the poor facilities also sharply affected the transaction system, information update and market predictions.

Taking the VN-Index for example, from December 2000 through June 25, 2001, it increased from 206 up to 571 points, the highest level during this period. It stood to reason that there was a big gap between the demand for securities and the market liquidity, especially the extremely low liquid ratio, which reflected a low turnover of stock based on comparison between total traded value and the gross value of listed stocks. This ratio just reached 0.51 in 2001.

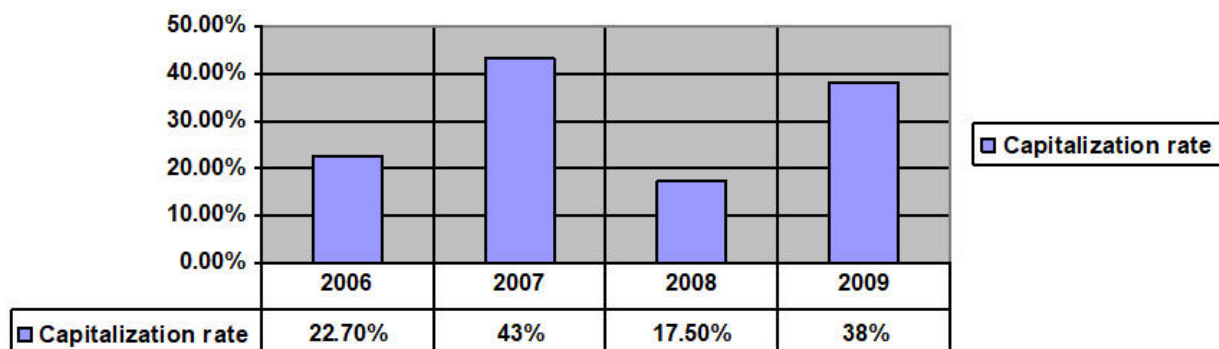
After a sharp rise in 2001, this bull market was damned in 2002. The stock index, for example, was down to 174 in November 2002 and to 135 on Nov. 3, 2003. Nonetheless, it showed a slight increase in late 2003 and gradually regained its health in 2004.

b. A sharp acceleration in the Vietnam's stock market (2006-2009):

Compared with the previous period, the scope of stock market was considerably expanded. The ratio of market capitalization to GDP exceeded the target growth rate for 2010 (10% - 15%).

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Figure 1: The ratio of market capitalization to GDP in Vietnam in 2006-2009



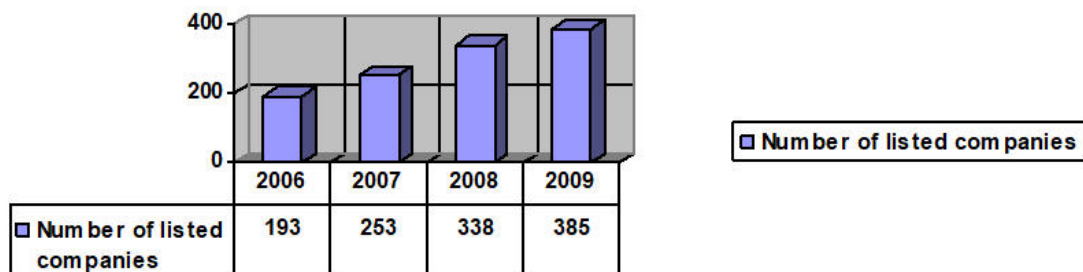
Source: www.vneconomy.vn

Accordingly, the strong economic growth stimulated the increase in the number of listed companies. With the only two listed companies on the first days, there were 385 companies quoted in the market in December 2009, thus improving the market liquidity and enhancing sources of capital for companies.

As for bonds, in the first five years, govern-

less than VND50bn in 2000, this figure rose to 105 companies with the average chartered capital of VND175bn by December 2009. In addition, some companies owned a chartered capital of more than VND1,000bn such as Saigon Securities Incorporated (SSI) with VND1,533bn, Sacombank Securities Company (SBS) with VND1,100bn, and ACB Securities Company (ACBS) with

Figure 2: Listed companies in 2006-2009



Source: SSCV

ment and BIDV bonds always accounted for over 90% of traded value, but the current period saw the participation of the municipal bonds and several corporate bonds. In 2009 alone, the value of corporate bonds issued jumped to VND12,000bn, exceeding the scope of government bonds. Particularly, the bond market was mainly quoted in HNX as of 2008.

