

FOR DEVELOPMENT OF VIETNAMESE MONEY MARKET

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The Decision 136/QĐ-NH2 on July 1993 of the State Bank of Vietnam (SBV)'s governor concerning the establishment of the interbank local currency market initiated a significant change in the SBV's monetary policy. In fact, our market economy has been gradually shaped in the world's rapid changes and the trend of economic liberalization and globalization has brought our country to new opportunities and challenges. Activities of the money market have positive impacts on short-term capital flows in the economy. At the same time, it helps the SBV manage its financial policies effectively by macro tools.

I. The past performance of Vietnam's money market

1. Achievements

- First, the money market has been basically perfected in terms of organization. It has so far the following components:

- + The interbank local currency market
- + The interbank foreign currency market
- + The Treasury bill bidding market
- + The open market

- Second, the money market has established relations among credit institutions and between them and the SBV. Although the participants are mainly state-owned commercial banks but the market has been able to allocate disposable funds to banks in the first place. The SBV plays as the last lender,

overcoming the shortage of Vietnamese đồng in certain periods.

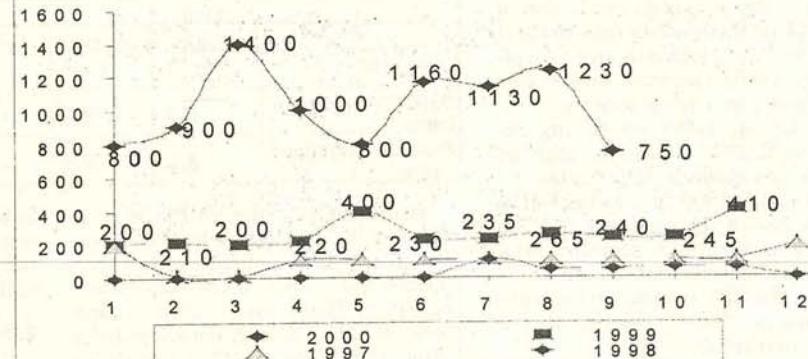
- Third, the establishment of the interbank foreign currency market is

1997, 217 million in 1999 and over 1 billion in 2000.

In 2001 the operations of the interbank foreign currency market showed stable trends. The market

ingly reflected real relations between supply and demand in the foreign currency market, been kept stable and made good impacts on export-import ac-

Figure 1: The trade volume 1997-2000



Source: The State Bank of Vietnam

aimed at meeting economic demands. The expansion of external economic relations inevitably leads to financial liberalization. The interbank foreign currency market has to a certain extent concentrated large traders in for-

exchange rate increased 3.2% over 2000 on average. In 2001 the SBV undertook immediate intervention in the market to modulate the supply and demand in mid 2001 when there were surplus of foreign currency but shortage of Vietnam-

ties and foreign investment attraction.

- Fourth, the bidding of Treasury bills has helped the Government fast mobilize large revenues for its budget economically due to low interest rates. In the meanwhile, it also laid a

Table 1: Results of the bids for Treasury bills (VNDbil.)

Year	1995	1996	1997	1998	1999	2000	2001
Treasury bills	243.6	152				4,416	3,950

Source: The SBV

ien currency (state-owned commercial banks) on operating in line with the market economy.

The average volume of foreign currency monthly traded by credit institutions rose rapidly, for example, US\$58 million in

ese đồng in commercial banks.

The most important result is the SBV has been able to have indirect effects on foreign currency supply and demand via this market. The foreign exchange rate has increas-

ground for the appearance of the open market and later speeded up activities of this market such as creating habits of trading in state short-term securities and providing commodities for the market.

Furthermore, investing in Treasury bills issued by the SBV, bankers both diversify their banking activities and maximize their mobilized funds.

The Treasury bill bidding market also increases the volume of commodities for the secondary money market and the open market. The SBV's issue of Treasury bills has steadily given favorable conditions for the open market to become an important instrument of the SBV.

Fifth, the open market has made significant contributions to the implementation of the SBV's policies in spite of its early

sales on average. In 2001 the market had 48 trading sessions with total value of VND3,833.81 billion. In the open market, the SBV provided VND5,000 billion for credit institutions, settling the shortage of đồng in the past and implementing the government's policy on demand stimulus.

