

# For Better Open Market Operations in Vietnam

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## 1. Open market operations in the past few years

On July 12, 2000, the open market operations were introduced by the SBV and carried out every 10 days. There were only 20 members and commodi-

transaction value of VND21,210 billion.

In 2004, the total transaction value rose to VND61,936 billion with VND19,465 billion sold. The average transaction value per session rose remarkably, from VND82 billion in 2001 to 105 bil-

## 2. Some remarks

### a. Achievements:

- These operations helped beef up the controlling role of the SBV in the market economy and the globalization process. Through these operations, the SBV could realize its

+ Techniques and procedures employed in these operations have been improved. The code of custody of paper assets introduced by the SBV in August 2004 provided legal infrastructure for custodians' operations. The computerization of transactions on this market helped reduce transaction cost. The 24-hour settlement date helped increase the liquidity of commodities traded on this market.

+ The range of commodities traded on this market was more diverse, which helped attract more members.

- The trade in paper assets made them more liquid and helped develop the primary market.

Table 1: Open market operations

Indicator	2000	2001	2002	2003	2004
Schedule	Every 10 days	Every week	Two sessions per week	Two sessions per week	Three sessions per week
Settlement date	Two days after	One day after	Within 24 hours	Within 24 hours	Within 24 hours
Sessions per year	16	48	85	107	112
Transaction value (VND billion)	1,702.19	3,933.81	8,945.53	21,210	61,936
Purchase	1,152.19	3,313.81	7,245.53	8,988.00	42,471.00
Sale	550.00	620.00	1,700.00	12,222.00	19,465.00
Interest rate (% a year)		4.9% - 5.3%	43% - 5.0%	3.5% - 4%	3.5% - 5.5%

ties were limited to T-bills and SBV bills. From July 2000 to December 2001, 64 auctions were held with the total transaction value of VND5,635 billion (4.466 billion purchased and 1,170 billion sold.)

In 2001, 48 trading sessions were carried out at 7-day intervals. The total transaction value was VND3,933.81 billion. The interest rate varied from 4.9% to 5.3% a year.

From May 2002 on, trading sessions took place every Tuesdays and Thursdays. Total purchase rose to VND7,245.53 billion and total sale was VND1,700 billion in 2002.

In 2003, auctions of T-bills achieved unexpected success with 107 trading sessions and the total

transaction value of VND19,465 billion in 2002, 197 billion in 2003 and 500 billion in 2004. In this year the use of T-bills as replacements for SBV bills helped develop the primary market. From November 2004 on, three trading sessions were held every week along with irregular ones before the Tet festival.

In December 2004, ordering and bidding could be done electronically, which made the open market operations more attractive to members and potential investors. Besides the four state-owned commercial banks, many joint stock, joint venture and foreign banks also took part in trading sessions. The following table could provide an overview on the open market operations.

monetary policy and get feedback from banking institutions that is needed for predictions of their disposable capital.

- The size of these operations is on the increase, which reflects in the following facts.

+ The transaction value increased steadily. Proportion of the sale of paper assets by the SBV to the total lending also rose year after year. This means that the SBV had become the main source of capital for commercial banks when necessary.

+ Trading sessions were held more regularly and maturity was more flexible with a view to meeting the demand for short-term capital, which helped stabilize the money market.

- The open market operations have been linked closely with other monetary instruments. In July 2004 for example, the SBV raised the required reserve ratio in order to deal with the inflation and ensure the economic growth. When the disposable capital of banks decreased, the SBV intervened on time to regulate sources of disposable capital and prevent bad effects on the money market.

- Although the open market was still in its first stage of development, it could meet the demand for short-term capital to a certain extent and offer exit to surplus capital from banking institutions, thereby stabilizing the money market and banking services.



- Information about the open market has been disseminated more regularly in mass media, which encouraged more banking institutions to take part in these operations.

**b. Shortcomings:**

- Open market operations are still new to most banking institutions, that is why they are reluctant, or too cautious, to take part in them. These operations were introduced when the economy was at its first stages of development; finance and money markets were not developed well; the world economy was fluctuated drastically; and the banking services involved high degrees of risk. This situation could only be improved when the open market operations produce good results.

- This market is still small and not really active. There were only eight at most at each trading session - a small number compared with registered members and banking institutions. Active members are usually state-owned banks while other institutions seldom engage in trading sessions.

- Most banking institutions haven't paid full attention to the training of officials specializing in the open market operations. Investment in facilities for these operations is limited.

- The supply of information needed for the prediction of disposable capital is limited while information about the inter-bank market is not updated regularly.

**3. Measures to develop the open market operations up to 2010**

a. Stabilizing the growth rate with a view to improving the demand for and supply of capital: At present, there appear factors that could affect unfavorably the long-term economic growth. The Government had better perfect the legal infrastructure to ensure fair



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competition by removing monopoly in power and water supply, post and telecommunications and banking service. This effort will increase the demand for capital and create conditions for the development of the open market operation.

b. Making the banking system healthier: State-owned banks should improve their financial situation and particularly, deal actively with overdue debts. Joint stock banks without ability to increase their working capital could be dissolved or merged with others. As for people's

credit funds, ones with heavy overdue debts must be dissolved.

c. Perfecting the inter-bank market: The SBV should develop this market in order to facilitate flows of capital.

d. Improving predictions of disposable capital: To improve this ability, the SBV should gather and publicize all necessary information through mass media and keep a close watch on reactions from the market after each trading session.

e. Perfecting trading procedures: Procedures must be simplified and

computerized in order to allow quick settlement because the open market operations deal with short-term capital.

f. Diversifying commodities on this market: Besides short-term paper assets, long- and medium ones with short remaining maturities could be traded in this market to diversify the commodities and encourage potential investors to invest in long- and medium paper assets.

g. Attracting more members: At present, the membership comprises 20 members but only a few private banks took part in each trading session because they were not treated equally on this market and some of them only paid attention to traditional methods of mobilizing more capital. To prove benefits of the open market and ensure equal opportunity for all are the best way to increase the number of members.

h. Others: Other measures include training experts in these operations, recognizing the value of bonds issued by private companies, developing the finance market, giving incentives to modernization of banking facilities, etc. ■