With the expansion of the market, the number of securities companies and would-be investors was on the up and up, animating the Vietnam's stock market. If there were only six securities companies with the average chartered capital of

VND1,500bn.

Table 2: Securities companies and registered transaction accounts in 2006-2009

	2000	2006	2007	2008	2009
Number of securities companies	6	22	78	102	105
Number of registered transaction accounts	400	106393	349400	550.000	730.000

Source: www.vdsc.com.vn & www.vse.org.vn

The 2007 saw the dramatic rise in the stock market. The VN-Index jumped to a record high value, from 300 points in the late 2005 to 800 points in the late 2006 and peaking 1170.67 in 2007. With the Securities Law validated on Jan. 1, 2007 and the HCMC Securities Trading Center renamed the HCMC Stock Exchange, the securities market management becomes proactive, boosting the economic growth. Besides, foreign investments up to US\$7.6bn also contributed to the bull market in 2007.

In 2008, Vietnam had to weather the high inflation and the world financial crisis. Whilst, foreign investors withdrew their investments causing the net asset value to plummet a half compared with the 2007. However, the trading volume in HOSE still reached 13 million units per session. In 2010, HOSE is going to execute the online trading and employ the continuous order marching with a view to improving the operation of the stock market.

With the demand stimulus policy and the gradual economic recovery in late 2009, the flagging market regained its health after suffering a one-year downturn. The number of trading accounts was still on the up compared with the 2008; the market capitalization jumped to 38% of GDP, twice as high as the target for 2010; and the VN-Index exceeded the 600-point mark in October 2009. It showed an encouraging sign for the stock market in 2010.

Even though there are certain achievements after 10 years of operation, it is apparent to everyone that the Vietnam's stock market still contains its weaknesses. For example:

- The low market liquidity causes the imbalance between supply and demand, as well as unusual fluctuations in price.

The following scenario usually happens to a market with low liquidity: Once the stock price goes up, yet just few stocks are sold; and vice versa, if the stock price is down, just few stocks are bought. This originates in the lack of commodities in terms of both quantity and quality, the inflexible control mechanism, and the absence of professional investment organizations that can regulate the supply of and demand for stocks.

Moreover, the financial and monetary policies also impinge on the low market liquidity. In 2007 for example, with a view to curbing the flow of

bank credit to the stock market, which was really hotting up then, the SBV did promulgate the Directive No.03/2007/CT-NHNN dated May 28, 2007 limiting the outstanding loan supplied by banks to investors in securities to 3% of the bank total loan. In late 2009, the SBV also requested commercial banks to tighten up the supply of credit to investors in securities to prevent the inflation.

- The growth of stock market has not originated from positive motives yet. During the bullish market, investors tend to follow the common trend of the market based on unofficial information, which might damage the sustainable development of the stock market. Even though short-term investors may make the market busier, long-term investors are welcomed for the sustainable development. Apparently, the latter always targets the long-term benefits and is sensible prior to entering into a transaction. Yet, they are rare in Vietnam. Besides, many companies have issued more shares taking advantage of the bullish market and invest in the real estate or securities instead of in production.

- There were a lot of limitations in the operation of financial intermediaries.

Although the number of securities companies has been on the up and up, their performance was not well enough. The human resources were not qualified enough to build up the belief of customers. Since 2006 when the market started to expand, the poor technological facilities have prevented them from supplying smoothly their services with the result that they were frequently overloaded. This situation entailed the lack of fairness in the provision of services causing unfavorable feedbacks from customers. There has even been a great deal of public protest about signs of insider trading by securities companies. On Dec. 17, 2009, the stock index dived to 434 points after the recovery of over 600 points on October 22 because of the fact that, among others, investors were mainly affected by unwarranted warnings from securities companies. Accordingly, we can realize the incompetence in analyzing and forecasting the market trends of securities companies.

- The market's information was neither transparent nor adequate and could not secure the benefits of investors. In addition, the risk in the free stock market, which was not managed and inspected by the authorities, was extremely high

and may sharply impact the official market. Moreover, credit-rating agencies that are very necessary for the operation of the stock market and the diversification of information system are still lacking.