The open market operations had positive effects as follows:

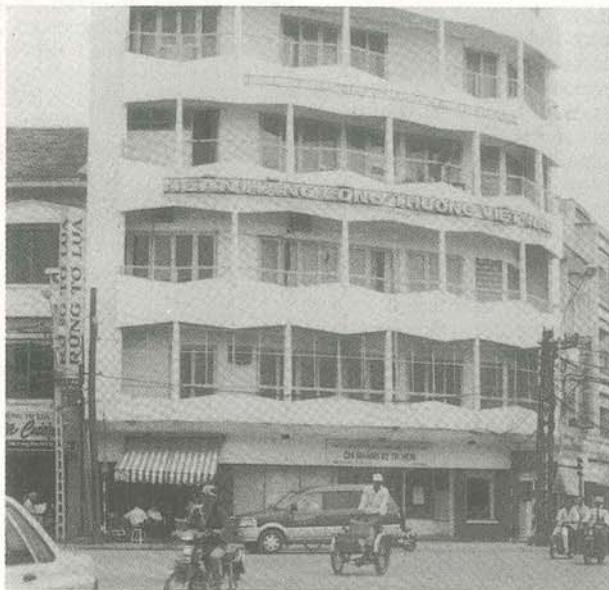
- Modulating disposable funds of credit organizations by absorbing them in case of surplus and pumping them in shortage. In the open market, credit institutions may modify their disposable capital

2. Shortcomings and causes

- First, there is no coordination between components of the money market. The supporting effects between markets are huge, especially between interbank local currency market and others. When the money market attracts a lot of traders and allocates disposable funds effectively, it will step by step consolidate confidence and habits of credit organizations which enter the market. This is a basic factor boosting operations of the Treasury bill market and the open market.

trades in foreign currency to get out of the SBV's control. The trading volume in the market was mainly the SBV's purchase of foreign currency and commercial banks showed signs of withholding foreign currency. The SBV's intervention is still limited because its foreign currency reserve is modest and the SBV's foreign currency swap was not flexible in this case.

+ In the Treasury bill market, the volume of bills was not abundant. The term of bidden bonds was common one year, and the term of Treasury bills was 364 days, the number of



stage. From the opening date (July 12, 2000) to the end of 2001, as many as 64 trading sessions were held in the open market with the following outcomes:

+ Total volume purchased by the SBV: VND4,466 billion (including SBV bills and Treasury bills)

+ Total volume sold by the SBV: VND1,070 billion (SBV bills)

+ The bid-winning interest rate in sessions ranged from 3.40% to 5.30% per year.

The bid-winning volume accounted for 74.6% of the SBV's purchases or

flexibly, proactively, and safely and avoid tardiness due to administrative procedures.

- The SBV's undertaking of open market operations is the new progress in the process of renovating its monetary policy in line with international common practice and economic development trends.

- The results of the past trading sessions also reflected real changes in interest rates in the market. Therefore, they supply information to an extent about the money market.

- Second, the trading volume in the market remains restricted.

+ In the interbank local currency market, the allocation of disposable funds among credit institutions, between the SBV and commercial banks was still restrained and tended to go down. The joint stock commercial banks still see the interbank local currency market as the market of state-owned commercial banks, so they keep themselves away from the market.

+ In the interbank foreign currency market, banks did over-the-counter

short-term bills is small. The operations of discounting and trading in various kinds of bills and treasury bonds were not really developed. The bid winners held on bill's mainly for profits or collateral loans from the SBV.

+ In the open market, the trading volume in each session reached only VND100 billion. This indicates the effects of the open market on credit institutions' disposable funds are not significant.

- Third, the Vietnamese money market is still flat. All market entrants include mainly

state-owned commercial banks. Joint stock commercial banks, financial companies, joint venture banks and foreign bank branches remain different and stand beyond. In 2001 there were 46 trading sessions with 90 bidding turns including 86 of state-owned commercial banks, 2 of joint stock commercial banks, 1 of a foreign bank branch and 1 of an insurance firm. The number of market entrants (21) represented only one-third of total credit institutions in Vietnam, each session has 1 to 5 entrants. They are mainly 4 state-owned commercial banks. Just because of this, the market has not operated well and not yet reached the target of capital modification among credit institutions. The market information did not yet reflect real facts.

