TO DIVERSIFY GOVERNMENT SECURITIES

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At present, all central banks in developed countries use open market operations to carry out the monetary policy and regulate the money supply. Such operations involve the purchase and sale of government securities which effectively expands or contracts funds in the banking system. The central bank, as an important member of the finance market, should hold an amount of securities big enough to inject or withdraw bank circulation, thereby regulating the supply of and demand for government securities and manipulating the base rate. Generally, the government securities equal some 50% of the GDP of these countries and include various classes. To maintain a fixed amount of securities in circulation, the central bank usually has them rolled over, that is, to replace an amount of due securities with a new one. Similarly, the central bank could regulate the amount of government securities through the purchase or sale in order to implement a cheap or dear money policy if need be.

In the period from May 19 to July 15, 1999, the Ministry of Finance issued some VND4,000 billion worth of government securities that mature in five years' time and have face value varying from VND20,000 to 50 million. These securities bear an interest rate of 10% a year (including the inflation rate and real interest rate of 1.5% a year) and they could be transferred or traded in the future finance market. These securities helped increase the amount of commodities in the finance market.

It's worth noting that the realization of Decree 34/1999/NĐ-CP on the issue of government securities in 1999 as directed by the Ordinance 12/1999/PL- UBTV QH 10 passed by the National Assembly and signed by President Nông Đức Mạnh on April 27, 1999 provided the legal infrastructure for the issue of long- and medium-term bonds in the future and served as a basis for diversifying the government securities whose face value could be stated either in the VND or hard currencies and gold (Article 6) -that is, it's possible from now on to mobilize capital in foreign exchange. The Article 10, Section 1, Point b stated: "Government bonds and securities whose face value is in hard currencies are guaranteed payable in that currency." These securities have maturity of five and 10 years and of marketable and non-marketable classes. Thus, the government securities issued up to now have a wide range of maturity (three months, six months, 12 months, two years and five years) and their face value varies from VND20,000 to 50 million. Securities with maturity under 12 months have been tendered for at a discount by the central bank since 1995. Securities with maturity over 12 months bear interest including the inflation rate plus real interest rate and have total value equaling only some 5% of the GDP.

At present, when the economy is still affected by the Asian financial crisis and bankruptcies of big companies such as Minh Phụng and Epco, the successful issue of government securities in 1999 is a new development of the finance market and leads to possibility of issuing long- and medium-term bonds and bills in the near future. In my opinion, the diversification of government securities in the coming years is an important condition for the development of finance market and a basis for mobilizing local potentials to industrialize and modernize the economy. Government securities, originally as documents of debts owed by the government to the public, have become a useful financial instrument employed by central banks in developed countries to implement the monetary policy.

In diversifying government securities into various classes, many factors such as maturity, face value, interest rate, exemption from income tax, negotiability, purpose of the issue, etc., will be taken into consideration.

- As for maturity, government securities are usually divided into three classes: short- term ones that mature in 12 months' time; medium-term ones within a period from one to five years' time and long-term ones over five years' time. The diversification of maturity usually links with purposes of the issuance. Short-term government securities are issued for the purpose of covering immediate government expenditures and will be settled within the fiscal year while long- and medium-term ones are for developing the infrastructure. However, toll will be charged for the use of these public works when they are put into operation and then all loans will be paid back.

- As for interest rate, short-term government securities are usually tendered for at a discount when issued while long- and medium-term ones bear a fixed interest. The act of determining the interest rate is no easy task. Besides the nominal interest of securities, other factors such as maturity and their market prices are also taken into consideration when buying and selling securities on secondary markets. The nominal interest is usually based on expected inflation rate plus expected return.

When the economy hasn't developed firmly and steadily, fluctuations in interest rate are inevitable. To make the interest rate on government securities an instrument for regulating other interest rates, we need the following conditions: the amount of securities traded in the finance market is big enough, these securities are considered by the public to be without any financial risk, and all financial intermediaries have government securities included in their investment portfolios. With these conditions, government securities become common commodities in the finance market along with shares and bonds that constitute a developed capital market. The interest rate on government securities will be then considered as the base rate (or minimum lending rate) which influences most other interest rates in the money market; or as a profitability ratio when considering an investment opportunity. Other questions needed to be taken into account are how often the interest on long- and medium- term securities is paid and whether income from government securities is exempted from tax or not.

- The issue of government securities whose face value is in foreign exchange to foreign countries depends on the Government exchange control policy. Up to now the exchange control in Vietnam has been relatively strict because the central bank could keep a close watch on flows of foreign exchange into and out of financial imtermediaries and therefore it's difficult for anybody to play the market. This quality, however, make the Vietnamese finance market less attractive in the eyes of foreign investors intending to invest in government securities, because playing the markets is a common practice among foreign investors and mutual funds. Moreover, the Government needs guarantee from an international financial intermediary when issuing government securities to foreign markets. The cost of guarantee service will be certainly high because the Vietnam's government securities have never been issued to foreign countries.

In my opinion, the Ministry of Finance can cooperate with the SBV in diversifying the government securities, especially the long- and medium-term ones, in order to mobilize idle capital held by the public, and in persuading the Government into adopting a more flexible exchange control policy to attract investment through the finance market■

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