- Although the Securities Law became valid as of Jan. 1, 2007 along with many decrees and directives, they have not provided detailed regulations about some practices such as short sale, transactions on credit, and trade in derivatives. Besides, the global economic integration may consequently entail the emergence of foreign securities companies in Vietnam and increases in indirect investments in the stock market. Thus, it is necessary to set up a legal framework with a view to managing the stock market to the best.

2. Solutions to the improvement of Vietnam's stock market

Via what we have mentioned so far, the point is we need to keep attracting investments to Vietnam for the development to the year 2020 through the stock market. The government, as set forth in the Decision 128/2007/QĐ-TTg dated Aug. 2, 2007, approved the "Plan to Develop Vietnam's Capital Market up to 2010 and Perspective for 2020" that has as the main goal "we need to boost the growth of Vietnam's capital market where the stock market must play the leading role; and step by step integrate into the global economy; ensure that Vietnam's capital market may be equal to the regional ones by 2020 and the capitalization reaches 70% of GDP."

The general direction requires Vietnam to consolidate and perfect the operation of stock market at first on the track of sustainable development. In other words, the stock market shall meet the following criteria for an effective market.

- The trustworthiness of information will ensure the transparency of the market.
- The market liquidity must be high enough to facilitate the stability of price.
- The qualification of securities companies must be enhanced to improve its prestige and reliability of customers.

On this ground, solutions should be focused on the followings.

a. Setting up a healthy market with high reliability:

Being the ideal model of the market economy,

the stock market is a place of intense competition. Thus, the adequacy and transparency of the information must be obeyed so as to draw the attention of investors and consolidate their belief. If not, the operation of the stock market, especially customers' benefits, shall be badly affected. Besides, a system of reliable, up-to-the-minute, and diverse information also contributes to the transparency of the stock market. Accordingly, Vietnam needs to carry out the followings so as to perfect the criteria of stock market.

- Upgrading the technical facilities for information system and assuring the continuous update on market upheavals and the fair access for investors; perfecting the supply of information from central governmental bodies such as Ministry of Finance, State Bank of Vietnam, and State Securities Commission of Vietnam and from securities companies as well; establishing credit-rating agencies with a view to diversifying the information networks for the sake of investors

- Employing accounting and auditing standards so as to enhance the reliability of financial figures. The annual financial statements of listed companies, especially in the global integration, must comply with the international accounting standards.

- Improving the inspection and supervision of stock market in order to assure the disclosure of information and deal with illegal transactions

- Improving legal instruments to deal with violation of information disclosure, illegal transactions and spread of unwarranted and harmful information, and so on

b. Enhancing the market liquidity:

A market with a high liquidity may facilitate the transfer of capital by investors; they will not feel stuffy in the narrow investment climate. It is also the fundamental function of the secondary market. The liquidity helps the stock market go smoothly as well as lighten the pressure on the supply and demand, which cause the price to fluctuate dramatically. In brief, the high liquidity is very essential to the market management. Thus, if we like to secure the market liquidity, we need to combine the supply of and demand for stocks.

- Increasing the supply of stocks
- + Commodities must be sorted out for suitable markets segments as well as increased in type,

quantity and quality. Commodities from key industries such as petroleum, electricity, garments, cement, steel, chemicals, telecommunication, aviation, jewelry, banking and the likes must be improved to make the market more tempting.

+ Nonetheless, to increase the supply of stocks is not merely to employ tax incentives, which have been applied so far. The point is that we need a “fair game”, i.e. a stable and safe investing climate, in order for “players” to feel at ease to disclose their financial information and take it as a good chance to advertise their brand name. The market must be a good place for players to polish their credit and improve the ability to mobilize capital. That is why Goliaths in the world are always listed in official stock exchanges.

- Increasing the demand for stocks

In the past five years, immigrant remittances to Vietnam reached more than US\$5bn per year. Some experts asserted surely that the total idle money in households is not less than US\$6bn. However, it is apparent that the saving and investment in stock market of majority of citizens is not high enough. Compared with the population of more than 85 million people, around 800,000 transaction accounts in securities companies is extremely humble. Hence, if we would like to increase the demand for stocks, it is necessary to do the followings.

+ Inflation must be strictly controlled in order that people may feel safe to invest in the stock market, which is supposed to be a long-term investment channel, accordingly making a stable reserve of capital. If so, we must, in addition to tax incentives, create a stable macroeconomic climate.

