

In 1995, the success of the economic renovation in Vietnam raised a lot of interest from the world. Its growth rate reached 9.5%, the inflation rate was kept at 13%. One of the causes of this success was the development and effective operation of the capital market. In other words, the capital market in Vietnam reached a peak in 1995.

#### 1. The membership of the capital market was on the increase

This increase was largely due to the development of the system of commercial banks.

In 1995, no new commercial bank was established, but the Bank for Foreign Trade opened its branch in Tân Thuận EPZ and offices in many provinces producing goods for export in large quantities. The Bank for Industry and Commerce opened two branches in Lạng Sơn and Ninh Bình. The Bank for Agriculture had its 250 branches opened in rural areas. The credit union developed into a system of nearly 450 members. The Bank for Development and Investment, at the beginning of 1995, entrusted the General Department of Investment with the task of supplying loans from the public treasury and operated as a commercial bank. Thus, four state-owned commercial banks, 47 joint-stock commercial banks, two joint-stock finance companies and the system of credit unions have constituted a network including 250 provincial branches of commercial banks, 1,300 branches at districts and nearly 1,000 smaller branches and offices along with a lot of credit unions operating all over the country. This network has mobilized some VNĐ45,000 billion and made loans totalling VNĐ40,000 billion.

No commercial bank came into being last year, but this year saw the establishment of many branches of foreign banks: 9 branches, one joint-venture banks and 20 rep offices of foreign banks were established in Hà Nội and HCMC. Thus, up to 1995, there were 18 branches of foreign banks, four joint-venture banks and 71 rep offices of foreign banks in Vietnam. Most of foreign banks are in the list of 100 leading banks of the world. Some US\$330 million of registered capital was brought into Vietnam, that is, a source of capital of over VNĐ9,100 billion, around VNĐ6,000 billion of which were lent to different projects in Vietnam.

The year 1995 also saw the establishment of the General Department of Investment, General Department of State Capital, General Department of Public Property. At the



same time, four insurance companies came into being besides the Vietnam Insurance Corporation. They were: Bảo Minh, Nhà Rồng Joint-Stock Insurance Company, Petrolimex Joint-Stock Insurance Company and Vinare. Moreover, there were 25 rep offices of foreign insurance companies and many others would come into being (Aviation, Navigation and Oil, Viet-Allianz Joint-venture...). The Vietnam Cement Corporation has made plan to establish a finance company of its own.

Besides these credit organizations, four investment companies specializing in Vietnam were in operation: (1) Beta Vietnam Fund Ltd (England) with the working capital of US\$75 million. Its shares were issued in November 1991 and listed in the Freland Stock Exchange. (2) The Vietnam Frontier with the capital of US\$27.8 million and shares issued in July 1991. (3) Templeton Vietnam Opportunities Fund Inc with the capital of US\$117 million. Its shares were issued in September 1994 and listed in the New York Stock Exchange. And (4) The Vietnam Fund, the owner of 10% of shares issued by the VP Bank since last September.

The fast development of those credit organizations has encouraged both competition and cooperation in mobilizing dead money and supplying capital to the economy.

#### 2. Preconditions of the stock exchange

Established in October 1994, the inter-bank foreign exchange market has operated effectively in 1995, attracted 34 members which were local

# THE PICTURE OF CAPITAL MARKET IN VIETNAM IN 1995

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commercial banks, branches of foreign banks and joint-venture banks. The amount of foreign exchange traded in this market increased from some US\$ 150 million to US\$300 million in recent months. Through this market, the State Bank could control the exchange rate more effectively, satisfy the demand for hard currency of businesses and commercial banks, facilitate the flow of foreign exchange needed for foreign trade business and keep stable the government's foreign exchange reserves.

In 1995 the tender issue was introduced by the State Banks, 36 tenders from commercial banks, finance companies, insurance companies, investment companies... were invited to take part. Making four issues, the Treasury attracted around VND250 billion to the budget. By making tender issue, the interest rate was reduced from 18% to 17.2% a year, much lower than the rate of 21% when the Treasury issued its bill directly. Moreover, a secondary market has come into being. If the tender issue is organized more perfectly then the secondary market will operate regularly, facilitate the flow of capital and create preconditions for the formation of a stock exchange in Vietnam.

### 3. New ways of mobilizing dead money

Financial and credit institutions were allowed to use some common methods which were introduced for the first time to Vietnam:

- Bank accounts for private persons were opened in six cities and provinces in a pilot scheme with the result that at the end of 1995, 38,138 accounts with total balance of VND 717 billion were opened. In 1996, this practice will be applied all over the country and will certainly attract thousands of billions dong from the people.