Fourthly, the information system about the open market operations is not adequate and there is no links between markets so that the entrants can collect enough information to make proper analysis of the market for final decisions. This factor is also an obstacle to the market growth.

II. Measures to bolster the growth of Vietnamese money market

1. Measures to perfect the legal environment

The Government is required to review legal documents and policies concerning operations of the money market for immediate rectification and amendment with a view to alluring credit institutions to the market and making the market more flexible and effective. It should also revise provisions such as Articles 9 and 21 of the Law on the State Bank of Vietnam and Article 70 of the Law on Credit Institutions in accordance with current conditions of the money market. These pro-

visions have restrained the volume of commodities on the open market and thus not yet generated full effects on the SBV monetary policy. The types of valuable papers permitted for trading on the open market should be identified, including one-year Treasury bills and valuable papers with a term of less than one year. Moreover, the SBV may allow valuable papers issued by financial institutions after evaluating their disposability.

The SBV should devise a set of regulations on activities of the money market including regulations on refinancing, rediscount, bidding for treasury bills, bidding for SBV bills, issue of valuable papers, etc. The Government should promulgate soon the Law on Commercial Bills in order to provide more commodities for the money market.

The legal environment should build a level playground for all commercial banks and credit institutions. The SBV is required to cancel wholly incentives given to state-run commercial banks. In the future, the SBV should generate the motivation to attract credit institutions into the market.

2. Measures to perfect the organization

To consolidate and develop components of the money market including the interbank local currency market, the interbank foreign currency market, the Treasury bill market, and therefore speed up the modernization of interbank payment system with the aim to improve the capacity of capital allocation among commercial banks and credit institutions.

To concentrate efforts on enhancing the SBV's market management, increase the number of officials to forecast disposable funds, strengthen the staff qualifications, and reform

the system of information provision in combination with credit institutions, the Ministry of Finance and the Treasury; prepare necessary conditions for improving the quality of components of the money market with a view to allocating disposable funds among credit institutions more effectively.

To organize daily trading sessions to make the open market operations more flexible.

3. To expand the entrants of the money market

The SBV should set up the operation mechanism as the last lender, and promote the method of two-way price offer between commercial banks, between commercial banks and the SBV with the aim to increase the market sensibility to interest rates and use instruments of its monetary policy more flexible.

To build technical infrastructures, interbank payment networks and computer networks among commercial banks and credit institutions in order to facilitate their trading, therefrom attract different entities into the money market.

To establish the center for bank disposable capital forecast to give assistance to commercial banks in this area and combine the money market with commercial banks' capital management.

To change views and treatments between state-owned and non-state commercial banks in the money market operations in order to consolidate non-state commercial banks' confidence in the SBV.

To boost the market money operations on a pilot basis in big cities, especially in HCMC, thereafter expand them across the country.

4. Measures to increase commodities for the market

The SBV, in coordination with the Ministry of Finance and the Treasury, should consolidate and develop the Treasury bill market in order to provide commodities for the open market. The Ministry of Finance should initially restrict the public issue of bonds and concentrate on bidding especially via the SBV so that credit institutions may hold a lot of commodities to take part in the open market operations. To attract more entities into the Treasury bill market, the Ministry of Finance should abandon its control over bidding interest rates. These rates should be determined by the market. The SBV should introduce various kinds of treasury bills with short terms of three months, six months and nine months to make favorable conditions for the market of short-term securities.

In the near future, on the one hand, the SBV and the Treasury should increase the volume of SBV bills and treasury bills to be issued, announce the list of valuable papers permitted for trading, and on the other hand bring government bonds with a term of one year or less than one year into trading with a view to increasing the volume of commodities for the market but still securing the disposability of papers.

The SBV should consider the use of securities issued by credit institutions as tools of the open market operations including commercial banks' term bills. When these commodities are pumped into the market, they will help promote lending and borrowing activities between credit institutions on the interbank local currency market and the disposable funds will be better allocated. ■