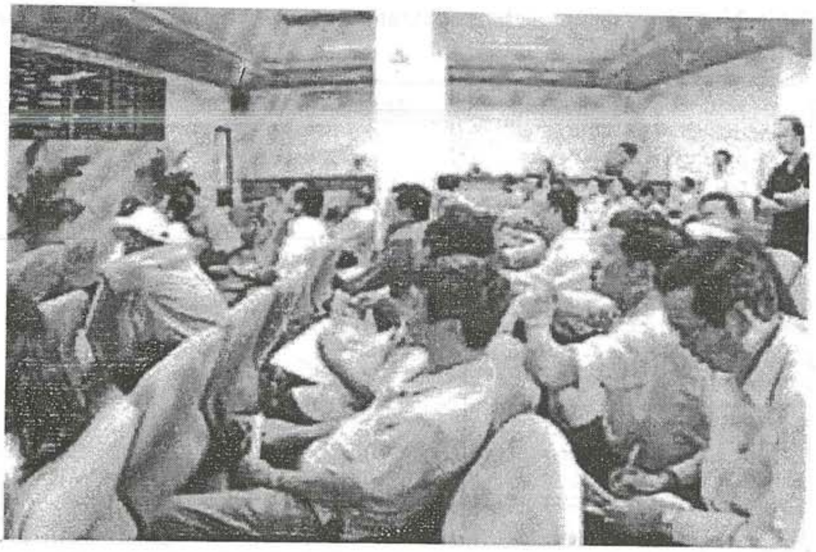
# On the Vietnamese Stock Exchange

by Dr. VŨ THỊ MINH HẰNG



If the establishment of the HCMC Securities Trading Center in July 2000 is considered as a new development of the economic reform, the appearance of the Hà Nội Securities Trading Center in March 2005 can be seen as a step towards perfection of the Vietnamese stock exchange in an effort to support the industrialization and modernization process.

Up to the end of 2004, there were over 900 trading sessions. They were held three times a week when they were first introduced, and five times a week as of March 1, 2002. The trading value rose from VND92.3 billion in 2000 to 20,000 billion in 2004.

Four years after its appearance, 13 intermediaries (stock broker firms, mutual funds, custodians, securities clearance companies, etc.) have come into operation and done their businesses smoothly. The HCMC Stock Exchange has help stimulate the investing community and accumulate necessary experience for authorities. Although it gains some achievements, it also reveals many shortcomings.

Studying changes in the VN Index, the unit for measuring development of the stock exchange, we saw that the market was in the doldrums since late 2001 and it only recovered in 2004, but it hasn't reached a point that equaled half of the highest point of 571 (reached on June 25, 2001 session).

Changes in the stock market in the past four years show that it hasn't been an effective channel for mobilizing fund. This reflects in the following facts:

- The size of the market is small. The total value of securities only amounted to VND3,700 billion at the end of 2004, equaling 0.6% of GDP. Of over listed companies, there are no big ones that could attract the investing community. Reasons for this situation, in my opinion, are:

+ Most of listed companies are privatized ones and as we know, the privatization program in recent years only included small-scale state-owned companies.

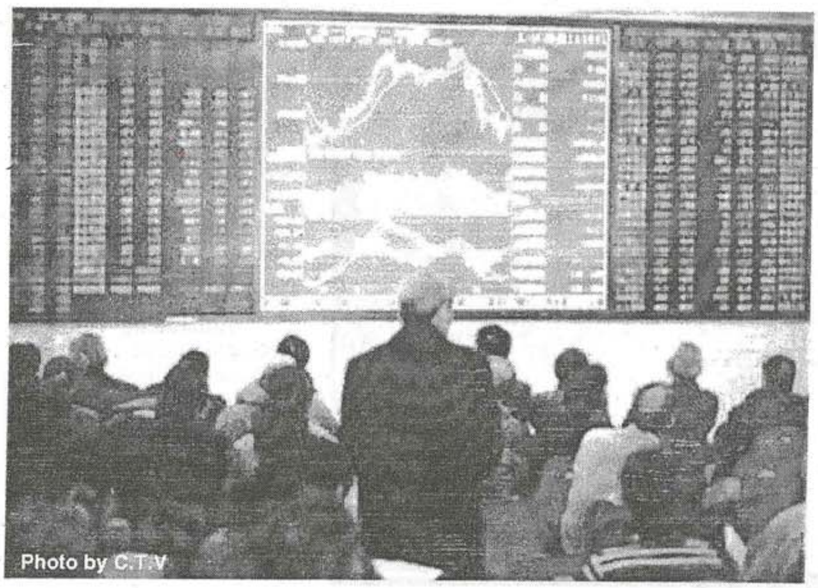
+ Most companies tend to rely on bank loans or soft ones from the State instead of mobilizing funds from the stock market. Moreover, many of them are reluctant to disclose their financial statements.

