



# THE FIRST VIETNAMESE STOCK EXCHANGE BY THE YEAR'S END?

by Dr. NGUYỄN ĐẮC HƯNG

In Vietnam, the market for T-bills came officially into operation in 1995. To the end of 1997, the market has attracted 47 members, including 4 state commercial banks, 20 joint stock commercial banks, 4 joint venture banks, 15 branches of foreign banks, 5 insurance companies and a mutual fund, equaling 60% of organizations qualified to join the market. The rest of them consist of 12 branches of foreign banks, 32 joint stock commercial banks, 2 insurance companies and 4 mutual funds. Through tender system in 1997, insurance companies bought VND828 billion worth of

T-bill, credit organizations VND2,085.9 billion (in an issue, the Vietnam Social Security Administration bought VND100 billion worth of T-bill). This shows that the source of finance held by insurance companies is pretty abundant. However, the better part of T-bill issued was bought by credit organizations because most commercial banks found the supply of loans too risky and the investment environment unfavorable. The Bank for Industry and Trade, for example, has bought VND1,280 billion of T-bill. This shows that how greatly a series of corruption scandals in

which many high-ranking bank officials were involved and efforts to reduce bad loans affected the way the banks supply credit.

Although the year 1997 is considered as the busiest year for the T-bill market, but its operation was still unstable. From April 2 to May 7, 1997, there was no new issue of bills. In 1997, there were two issues with no tender, five issues with one tender each, and five other issues with only two tenders.

In certain issues, no bill was sold, and in some others, only a small proportion (from 1% to 10%) of bills intended for sale

was sold. Summarily, in 1997, VND2,900 billion worth of T-bill, or 75% of the planned target of 4,090 billion, was sold. The main cause of this unstable operation is the fact that the required interest rate was set too high without paying attention to the supply-demand relation. The central bank didn't consider the issue of T-bills as a useful means of regulating the interest rate and controlling the capital market. At the end of 1997, a state commercial bank asked the central bank to discount an amount of T-bills and the commercial bank received only an obscure refusal. A secondary market is still lacking and this makes the market for T-bills lose its meaning and effects.

Moreover, the term of bills sold in the market is one year, so the bills can't provide a useful instrument for giving birth to open-market operations carried out by the central bank and a stock market in Vietnam.

At the beginning of 1998, the market for T-bills came in the doldrums. The first T-bill auction in the year couldn't be open before February and only three auctions were held in this



month. In the first auction of the year, only five members were present and VNĐ10 billion worth of bill out of 50 billion offered for sale was sold. In the second auction, only 2 members were present and 7.5 billion out of 50 billion was sold. In the third auction, only one member came to buy 7 billion out of 50 billion offered.

Besides the above-mentioned causes, another cause is the fact that most commercial banks had limited sources of working capital and their bad loan accumulated. At present, the deposit rate they offer is higher than the discount rate offered by the General Treasury. That is why they stop buying T-bills.

This situation gives the answer to the question of why the T-bill market attracted only insurance companies. The reality of operation of the T-bill market in the last three years also raises the question of how the stock exchange is brought into operation by the year's end as planned.

According to the plan, the first stock exchange will come into being next September in HCMC. Putting aside the problems of personnel and legal infrastructure, we could focus attention on sources of commodities for the stock exchange.

As we know, main commodities traded in the stock exchange in its first development stage will be T-bills and the stock exchange will be considered as the secondary market for T-bills. However, in the past three years, such a secondary market didn't come into being. More exactly, there was only one occasion in which the Hà Nội branch of American Citybank had bought VNĐ20 billion worth of T-bills from Vietcombank. Some commercial banks

also wanted to have T-bills discounted with the central bank when they were short of reserves, however the value of T-bills they brought to the central bank was small (under VNĐ50 billion) and not all of them were satisfied.

The Tân Việt Joint Stock Commercial Bank and the Incombank had to look for other solutions to the shortage of fund when the central bank had refused to discount T-bills.

In the public there has been the need to resell T-bills and certain commercial banks have discounted them but the value of these T-bills hasn't exceeded VNĐ10 billion.

It's worth noting that only an amount of bills worth VNĐ6,000 billion is before their due, half of it (worth 2,912 billion) held by commercial banks has the term of one year, that is, most of these bills will hardly be resold after September 1998. The other half held by the public with a 2-year term will expire at the end of 1998, or the beginning of 1999. In short, the source of commodities for the future stock exchange is very limited. Will the first stock exchange in Vietnam be only a center used

for issuing T-bills as replacement for the central bank and the General Treasury?

Returning to the problem of share trading, we could see that although in its first stage of development, the stock exchange would trade mainly in T-bills, but we had better think of the trade in shares in the near future.

At present, most shares are issued by joint stock commercial banks and finance companies. Other public companies have issued only a limited amount of shares and this was only a mere formality. Over the whole country, no more than 10 companies have been equitized but the amount of shares they issued was limited and not attractive in the eyes of potential investors. There are 51 joint stock commercial banks and 2 joint stock finance companies with total share capital of VNĐ200 billion. The face value of issued shares varies from VNĐ500,000 to 1 million. Important shareholders are mainly state enterprises, such as commercial banks (Bank for Foreign Trade, Bank for Industry and Trade, Bank for Agriculture, Bank for Investment and Development), corporations (Corporations

of Navigation, Aviation, Post, Insurance, Construction, Port Authorities) and some big private companies (Huy Hoàng, TOGI and SEL). The amount of shares held by the public is very limited. In fact, there is no trade in shares. Meanwhile, from the first quarter of 1998 on, the central bank started to force joint stock commercial banks with registered capital of VNĐ billion or more to have their accounts audited, but with poor public image and business performance in recent years, how can these commercial banks list their shares for trading in the future stock exchange?

Thus, we have got enough reasons to feel uncertain about the opening of a stock exchange in HCMC by the year's end and its operation in the coming years if we don't want to accept that its opening is impossible in the near future because the equitization has been carried out too slowly and having account books audited hasn't been a common practice in Vietnam.

When the stock exchange comes into being, who will be sellers and buyers and what commodities will be traded in it? ■

