

On Changes in Roles of Channels for Issue of Government Bonds

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In Vietnam, the issue of government bonds is done through different channels: directly retail sale from the Treasury, issue in the inter-bank market, and auction in stock exchanges. Each channel has its own advantages and disadvantages and they compete against one another because the number of bonds is limited. The government, therefore, had better work out a plan to issue bonds with a view to making the best use of each channel, thereby making issues faster with lower cost and gaining as many socioeconomic benefits from this business as possible.

After its establishment in 1990, the issue of government bonds has been considered as the most important task for the Treasury. From 1990 to 1999 when the inter-bank market wasn't strong and stable enough to organize auctions of government bonds (first organized in 1997) and the stock exchanges haven't come into being, the Treasury undertook this task and helped mobilize sources of finance for the budget. In this period, the direct issue of bonds through the Treasury was the main channel that helped mobilize capital for the national budget. When the two other channels came into op-

eration, the role of the Treasury experienced changes.

In 2000-01, it still played the leading role mobilizing VND6,711 billion in 2000 and VND8,264 billion in 2001, equaling 55.57% and 60.98% of the value of bonds issued in those two years; while the inter-bank market accounted for VND4,766 billion (39.46%) and VND3,955 billion (29.18%) worth of bonds issued in the two years. The sale of bonds by auction in stock exchanges produced the poorest results: VND600 billion (4.97%) worth of bonds was awarded in 2000 and VND1,333 billion (9.84%) in 2001.

In spite of many improvements over years, the auction of bonds in the inter-bank market still met with many difficulties: the number of qualified banks and member banks taking part in auctions was small (and most of them are state-owned commercial banks with huge disposable capital); technical facilities for the auction weren't modern and adequate enough; timing of auctions weren't reasonable because they were too close together, which led to unnecessary competition between channels. However, the inter-bank market proved to be a potential channel that could mobilize large sums of money very fast with low costs. So it needs improvements to become more active and efficient in this business in years to come.

The auction of government bonds in stock exchanges plays a minor role in this business because the exchanges were only established in 2000, and therefore they lacked experienced staff and professional investors with some financial strength, and because the competitive biddings make investors hard to get awarded, the secondary market hasn't come into being and legal framework hasn't been perfect. Moreover, the Securities Commission and Ministry of Finance are two separate bodies and the former had no right to make regulations. Although this channel was competed against by the Treasury, it has great potentials for developing the capital market. Authorities had better invest more money and time to improve performance of this channel.

Table 1: Result of issues of government bonds by channel (VND billion)

Year	Treasury		Inter-bank market			Stock exchanges		
	Mobilized	%	Auctioned	Awarded	%	Auctioned	Awarded	%
2000	6,711	55.57	6,750	4,766	39.46	1,300	600	4.97
2001	8,264	60.98	8,550	3,955	19.18	3,400	1,333	9.84
2002	5,877	41.41	8,410	8,140	57.36	2,400	175	1.23
2003	5,696	25.75	18,000	15,901	71.89	800	523	2.36
2004	4,960	18.99	22,000	19,465	74.53	4,700	1,692.7	6.48
Total	31,508	35.78	63,710	52,227	59.31	12,600	4,323.7	4.98



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In 2002-04, the issue of bonds experienced positive changes. Auctions in the inter-bank market were held on a weekly basis. The awarded volume of bonds rose steadily: VND8,140 billion in 2002 to 15,901 billion in 2003 and VND19,465 billion in 2004. Its growth rate in 2002-03 was 95.35% and 22.41% in 2003-04. The percentage of bond sold from this market rose from 57.36% in 2002 to 71.89% in 2003 and 74.53% in 2004. This market became the most effective channel for the issue of bonds while the channel from the Treasury became less active. This means that modern channels will replace traditional ones. And this is a positive change.

The volume of bonds issued by the Treasury in 2002 was worth VND5,877 billion; in 2003: VND5,969 billion and in 2004: VND4,960 billion; much lower than volumes issued by the inter-bank market in those years. So the Treasury stopped playing the leading role in this business, which shows that the competition in the market for government bonds has become keener. In principle, the government bond is an instrument for mobilizing short-term loans needed for meeting urgent demands and is should be issued quickly and at a low cost. From this aspect, the issue by the inter-bank market proves to be more useful than the Treasury. In practice, results of auctions in the inter-bank market rose over years. We can see that up to 2004, the inter-bank market can undertake the task of issuing all government bonds and the Treasury channel becomes unnecessary.

To make the best use of the channel through the inter-bank market, frequency of auction must be higher in order to meet the demand for loans by the national budget; technical facilities in the market must be modernized; bidding procedures must be stable and more perfect; and open market operations must be beefed up with a view to attract members with sound financial strength.

The channel through stock exchanges, after difficulties in the first stage, has shown signs of development. Up to the end of 2004, the volume of bonds sold by auction in this market was worth VND1,692.7 bil-

lion equaling 6.48% of the gross volume sold. This was the highest result from this market after five years of operation. However, the sale of government bonds from this market hasn't been as smooth as expected, the volume awarded by this market is still low in comparison with other channels. This means that in the coming years the stock exchanges couldn't become a leading channel for the government bonds because they haven't been able to mobilize long-term capital for the national budget. And as a result, the Government has to be content with the Treasury and inter-bank market as the only two channels for medium- and long-term capital.

In the long run, however, measures should be taken to make changes in the issue of government bonds with a view to reducing the volume sold directly through the Treasury and increasing the volume auctioned in the inter-bank and stock markets. When the market for government bonds develops well enough and its operation is smooth; and the secondary market comes into being, the Government could consider stopping issuing bonds through the Treasury, that is, bonds are only sold by auction in the securities exchanges and traded in the secondary market. The next step is to develop two professional and modern channels for the government bonds: auction of short-term bonds in the inter-bank market and medium- and long-term ones in stock exchanges. ■

