

OPEN MARKET IN ITS FIRST TWO YEARS

by NGUYỄN ĐỨC HOÀN

The open market operations were officially introduced on July 12, 2000 representing a landmark in the SBV implementation of the monetary policy in which direct intervention was replaced by indirect instruments.

After the first two years, these operations produced initial results in affecting favorably sources of capital for banking institutions. Up to now, the open market includes 22 institutions as its members: four state-owned commercial banks; 10 joint-stock banks, one joint venture bank, five branches of foreign banks, one finance company and the Central People's Credit Fund.

Increased sales and purchases on the open market reflect stable development of this market.

The table shows that the sales on the open market increased over years. The sales of the first half of 2002 nearly equal the aggregated sales of 2001 and the second half of 2000. In these years, the purchase by the SBV represented the better part of transaction, 71% in 2000 and 96% in the first half of 2002. This means that the open market becomes the main instrument for injecting new capital to the economy. During the

ing sessions in late January and early February of 2002, the SBV bought some VND1,400 billion worth of securities thereby preventing the interest rate from rising and many banks from defaulting on their loans.

The SBV also introduced types of transactions and auction common among many countries with a view to helping banking institutions prepare themselves for international integration. In auctions, banking institu-

Table 1: Open market purchase and sale (VND billion)

	2 nd half of 2000	2001	1 st half of 2002	Total
1. Trading volume	1,903.5	3,933.8	5321.5	11,358.8
- Purchase by the SBV	1,353.5	3,313.8	5,321.5	9,988.8
+ Executed purchase	480	60	0	540
+ Time purchase	873.5	3,253.8	5,321.5	9,448.8
- Sale by the SBV	550	620	200	1,370
+ Executed sale	0	570	200	770
2. Trading session	17	48	33	98
a. By auction				
- Interest rate-based tender	13	14	22	49
- Quantity-based tender	4	34	11	49
b. Trading practice				
- Executed transaction	7	8	2	17
- Time transaction	10	40	31	81

last Lunar New Year (February 2002), many banking institutions ran short of fund because most depositors needed money for the important festival. This situation made the deposit interest rate rise and required intervention from the SBV. In three trad-

tions could offer interest rates they are ready to pay. And as a result, the interest rate adopted on the open market usually corresponds to changes in bank interest rates.

Interest rate of short-term negotiable instruments purchased by the



SBV from the open market varied between 4.2% and 5.58% in 2000; 3.4% and 5.15% in 2001 and 4.8% and 5.1% in the first half of 2002. Interest rate of instruments sold by the SBV varied between 4.0% and 4.6% in 2000; 4.8% and 5.3% in 2001; and 5.1% on average in the first half of 2002.

Maturity date of most instruments traded on the market is usually within 30 days, the maximum duration of transaction is within 120 days, which is suitable to international practice.

Looking back on the past two years, we see that the open market operations were carried out safely and smoothly. The task of supervising

The market is short of commodities and they aren't diverse enough to attract bank members. At present, there are only two commodities – T-bills and SBV bills – to be traded on the market. And main buyers or sellers are state-owned banks.

Causes of this situation are numerous:

- The State Bank Law doesn't allow trade in long-term negotiable instruments, which limits operation of the monetary market and the open one as well. Foreign experience shows that long-term instruments could be traded on the monetary market on the condition that the duration for transaction is short. The SBV is persuading the Government

world market by entering international agreements and groupings. This effort is an important precondition for improvements in the open market operations.

According to its plan, the SBV will hold trading session on a daily basis by 2003 and try its best to meet all demand from both sellers and buyers with a view to making these operation real instruments for implementing the monetary policy.

Besides T-bills and SBV bills, the SBV plans to introduce qualified bills and bonds issued by state-owned banks to the open market, and cooperate with the Ministry of Finance to issue T-bills of various maturities.

To generate more commodities



ing and organizing the market was done properly with full attention paid to changes in the market prices. Frequency of trading session increased to meet demand from banking institution and gain better stability. After its establishment, trading session was held once every ten days; and once a week from January 2001 to April 2002, and twice a week since May 2002. Computers were introduced in order to facilitate transactions and ensure security.

However, the open market also revealed some shortcomings.

The open market enjoyed no boom: there are only five members at most present at each trading session. They are mainly state-owned commercial banks. Joint stock banks are seldom present. Of foreign-owned and foreign-invested banks, there was only one branch that was ever present at a trading session. The SBV could barely satisfy the demand for fund from banking institutions.

and the National Assembly into approving the transaction of long-term bonds.

- Some banking institutions paid no attention to the open market, or they have no well-trained officials to take part in these operations.

- Most commercial banks are of small size and have no experience of trading on the monetary market. That is why they didn't know how to take part in auctions. Branches of foreign banks have limited funds in Vietnamese currency so they can't participate in the open market.

- Many banking institutions discover no benefit in the open market and feel content with traditional banking services.

At present, banking institutions are undergoing reforms in order to beef up their competitiveness and supply more banking services as required by the market economy. The Vietnamese economy and its banking system is trying to integrate into the

for the market, the SBV has obtained permission from the Government to take part in auctions to buy T-bills left after trading sessions if need be.

In our opinion, the SBV had better pay more attention to the following issues:

- Developing inter-bank market, auctions of T-bills, market for negotiable instruments, etc. as bases for the development of the open market.

- Reviewing SBV regulations about the open market in order to make them more favorable for the development of the open market.

- Improving the task of gathering, analyzing and predicting fluctuations in the market demand for capital in order to help the open market authorities with their decision-making process.

- Encouraging commercial banks to pay more attention to tasks of training their workforce and installing equipment needed for the open market operations. ■