In order to encourage customers to deposit money, many commercial banks launched promotion campaigns or offered incentives of all kinds (big-prize draw open to savings accounts or certificate of deposit in foreign currency for example). The Á Châu Joint Stock Commercial Bank, moreover, bought Treasury bills at a discount. This deed helped sellers make new plan of investment and accelerating the velocity of capital in the economy.

Along with the development of the market mechanism, the bearer T-bills made their appearance last year. They were issued at certain places but could be transferred and paid the country over. This was also a kind of commodity for sale in the

stock exchange afterward.

In December 1995, with permission of the Ministry of Finance, the Southern Steel Company issued corporate bonds in order to raised money needed for a project in cooperation with Japanese and Malaysian partners. These bonds had the face value of US\$100 and a maturity of 25 years. This operation will be introduced on a larger scale in coming years.

Generally, however, the main source of capital is generated by the banking system including both local and foreign commercial banks, both state-owned and private banks. Capital mobilized by these banks has increased by 130-150% compared with 1994.

Besides the domestic source of capital, the banking system has attracted foreign sources as well. In 1995, many local banks (Vietcombank, Vietnam Commerce and Industry Bank, Bank for Investment and Development, Bank for Agriculture, Eximbank, etc) exchanged agreements on credit operations with foreign banks (from Belgium, Japan, South Korea, Thailand, Germany, Singapore, etc.). These agreements were worth about US\$200 million used for importing machines and equipment. Particularly, with permission of the Governor of the State Bank, the VP bank has sold 30% of its shares to foreign buyers. This will be a precedent for raising money from foreign markets.

In 1995, the State Bank, in cooperation with related ministries and departments secured loans from IMF, WB, ADB, ODA source and other donors. In donors conference in Paris on Nov. 30 and Dec.1, 1995, 21 nations and 7 international organizations agreed to supply Vietnam with US\$2.31 billion, US\$300 million more than the planned figure. The World Bank has also agreed to loans Vietnam US\$49 million needed for the plan to modernize the banking system.

### 4. Diversification of investment forms

Besides common operations, commercial banks in 1995 established many leasing companies supplying businesses with some hundred billions VND worth of machines and equipment. The Vietcombank Leasing Company with starting capital of VND10 billion, after one year, could lease US\$4.6 million plus VND1.2 billion worth of assets.

Many banks, in cooperation with trading companies, have carried out programs to make sales under hire-purchase agreements. Over VND50 billion worth of goods was sold by this service. And Vietcombank alone has

invested VND6.2 billion in this service.

In supplying bank loans, many changes in the way of doing business have been made: more long- and medium-term loans were offered, loans were supplied to even the private sector, preferential rate of interest was given to certain borrowers, etc. For example, Vietcombank made loans totalling VND300 billion to export companies at an interest rate of 1.2% a month; Bank for Agriculture lent VND4000 billion to the poor. In 1996, the Bank for the Poor will come into operation. Incombank will supply loans totalling VND25 billion at the interest rate of 1.2% a month to the plans to create new jobs in cities. Thousands of students will secure loans needed for their studies, etc.

### 5. Adjustment of the interest rate

The interest rate, or the price paid for the use of capital, was adjusted considerably in 1995. The State Bank only fixed the interest rate-ceiling on bank loans and the interest rate-floor on bank deposits. Thus, commercial banks could offer to customers any interest rates within the range of interest rate fixed by the State Bank.

The interest rate of call-deposit account for economic concerns was raised from 0.1 to 0.7% a month, reducing the gap between the lending rate and the borrowing rate. The interest rate of loans in foreign exchange was also raised from 8% to 9.5% a year reducing the gap between it and interest of loans in domestic currency.

After the National Assembly removed the turnover tax on credit supplying services in November 1995, all commercial banks reduced the lending rate by 0.1-0.3%. On Jan.1, 1996 the Governor of the State Bank decided on reducing interest rate, so the lending rate-ceiling was fixed at 1.75% a month.

The picture of capital market in Vietnam in 1995 were more vivid than the previous years. If preparations for the formation of the stock exchange are made more quickly, the tender issue is organized more regularly, the inter-bank foreign exchange market operates more perfectly, the open market operations of the State Bank are done more effectively and commercial banks aren't restrained by credit limits... then the capital market will be livelier and will be able to help the Vietnam economy take off in the next century■