GLOBAL FINANCIAL CRISIS AND PROBLEMS ARISING FROM VIETNAM'S MONETARY POLICY IN 1997

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One of the most outstanding events in 1997 was the great chaos in the international money market. The Asian currency crisis has broken out first in Thailand. On July 3, 1997, the Thai baht was declared devaluated by the Ministry of Finance and the Thai finance market came to a long-lasting crisis and the Thai economy ran down. By domino effect, the crisis spread to neighboring countries: firstly, the Malaysian ringgit, and then, the Philippine peso, Indonesian rupiah, and even the Singaporean dollar, all were devaluated. Later on, the index in the Hong Kong Stock Exchange fell and caused strong effects on other stock markets, from Tokyo, to London, Paris, Frankfurt, and then, to Seoul, Moscow and New York. In the New York Stock Exchange, there was a Black Tuesday. In Seoul, the crisis has forced the South Korean government to ask for a US$57-billion loan from the IMF while experts said that South Korea needed at least US$100 billion to overcome this crisis.

In Japan, the brokerage firm Sanyo was declared bankrupt, but the Japanese Stock Exchange was really shocked on Nov. 24, 1997 when Yamaichi, the Japan's fourth biggest brokerage firms, declared bankrupt under a total debt of US$25 billion. And this was considered as the biggest bankruptcy in Japanese history.

It's worth noting that Vietnam's financial and monetary system stayed stable regardless of the Southeast Asian currency shock and the global financial crisis. There are many reasons for this situation: Firstly, the Vietnamese đồng isn't a convertible currency. Secondly, there is no stock market, therefore no stock speculator, in Vietnam. And thirdly, all foreign investment in Vietnam is direct. However, looking back on the financial and monetary system of Vietnam in 1997, we saw that there were many neglected problems.

1. Large amounts of bad debts

In early 1997, the Tamexco management and many banking officials were taken to court. Of the total debt of VNĐ323.56 billion plus US$814,310 owed by this company, some VNĐ300 billion was loaned by banks. This case was followed by the Nam Định Textile Factory. By mid-1997, a series of giants also went to court: Minh Phụng that owed VNĐ4,515.5 billion and US$26,213,372.53 to banks, Epco: VNĐ667.2 billion and US$30.16 million, and Thuận Hưng Ltd. and

its subsidiaries: VNĐ404 billion and US$14.3 million. A rough estimate shows that the total bad debt suffered by banks amounted to VNĐ7,000 billion, equaling the total registered capital of the four biggest state-owned commercial banks.

As for overdue debt, no official statistics has been publicized so far, but according to information gathered in late July 1997, the overdue debts represented some 7% of total debt, compared with 5.2% in late 1996. Other sources of information said that by the end of 1997, the overdue debt amounted to 22% in HCMC-based commercial banks and 10% in Hà Nội-based banks (from 2 to 4 times higher than the limit of 5% allowed by international banking regulations). Causes of large overdue debts are: Vietnam's banking regulations aren't strict and perfect and include too many loopholes; banking operations are backward, credit fraud is common, the government intervenes in credit supply. In addition, there are many worrying facts, such as loan capital is badly employed, debtor companies make losses and become defaulters, investments are made unwisely, too much money is put in real estate, etc. This situation is also common among Asian countries that suffered recent financial crisis and it is becoming a menace to the Vietnamese economy.

Analyzing the threat of financial crisis in China, many experts believed that there were too many similarities between the Chinese economy and Asian Tigers: a boost in real estate market, corruption, large bad debts in commercial banks, a high unemployment rate, an increasing gap between cities and rural areas, half of 140,000 state-owned enterprises suffering losses, a foreign debt of US$100 billion. It's estimated that the army of the unemployed will reach 450 million by the turn of the century. The WB has estimated the Chinese bad loans at 22%, or some US$200 billion. How about the Vietnamese economy?

