STOCK EXCHANGE AND FINANCIAL SUPPORT FOR VIETNAMESE COMPANIES

by Dr. TRẦN HOÀNG NGÂN

I. URGENT DEMAND FOR MEDIUM- AND LONG-TERM CAPITAL

After the fourth VCP National Congress, the Vietnamese economy has shifted to the multi-sector economy operating according to the market mechanism managed by the Government and the socialist orientation. The economic reform has produced encouraging results: the growth rate is high and stable (it reached 9.38% in 1996, manufacturing output increased by 14.1%, agriculture by 4.8%, food output reached 29.41 million tonnes); the inflation rate is well under control (4.5% in 1996); the foreign trade developed well; national defense and political stability are secured.

Vietnamese companies have also developed quickly. According to *Thời Báo Kinh Tế Saigon* and other reliable sources, up to April 1997, there were some 31,800 Vietnamese companies in the country, including over 6,000 state companies and 170 joint-stock ones. They have contributed a lot to economic development but they have also faced many difficulties and shortcomings: poor business performance, poor international competitiveness because of high production cost in comparison with the international average, badly-trained labor force, inefficient management, shortage of capital and bad employment of capital, macro economic volatility, backward technology and machinery, etc.

In an interview with reporters from *Thời Báo Kinh Tế Việt Nam*, Minister of Manufacturing Industry Đặng Vũ Chư said: "The most common problem for the manufacturing industry is a shortage of capital. The mechanism for securing bank loans is unappropriate (regarding banks' demand for security, interest rates and term of loans), therefore most companies are slow to make new investments and their return on capital is low. Despite their efforts, most companies could only modernize parts of their production lines. Generally, technology employed by Vietnamese companies is obsolete, in certain industries, it is two or three generations older than what employed by foreign counterparts".

As a matter of fact, all Vietnamese companies are in the same boat- they are all badly in need of capital, especially medium- and long-term capital needed for the modernization of their production lines, and needed for their survival as well.

At present, Vietnamese companies lack both working capital and funds for modernization. Where can they find sources of finance?

Until now, Vietnamese companies have secured needed capital from reserves for depreciation, retained profits, bank loans and imports under deferred payment term. The main source is still bank loans but most of these loans are of short or medium term (five years at most). In HCMC, the total loan of medium- and long-term supplied late last year by bank reached VNĐ3,600 billion, or 15.6% of total bank loan supplied. Not all companies could secure medium- and long-term loans from banks because of many causes such as high interest rates, inappropriate term of loans or macro-economic volatility. In the last quarter of 1996, the State Bank could only loan some VNĐ1,000 billion out of 5,000 billion put aside for medium- and long-term credit.

How about the source of dead money held by the public? According to many reliable sources of information, this source can supply over VNĐ20,000 billion. A recent survey conducted by the Ministry of Planning and Investment and the General Department of Statistics, 44% of personal savings were spent on gold and hard currencies; 20% on real estate and improvement of living conditions; 17% were sent to savings accounts and 19% were put in investments, especially short-term investments (*Thời Báo Kinh Tế Saigon*-May 29, 1997). In my opinion, the public are ready to turn their dead money into investments if they are safe and profitable, that is why a stock exchange in Vietnam becomes a matter of great urgency. Forming a stock exchange is a good measure to mobilize needed capital for the strategy for socio-economic development and provide a suitable channel for domestic and foreign flows of capital.

II. STOCK EXCHANGE AND FINANCIAL SUPPORT FOR COMPANIES

1. Sources of finance for companies

a. From owners of companies

- Grant-in-aid: these grants-in-aid could hardly cover all expenditures for state companies, and sometimes these grants aren't in money but in goods which aren't suited to companies' needs. According to Nguyễn Văn Ninh, Deputy Director of the General Department of

Public Assets and Funds, in 1997 the Government would supply some VNĐ200 billion to state companies with a view to helping them modernize their factories. But according to *Thời Báo Kinh Tế Saigon* (April 1997), this amount could only meet 4% or 5% of companies' needs.

- Equity capital: this part of capital is at the company's disposal and bears no interest, that is, the company pays no dividend if it is suffering losses.

- Retained profit: this part of profit isn't distributed among company's shareholders and is used for financing new investment.

b. From banks

The banking system is the main supplier of capital for Vietnamese companies up to now. Will it continue to supply it in future? Banks will certainly be very cautious about doing this, especially after many companies such as Nam Định Textile, Epco, Tamexco, Minh Phụng became defaulters. Most bank loans are of short term, small size and high interest rate, and moreover, borrowers have to provide security and complete complicated procedures.

c. From sales of corporate bonds

This is also a debt owed by the company to the public. These bonds usually bear a fixed and low rate of interest, and bondholders don't share in company's management. Expenses on bonds' interest are allowed to be deducted from company's gross income when calculating taxable income, however, the company has to form a reserve to meet these expenses. In Vietnam, sales of corporate bonds aren't common.

d. From other sources

Companies can get needed capital from sales of imported goods bought under deferred patment term and from finance companies. In the market economy, the main source of medium- and long-term capital usually comes from the stock exchange.

2. Relationship between the stock exchange and companies

In order to achieve targets set forth by the strategy for socio-economic development for the years from now to 2000, Vietnam needs a gross investment of some US$45 billion. One of important measures to mobilize capital is to form a well-organized stock exchange. Commodities traded in the stock exchange are of various kinds: ordinary shares, preference shares, government bonds, municipal bonds, corporate bonds, options, warrants, etc. A stock exchange will give new chances to mobilize capital, attract dead money or personal savings from the public and turn them into productive investments, that is, supply them to investment projects and companies, or to help the government to reduce budget deficit. The stock exchange is also a way of direct financing in which funds are channelled to capital deficit units.

In the stock exchange, companies can issue shares and bonds easier if they want to increase their working capital or to modernize their production lines. Changes in prices of shares and bonds issued in the stock exchange will force companies to improve their business performance with a view to enhance their public images. Companies will supply commodities to the stock exchange and receive long-term capital from it.

Another problem of great importance to companies is to control sources of finance and enhance investment efficiency, however, for the time being when the stock exchange hasn't come into being yet, companies can modernize their machinery and technology by getting help from finance companies■