

To Develop Hochiminh City Into a Financial Center

by Dr. SỬ ĐÌNH THÀNH

With falls in its growth rate in recent years, especially in the first half of 2004, the HCMC government should look for a new strategy to adjust the structure of industry with a view to ensuring a stable development. As suggested by Prof. Dr. Trần Xuân Giá, HCMC could develop the service sector, especially banking and financial service. In this article, I suggest an outline of a strategy to develop HCMC into a financial center.

- Open finance market and free flows of international capital,
- Stable exchange rate,
- A reasonable mechanism for supervising and ensuring the stability for the whole system and protection for legitimate interests of consumers, depositors and investors,
- A reasonable system of financial laws,
- Modern infrastructure,
- Good information and supporting services, and
- Reasonable tax rates on finan-

with a population of some six million and high level of public education. The HCMC export value accounts for some 40% of the national export value. Its personal income is also of the highest level in Vietnam (over US\$1,500 per capita.)

- After 15 years of economic reform, the finance and monetary markets in HCMC have made good progress. It accounts for over 30% of financial transaction of the country. Its financial system has become more diverse while its strength is increas-



I. ADVANTAGES AND CHALLENGES TO HCMC ON THE WAY TO A FINANCIAL CENTER

Traditionally, development of financial centers is usually a result of expansion of the financial system and growth of business. Foreign experience shows that the development of a financial center requires the following preconditions:

- Economic and political stability,
- Geographical positions favorable for economic and trading development,
- A reliable and financially strong banking system,

cial investment.

1. Advantages

- The Government and VCP are determined to develop the city into a financial center. The Resolution of the Politburo on the development strategy for HCMC up to 2010 reads, "[We should] develop trading, financial, banking, telecommunication, tourism and transport services, along with commodity and finance markets in order to develop HCMC into a financial and trading center of national and regional level."

- HCMC is the biggest trading and economic center of the country

ingly enhanced on its way to regional and international integration. The banking system has reformed its services, techniques and operations in order to satisfy better the market demand.

- After 15 years of economic reform, the financial and monetary policy has been increasingly perfected. The SBV has adopted new mechanisms for implementing the monetary policy in accordance with the market economy, which paved the way for the development of financial sector.

2. Challenges

- The financial and banking sector is not strong enough to compete against foreign rivals. Its size and share in the GDP are small. The HCMC finance market offers only a handful of commodities.

- Legal infrastructure, information service, sources of labor and finance are not perfect enough to keep abreast with the economic growth, forming many obstacles to the development in the financial and banking sector.

- The financial and banking system in HCMC is facing many challenges when integrating into the regional market, two main challenges are:

+ Financial liberation and security: The financial liberation requires the government to give up direct regulatory instruments and adopt indirect ones instead. At the same time, the finance market must be open to flows of both domestic and foreign capital. This is a sensitive problem for the local finance market because any change in the world market could lead to flows of funds making financial crises inevitable.

+ Competitiveness and business performance of the banking system: When the finance market is open, presence of foreign banks will pose great challenges to HCMC-based banks: interest rate and profit will be lower and their market share will be contracted. Moreover, these banks have to undertake tasks of attracting foreign sources of capital, turning them into productive investments and making financial investment in regional countries.

II. OBJECTIVES AND DIRECTIONS

1. Objectives

The main objective is to turn HCMC into a financial center of regional standards in which:

Table 1: The HCMC banking and financial sector in 2002

State-owned commercial banks	Four state-owned banks with 35 branches of the first level, 23 branches of the second level and 36 exchange offices
Joint stock commercial banks	Seventeen joint stock banks, 72 branches of the 1 st level, 32 ones of the 2 nd level and 31 exchange offices
Joint venture banks	Four joint venture banks
Branches of foreign banks	Seventeen branches
Credit funds	Nine funds of the district level and one fund of the municipal level
Finance companies	Four companies
Financial leasing companies	Four companies

- Number of banks, branches and rep offices of foreign banks is not less than 30; while the number of non-banking institutions not less than 20.

- Bank deposit must be increased, from 104% of the GDP in 2002 to somewhere between 110% - 120% of the gross output by 2010. Bank loan must gain the same increase, from 90% of the gross output in 2002 to 120% - 140% by 2010 making the ratio of loan to deposit higher than 1.0.

- Increasing the ratio of M2 to the gross output to 100% and the share of non-cash payment in the total payment to 50%.

- Raising the ratio of profit to capital to 14%-15%, the profit-asset ratio to 1% - 1.5% and keeping the ratio of bad debt to outstanding loan under 5%.

2. Directions

- The financial center must be based on the stable economic growth, which will help create a more favorable business climate and reduce risks for the financial sector. Such a condition will reflect itself in stable market prices, low interest rate, reasonable tax rates and stable value for the domestic currency.

- The financial center requires a strict legal infrastructure and open mechanisms that ensure the State control and comply with laws of the market economy.

- The financial center must be based on modern infrastructure (public transport, office buildings, telecommunications, etc.)

- Operation of the financial center is based on uniform development of finance, money and capital markets.

- Developments of the financial center must be linked with a policy to liberate the finance market that is suitable to the trend of international integration and globalization.

- The financial center need better human resource that supplies laborer of good expertise and ethics.

Foreign experience shows that a financial center could bring about many benefits and contribute a lot to the economic growth (fast increases in the added value, small investment in fixed assets, freedom from pollution, new and important sources of tax payments, etc.). This means that it could be considered as an appropriate direction for the economic development for HCMC in the coming years when Vietnam tries to integrate more fully into the regional market. ■

Table 2: Deposit and loan in the HCMC banking system (VND billion)

Indicators	1998	1999	2000	2001	2002
1. Deposit	33,131	40,374	56,204	65,716	85,996
As % of the HCMC gross output	54%	58%	73%	78%	104%
2. Outstanding loan	38,203	43,445	52,193	56,189	74,243
As % of the HCMC gross output	62%	63%	68%	67%	90%
3. Outstanding loan from the national banking system	112,242	139,180	184,936	225,704	286,644
As % of the GDP	31%	34.8%	41.6%	47.3%	56.3%
4. HCMC Share in the total outstanding loan	34%	31%	28%	25%	26%