2.Loans to the budget made by the central bank

In the late 1980s and the early 1990s, one of basic causes of the high inflation rate in Vietnam was the fact that the central bank had supplied money needed for covering budget expenditures. In recent years, the central bank has limited itself to the task of giving advance to the budget during a fiscal year. However, at present, especially in 1997, commercial banks had to supply big loans to both central and local governments. In 32 tender issues last year, commercial banks bought VNĐ3,400 billion worth of T-bills (VNĐ1,280 billion of which was bought by the Vietnam Bank for Industry and Commerce alone), and this sum of money was used to cover different budget expenditures.

Another fact is that a series of government investment projects, especially infrastructure development projects, are financed by central and local budget, and the grants-in-aid have never been supplied on time. Therefore, many building companies, in an effort to win tenders, supply jobs to their employees and make the best use of their equipment, had to borrow money from commercial banks. Although many public works had been completed or had come into operation for years but these companies didn't receive payments from the Treasury while they had to pay interest for loans from banks. The amount of money owed by these companies to banks was estimated at some VNĐ3,200 billion. Debts to banks are particularly big in transport contruction companies such as Transportation Construction Corporations I, IV, V, VI and VIII, Thăng Long Bridge Company and Waterway Construction Corporation. The following are some examples:

-The Thác Mơ Hydropower Plant was completed three years before but the Treasury still owed some VNĐ10 billion to the Waterway Construction Corporation IV (belonging to the Ministry of Agriculture and Rural Development).

-The Construction Company 504 (a subsidiary of the Transportation Construction Corporation V) owed VNĐ31 billion to banks while its account receivable was VNĐ20 billion. The Construction Company 508 (another subsidiary) had VNĐ25 billion in its account receivable and 38 billion in its account payable.

These facts show that state-owned commercial banks have covered a lot of budget expenditures. This will be a possible danger to the economy in the near future.

3.Way of adjusting the exchange rate

On Oct. 23, 1997, the State Bank allowed a 10% fluctuation in the official rate (instead of 5%). Many managers and the press accepted it as a right decision, but how to adjust the exchange rate is also a matter of great importance.

This decision came as a shock to all commercial banks and they couldn't deal with it on time. The exchange rate fell abruptly and many banks met with difficulties in balancing their foreign exchange accounts. The exchange rate decreased from VNĐ11,850 to the dollar to VNĐ12,200, and 12,500 and stayed around 13,000 in December 1997. Companies that opened large L/Cs in foreign banks with bank guarantees given by local banks or needed foreign exchange to import goods (such as Petrolimex that needed some US$550 million for the year, and Saigon Petro: some 200 million) were put at a disavantage. Many others suffered great losses, not to mention a lot of bad effects caused by this decision on other industries when there was a great difference between the official rate, or the rate offered by the interbank market, and the rate offered by commercial banks and unofficial rate.

Commercial banks and companies wondered why the central bank didn't adjust the exchange rate step by step instead of making such a sudden decision.

4.Division of market share between local and foreign banks

Up to now, there are 24 branches of foreign banks, four joint-venture banks and three foreign or joint-venture finance companies in Vietnam. The total registered capital of those 31 organizations amounted to US$460 million, or VNĐ5,500 billion, equaling the total capital of four Vietnam's greatest state commercial banks (they are Banks for Foreign Trade, for Industry and Commerce, for Agriculture and for Investment and Development). In addition, these foreign-invested banks have got great financial support of their parent banks, modern banking facilities, good know-how and have attracted all important customers that are doing business in Vietnam, such as Coca Cola, Motorola, Siemens, and Toyota.

From many aspects, we see that the presence of foreign banks in Vietnam is all right, but it will be a worrying problem if we have no measure to develop local banks when their market share becomes smaller and smaller. By mid-1997, branches of foreign banks and joint venture banks controlled 63% of the volume of capital in foreign exchange and 49.9% of total credit supplied in Hà Nội. In HCMC, foreign and joint venture banks had a 50% market share. Many big and profitable projects in aviation, navigation, post, electricity, cement, rice and coffee export and beer businesses were based on credit supplied by foreign banks. The volume of credit supplied by a branch of the Citibank alone has amounted to VNĐ1,400 billion while it has only 30 members of staff. Overdue debt in foreign and joint venture banks is always kept under 1%. This situation forces us to take measures to develop local banks. Such measures as increasing registered capital, making adjustments to banking regulations and taxation, allowing local banks to cooperate with one another in financing big projects, etc. could help to make local banks more competitive.

