

A TURNING POINT IN THE FORMATION OF VIETNAM'S CAPITAL MARKET

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Theoretically and practically, a capital market in Vietnam hasn't come into being yet. It's easy to understand because the market-oriented economy has taken shape in Vietnam for less than a decade, so the capital market is only at the embryo stage. But in 1994, both local and foreign observers were of the opinion that a lot of progress had been made by Vietnam banking system on the path to formation of a capital market.

1. Diversification of forms of capital mobilization

Up to now, we can see that, credit organizations are principal institutions who mobilize capital in Vietnam. There are 4 state banks with over 1,200 branches, 50 commercial banks with over 100 branches, 12 branches of foreign banks, 3 banks with foreign capital and 160 friendly societies.

Besides traditional forms of mobilization such as deposit account, savings account, certificate of deposit... many other forms have been developed in Vietnam for the first time such as issuing founder shares, ordinary

shares in rural areas (nearly VND100 billion were mobilized by this form), opening savings-for-house account in Investment and Development Bank and Vietnam Bank of Commerce and Industry (nearly VND150 billion were mobilized), issuing bearer bonds and registered bonds of Vietnam Bank of Agriculture, Investment and Development Bank, Vietnam Bank of Commerce and Industry (nearly VND 1,000 billion were mobilized)...

Bank bonds have attracted a lot of savers. Some people have bought VND300 billion or VND500 million worth of bank bond. In many localities, people have to line up for bank bond. From these sources, Vietnam banking system has accumulated a remarkable amount of medium- and long-term capital to invest in development projects.

Another form of capital mobilization is checking account. Every individual has recently been allowed to open checking account. Around 40,000 checking accounts were opened in Vietnam last year (over 5,000 ones in Hà Nội alone). Some dozen billions of

đồng have been deposited in them.

Besides bank bonds, other bonds also made their appearance in Vietnam last year, such as Treasury bond, municipal bonds (HCMC municipal bond for building Nguyễn Tất Thành road), corporate bonds (issued by Hoàng Thạch Cement Company or Anh Sơn Cement Company for example). In 1995, many other corporate and municipal bonds will be issued (by Thái Nguyên and Bắc Thái authorities or aviation, power, transportation enterprises). This year, Treasury bills will be issued by tender with the State Bank acting as issuing house, and commercial banks as tenders.

After six years of economic renovation, 1994 was the year that saw a greatest deal of development in forms of capital mobilization in accordance with international practices. The people and socio-economic concerns as well, can select the most profitable ways of saving or investing now. This diversification has produced good result: over VND30,000 billion (nearly US\$3 billion) were accumulated in banks and the Treasury (this accumulation has increased by 40 per cent compared with 1993).

2. Formation of inter-bank markets

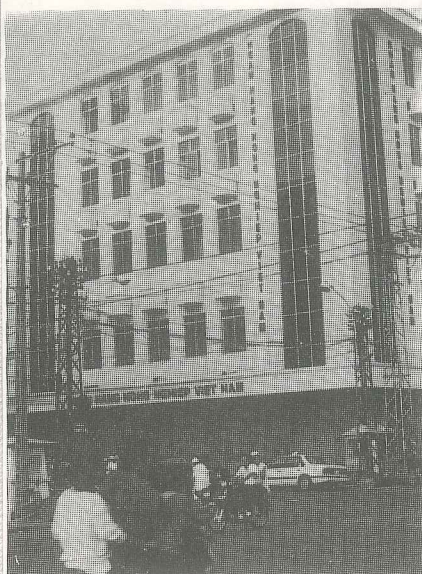
The inter-bank market trading in domestic currency was formed in July, 1993 and operated well in 1994. On Oct 15, 1994, the foreign exchange inter-bank market was formed. Of 44 banks who were allowed to trade in foreign currency, 34 have taken part in this market. These markets are places for banks to buy and sell money, to fill their temporary shortage of funds, to increase capital turnover and supply better services to their customers.

In order to help members of the inter-bank markets operate more ef-

fectively and profitably, the State Bank, as of November, 1994, reimbursed to all credit organizations who had supplied loans under mortgage contracts and supplied loans to nominated borrowers.

3. Loosening control over interest rate

In the past, interest rates of bank loan and deposit were fixed strictly by the State Bank and there's nothing commercial banks can do to change it. But from September 1994 on, there's a radical change in mechanism for controlling the interest rate. The State Bank fixed a frame of interest rate (including rate-floor and rate-ceiling).



Basing on this frame and capital supply and demand, commercial banks could calculate rates of interest they offer to customers. This has encouraged a fair competition between commercial banks.

Most commercial banks offered various rates of interest which were calculated to attract customers of all circles. Interest rate of fixed deposits was raised from 0.7 to 1.2 per cent a month. Various rates of interest for call-deposit account were offered: in Vietcombank, an account with 20-50 billion đồng on deposit would receive an interest rate of 0.2 per cent a month, with 50 billion đồng and up: an interest rate of 0.3 per cent a month.

Bank lending rate was also calculated to attract various groups of people at the time instead of being fixed as before.

4. Participation of investment companies

There are around 1,800 mutual fund or open-end investment companies all over the world. Investors can

buy shares from, and sell these shares to, these funds at will. Other type of investment companies is closed-end fund. There are from 200 to 300 funds of this type in the world today. Capitalization of these funds remains the same and investors can't withdraw their investment at will. Of these investment companies, there are many ones investing in Vietnam. All of them are closed-end investment companies; such as:

- Beta Vietnam Fund Ltd, (England): with capitalization of US\$75 million: Its shares were issued in October 1991 and were listed in Ireland Stock Exchange.



- The Vietnam Frontier with capitalization of US\$27.8 million: Its shares were issued in July 1991.

- Templeton Vietnam Opportunities Fund Inc. with capitalization of USD117 million: Its shares were issued in September 1994 and listed in New York Stock Exchange.

Thus, besides foreign direct investment and ODA source, Vietnam capital market has attracted some investment companies.

5. New forms of lending in Vietnam

In addition to traditional way of doing business: supplying short-, medium- and long-term loans, many other forms of lending were introduced to Vietnam last year. On Aug 31, 1994, a contract was signed by Vietnam Cement Corporation and two foreign banks (French Société General and Credit Lyonnais). This contract is worth US\$96,280,970.

On Nov 5, 1994, Vietcombank formed the first hire-purchase company in Vietnam. Many enterprises,

especially the big ones in HCMC have exchanged contracts with this finance house. In 1995, another finance house will be formed by Investment and Development Bank.

6. A perfect capital market in Vietnam in future

Talking of formation of Vietnam capital market, it's a big mistake to neglect Vietnam Stock Exchange.

In early 1994, Vietnam State Bank submitted a plan to establish a capital market in Vietnam to the Government. In the meantime, some ministries studied and made a plan to form a stock exchange in Vietnam and submitted it to the Government in



August 1994. The Prime Minister has formed a commission to draft "Law on Stock Exchange".

In October 1994, the Government suggested forming the National Committee on Stock Market. This plan was completed by the end of 1994.

In 1994, thanks to help of many foreign organizations, hundreds of experts in stock market were trained. Many objective factors influencing on formation of Vietnam stock market have made their appearance, we should put more effort into this work. In Vietnam's situation, bonds of all kind could be the first thing to be traded in the stock market.

Obviously, capital is the decisive and inevitable factor in the economic development. Vietnam can't go against this rule. In other words, if we want to become a new dragon, to help the economy take off, then the most important thing to do is to form a capital market. Vietnam banking system has made good progress in this work last year. ♣