+ In some listed companies, the volume of securities exchanged is small because the State still hold the better part of shares.

- Most securities have poor liquidity. Comparing the value of securities exchanged in 2004 (VND1,800 billion) with the total value of VND3,700 of securities, we saw that the turnover ratio of securities was less than 1. This poor liquidity reveals discouraging trends of the stock market, because only a small volume of securities is sold or bought when the prices change remarkably.

- Most brokerage firms lack managerial skills and well-organized networks. Their operation is limited to big cities and commission-earning services and they pay little attention to high-end services, such as underwriting, portfolio management, investment consultancy, etc.

- The public show little interest in the stock market. Up to the end of



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2004, there have been 20,300 accounts opened by investors in 13 brokerage firms, equaling only 0.03% of the population engaging in the market. This means that the stock market could hardly attract the idle money from the public.

In addition, financial disclosure and information about the stock market is not timely and exact enough, which discouraged a lot of investors. Scandals relating to listed companies have started to make their appearance, such as Hạ Long Canned Food Company and Bibica Joint Sock Company.

- Operation of the sock market also shows the following shortcomings:

+ Implementation of regulations on the stock exchange is slow because the Securities Committee is not responsible for making them. They are only responsible for carrying out regulations made by other authorities. In addition, the law document of the highest level on the stock exchange up till now is Decree 144/2003 NĐ-CP dated Nov. 28, 2003 while it requires a law made by the National Assembly because of its complicated activities.

+ Relevant authorities fail to cooperate to develop an overall finance market. And as a result, the interest rate can't regulate the market forces while changes in prices on the stock exchange can't affect the interest rate on the monetary market.

+ The privatization program isn't connected with the stock exchange. State-owned companies included in this program didn't issue shares in the stock market or have their shares underwritten by brokerage firms. After privatization, many companies didn't want to go public because of various reasons. This situation makes the supply of commodities for the stock market poor.

+ Conditions for mutual funds aren't favorable enough. Since 1994 when the policy to establish the stock exchange was adopted, six foreign mutual funds have come to Vietnam (Laza Vietnam Fund; Beta Vietnam Fund; Vietnam Frontier; Templeton, Vietnam Fund; and Vietnam Enterprise Investment Ltd.) with a total capital of some US$400 million. At present, some of them have withdrawn from Vietnam while others are waiting for better conditions.

To help the stock exchange develop faster in preparation for international integration, a strategy to develop the stock exchange in 2005-2010 was introduced on Aug. 5, 2003 by Decision 162/03/ QĐ-TTg. The strategy plans to raise the total value of the market to 2% - 3% of GDP by 2005 and 10% - 15% by 2010. The HCMC Securities Trading Center will be developed into the HCMC Stock Exchange where stocks of high quality could be traded in large quantities. This is a great challenge when the stock market still faces many shortcomings. To achieve the said targets, in my opinion, full attention must be paid to the following problems:


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(1) Transparency: Information, especially financial one, must be reliable, exact, diverse and timely in order to help potential investors understand and get well-informed of changes on the market. The transparency makes the public trust the stock market. To achieve this aim, the information service of the stock market should update all changes in the market; international standards for auditing and accounting must be applied; and authorities must beef up their inspection and supervision.

(2) Professional skills of brokers: The public trust in the stock market depends a lot on skills and prestige of brokers. There must be legal regulations on this trade and brokerage service must be standardized. In addition, an association of brokers is also much needed for improving their skills and work ethics.

(3) Encouragement to companies: Tax incentives and measures to ensure safe and stable operation of the stock market could encourage companies to get listed on the market. Their presence will help diversify commodities traded.

(4) Underwriting and auction: These practices help companies sell their shares at better prices and increase the supply of commodities.

(5) The stock market also needs advertisement as a means of attracting potential investors. Brokerage firms have to engage in this effort too. Mass media as tools of the State could be used to disseminate knowledge of the stock market and financial investment. Other methods, such as workshops, leaflets, etc. are also useful.

(6) Mutual funds: This form of businesses could help develop an army of specialists in financial investment and attract small savers and investors to the stock market.

(7) OTC market: Regulations must be made in order to legalize this market in order to facilitate all forms of investment and secure interests of the investing community.

(8) Technical facilities: All transactions and activities must be done on-line, which requires better facilities. Both securities authority and brokerage firms should invest intensively in this aspect with a view to get prepared for future developments.

(9) Securities Law: The stock market needs a separate law instead of some decisions made by the central government. This law must be suitable to international practices in order to attract foreign investors and companies. After this law, the role of the government is only to keep a close watch on activities in the market.■