

MARKET FOR T-BILLS, OPEN MARKET AND INTER-BANK FOREIGN EXCHANGE MARKET IN IMPLEMENTATION OF MONETARY POLICY

by Dr. NGUYỄN ĐẮC HÙNG

At present, the State Bank of Vietnam (SBV) organizes and runs three markets: inter-bank foreign exchange market, market for T-bills and open market.

The inter-bank foreign exchange market came into operation in 1993, its members are commercial banks with licenses to trade in foreign exchange. In its first years of operation, this market didn't operate well and has been in the doldrums since 1997. In 1997 when the Asian financial crisis broke out, the market almost stopped operating. From 1997 to 1999, it became a buyers' market because both sellers and buyers had to have 80% of the amount they traded controlled by the SBV, the bank margin was favorable for loans in domestic currency with the result that commercial banks enjoyed a surplus of foreign exchange. Since the end of 1999, the SBV controlled only 50% of the amount traded, the deflation prolonged and the supply of foreign exchange decreased, and as a result, the inter-bank foreign exchange market became a sellers' market.

The main cause of this situation originated from the mechanism for controlling exchange rate by the SBV which kept the exchange rate separated from the supply and demand forces. In addition, the inter-bank market failed to attract its members, many joint stock, joint venture banks or branches of foreign banks refused to take part in this market. Operations in this market are poor, it is only a spot market. The control over interest rate ceiling also hindered flows of foreign exchange.

On June, 1995, the market for T-bills came into being and was run by the SBV. Its membership is on the increase, from 30 members in 1995 to 48 in 2000 (five state commercial banks, 20 joint stock banks, four joint venture banks, 12 branches of foreign banks, five insurance companies and the Central Credit Fund.) However, 14 branches of foreign banks and some joint stock banks still refuse to join it.

T-bills are sold through direct bidding at the SBV Trading Office in the North and at its branch in the South. The SBV Trading Office in Hà Nội compares bids and award units to the highest bidders going down a list. Information about bids and bidders is kept secret.

T-bills and treasury credit bills were auctioned weekly in the past three years (1998-2000). From June 1995 to October 2000, 189 auctions were held (39 sessions for six- and nine-month bills and 149 for one-year bills), raising VND4,731 billion from treasury credit bills and VND11,126.7 billion from T-bills. The sale of T-bill with maturity of one year increased remarkably: from VND 2,917.5 billion in 1997 to 4,020.7 billion in 1998; 3,011.6 billion in 1999 and 4,378 billion in 2000. Up to now, VND7,031 worth of bills are payable.

Of 189 auctions, there were 10 ones in which no bidder won and nothing sold. In some auctions, only one bidder won the whole amount of bills offered. This means that members aren't always interested in purchase of T-bills.

Generally, winning bidders are state and joint stock commercial banks and insurance companies; most of joint venture banks and branches of foreign banks showed no interest in this business. The biggest buyers of T-bill so far are the Bank for Commerce and Industry of Vietnam (some VND7,500 billion worth of bills), Bank for Foreign Trade of Vietnam, Vietnam Insurance Corporation, Bank for Investment and Development and Social Security Agency. This means that most state commercial banks have a great surplus of capital and meet with difficulties in finding creditworthy customers.

Regarding the interest rate offered at auctions, they were usually different from the market rate because it was regulated by the Ministry of Finance, therefore they made no wide fluctuation. The difference between the highest and lowest rate offered at auctions was small. Interest rates tended to decrease in the second half of the year. In 1999, however, the rate offered at session 1 was 2.5 times higher the rate at session 42.

The open market operations were introduced in July 2000. In spite of the lack of experience, the SBV have carried out these operations according to international practices. However, the purchase and sale of short-term bills as the only operations in this market attracted only state-run commercial banks and failed to attract new customers. Auctions of

these bills, most of them are short-term ones, were based on highly competitive bidding with the result that small-scale banking institutions had no chance to take part in this market. In addition, these operations are still strange to many banking institutions because full information about them haven't been supplied to banking institutions.

In the past few months, trading sessions have been carried out every 10 days, the SBV has planned to carry out session every Wednesday as from October 2000 and try to improve its performance.

After three months, the SBV Open Market Department organized nine trading sessions in which VND1,138 billion worth of bills were traded (the SBV sold VND550 billion and bought 588 billion). The open-market rate varies from 4.4% to 5.15% per year. Participating parties are mainly state commercial banks, the leading one is the Bank for Commerce and Industry of Vietnam. Most of joint stock banks, joint venture banks and branches of foreign banks haven't taken part in this market.

Generally, the market for T-bills and treasury credit bills isn't active as expected, only five to eight members are present at each session. Many bank managers thought that this market is only for state commercial banks and insurance companies. Commodities offered on this market aren't diverse: T-bills and treasury credit bills are of only one kind (with maturity of one year or 364 days). Bills of shorter term are of small quantity and not auctioned regularly.

Discount and repurchase of T-bills aren't common because of the absence of a secondary market. Buyers of T-bills tend to keep them because of their high degree of safety and liquidity.

With these shortcomings, the market for T-bills failed to help with the development of capital and stock market in Vietnam. The SBV should find out measure to overcome these shortcomings, use other instrument for controlling the supply of foreign exchange from companies and commercial banks and enforce to use of the VND as the only legal tender in Vietnam. In the future, the SBV had better act as a broker who only sells or buys foreign exchange when necessary. ■