+ The business climate must be favorable, safe and sound. In essence, the legal infrastructure and market inspection must be perfected and upgraded. The market liquidity also needs improving to reduce investment risks to the best.

+ Securities companies can, via the differentiation of customers and types of securities, set suitable levels of margin deposit instead of the present 100% deposit with a view to improving the market liquidity.

+ The stock market must be widely advertised and marketed.

The target of a stock market is to attract the idle money. Thus, securities companies must boost

marketing campaigns in association with the State Securities Commission of Vietnam. It can be executed by means of leaflets, ads tutoring briefly in stock exchange, talk shows, role plays or simulations, workshops, and the like.

In addition, we also need to focus on professional investment model like hedge funds; allow Social Security and Post Office Savings institutions to invest in the stock market; enhance the control of supply and demand for stocks via the operation of securities companies as principals. Conventionally, securities companies acting as principals must keep a percentage of their sales (or 60% according to the US Securities Exchange Act of 1934) to help regulate the stock price.

c. Improving the ability of securities companies:

The basic function of securities companies is to bridge the supply and demand for stocks. For services of brokerage and investment, the company must draw the belief of customers to fortify and develop its market share. Thus, it is needed to improve the qualification, competence and ethic of brokers. We also should legislate the operation of brokerage; issue the business license or revoke it in case of violation; or establish a brokerage union with a view to assisting in profession and boosting the professionalism of brokers.

Besides, the ability of experts in financial and technical analyses should be improved so as to assure the reliability of predictions concerning the price trends.

At present, Vietnam is liberating the financial services as commitments with the WTO. In regard to securities companies:

- They shall be permitted to establish representative offices and not to run any business there.

- They can cooperate with Vietnam's enterprises and the joint-venture capital cannot exceed 49%.

- After five years as a member of WTO, i.e. on Jan. 11, 2012, Vietnam will permit the operation of 100% foreign-run securities services providers and their representative offices in certain scopes such as management of assets and investment funds, depository, clearing, provision of financial information, securities consultancy and brokerage.

Thus, within the next five years, Vietnam's se-

curities companies should not only improve its qualities but also enhance the financial competence. At present, there is only a handful of securities companies owning a chartered capital of more than VND1,000bn, which is really a hindrance to the improvement in their competitiveness.

d. Upgrading the facilities:

To upgrade the facilities is very necessary in the digital era and the present-day boom of technologies. In Vietnam, it is to perfect the transaction network and information system with a view to dealing with the network traffic congestion or transaction overload, which may sharply affect the stock market.

At present, by the 'ASEAN Linkage' model, Vietnam would like to connect its HOSE with other stock exchanges in Singapore, Thailand, Indonesia, the Philippines and Malaysia to set up a clearing system. Accordingly, the management of information and transactions in HOSE must be kept updated and perfected so as to grasp chances offered by this model.

e. Monetary and financial solutions supporting the development of stock market:

So far, the Government has employed a lot of financial and monetary instruments such as taxes, fees and investments in stock exchange facilities and so on. However, in the post-crisis period, if Vietnam would like to regain a healthy stock market, it must:

- Keep using taxes and fees to control investments in the market and encourage long-term investments. It is really important in that it has impacts on foreign capitals in Vietnam and reduces risks in the hefty withdrawal of funds, which may disturb the market.

- Keep employing flexible monetary policies to facilitate long-term investments in the stock market. Besides, on the track of integration of stock markets, the flexible currency policy may also attract foreign investments and proactively regulate the supply and demand sides when pressure from foreign currencies rises.

f. Perfecting the legal infrastructure for the stock market:

The Vietnam's Securities Law was promulgated in 2007. Yet, for the development of other components of the market like OTC and derivatives

market, diversification of financial commodities linking securities, banking and insurance; and the securitization of assets and debts, the participation of foreign securities companies and investors will increase. Thus, it is a must to perfect the legal infrastructure to serve the management, inspection and integration of the stock market.

3. Conclusion

In the post-crisis period, it is forced to have the synchronous actions of ministries and industries. The above-mentioned solutions are to make qualitative alterations to the stock market. Through that, the stock market is not merely a capital mobilization channel but also a springboard for the financial liberalization in Vietnam■

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