5.Mergers and appearance of new banks

Generally, local credit organizations are of small scale. The total registered capital of 52 joint stock banks and two joint stock finance companies in Vietnam equals less than 50% of the registered capital of a medium-size bank in the region. Many joint stock banks failed to expand their business because they couldn't increase their capital, attract new customers and reduce overdue debts. In 1997, four commercial banks had to decide on a merger: Viễn Đông Bank merged with Phương Nam Bank, and Mekong Bank with Việt Hoa Bank and many other banks are considering this solution. On the contrary, the year 1997 witnessed the appearance of nearly 100 credit unions, two zonal credit funds, three leasing companies and a joint stock bank (the Mekong Delta Housing Development Bank).

Up to the end of 1997, total credit supplied by four state-owned commercial banks, 52 joint stock banks, two joint stock finance companies, the Central Credit Fund, nine zonal credit funds, 900 credit unions, 24 branches of foreign banks, four joint venture banks and three leasing companies amounted to some VNĐ100,000 billion, the highest level we've ever seen. However the growth rate of gross investment in 1997 equaled only 60% of the average rate in the last five years.

In the world, hundreds of banks go bankrupt, merge with others or come into being every year. In Vietnam, although no bank has gone bankrupt, some banks have been merged and many others are meeting with difficulties in making payments (VP Bank, Việt Hoa, Tân Việt, etc.) but the fact that the Government keeps on allowing establishment of new banks and takes no measure to beef up existing banks and enhance banking operations is also a worrying problem.

6.Unreasonable interest rate

The interest rate is an important instrument for realizing the monetary policy and it is regulated by the central bank, however the interest rate was changed unreasonably in 1997.

Before July 1, 1997, the interest rate ceiling was fixed at 15% per annum for short-term loans and 16.1% for long- and medium-term ones. Accordingly, the deposit rate ceiling was fixed at 12% per annum. However, the interest rate for 2-year T-bills issued in the first two months of 1997 was 13.14% per annum, higher than the deposit rate offered by commercial banks. This is an unreasoable regulation.

The situation became more absurd on Aug. 8, 1997 when the interest rate for 2-year T-bills issued directly by the Treasury reduced from 28% (per two years) to 24% while the interest rate planned for tender issues in late 1996 was under 9% and the highest bidders offered 7.89% and 9% a year, much lower than the interest rate offered when the Treasury issued T-bills directly.

And then, the Treasury limited the intereste rate in 23 tender issues in the first eight months of 1997 to 12% a year and the interest rate offered by tender winners decreased from 12% to 10.5% per year.

On July 1, 1997, the central bank reduced the interest rate to 12% a year for short-term loans, and 13.14% for long- and medium-term loans, and accordingly, commercial banks had to reduce the deposit rate to under 9.5%. Meanwhile the discount rate offered by the Treasury to the acceptor of T-bills was kept at 13.14% a year until Aug.31, 1997. Thus, in July and August 1997,the discount rate for T-bills issued directly by the Treasury was higher than the lending rate offered by commercial banks. Certainly, this situation has never been found in any country in the world.

This absurdity also shows itself in the fact that the discount rate is much higher than rates varying from 10.5% to 11.3% offered by the highest bidders during the same period.

Is this way of fixing interest rate in accordance with current regulations when, as we know, the Article 6 of the Decree 27/CP issued by the Government on July 26, 1997 providing regulations on the issue of bonds and bills ruled that the Treasury and the State Bank should reach agreement about the discount rate for the T-bill? It's apparent that this way of fixing the interest rate has caused a great loss to the budget income and has hindered the development of the T-bill market (or discount market), one of preconditions for the formation of a stock market. The fact that mobilized capital is put in budget expenditure instead of in production needs to be studied carefully because it will be able to become a danger to the economy. ■