DEVELOPING A CAPITAL MARKET IN VIETNAM

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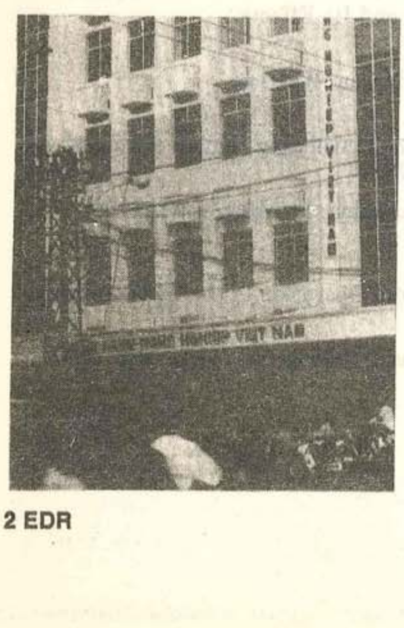
In the past years, especially from 1991 on, the economic growth rate of Vietnam is rather high, around 7.8% per year. The revenue of the national budget from GDP increased from 13.2% in 1991 to 24.3% in 1994. The inflation was basically under control and the level of savings rose remarkably. The budget deficit was reduced (from 2.3% of GDP in 1991 to 1.5% in 1994). These achievements resulted from the renovation policy. In finance business, there are also many changes:

- Governmental bodies at basic level, especially state enterprises, are given financial autonomy.
- Receipts from state property is replaced by tax. At present, taxation is the main income of the national budget. Businesses of all economic sectors are equal in paying tax.
- The system of state enterprises is rearranged. Company Law, Bankruptcy Law are promulgated. State enterprises were allowed to issue bonds and shares to mobilize capital.
- Accounting of business is reformed. New accounting system is piloted. The role of the auditing business is enhanced.
- The budgetary control is innovated: the national budget meets expenses of building infrastructure, national defence and security, social security. Companies have to secure needed capital by themselves. The public treasury will not finance any companies except for special cases.
- Economical practices are encouraged. Many measures to attract savings into the banking system are taken. These measures are:

+ Expanding savings institutions: everybody can open savings account at banks, or buy savings certificate with domestic or foreign currencies.
+ The Government issues T-bills of short and long term. (under 1 year or from 1 to 3 years).
+ The central and local authorities issued "Project Bond" to raise money for a particular project included in investment plan of the central or local authorities.
+ State enterprises issued corporate bonds to expand their production or innovate their equipment.
+ Pilot scheme of equitizing certain state enterprises was carried out.
+ To diversify state insurance forms and to form the national insurance fund.



However, there were a lot of difficulties in budgetary control: budget deficit is still big, mobilized capital used for development investment is small, source of medium- and long-term capital is limited.

The primary market for bonds and bills is at early stage, there's no secondary market, so its capability of attracting medium- and long-term capital is limited. The equitization project was carried out with a lot of difficulty.

From now until 2000, Vietnam wants to double its per capita GDP, so it needs about US$ 50 or 55 billion, 50% of which will tap from domestic savings and other 50% will come from foreign sources.

1. Measures to attracting domestic savings

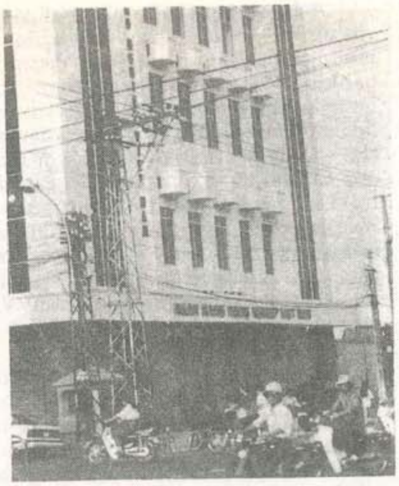
- Encouraging economical practices: all economic sectors should increase savings to invest in development projects.
- Increasing budget expenditure on building infrastructure: In the past years, only 5 to 8% of GDP was put aside for infrastructure, this percentage should be increased to 10 or 12%. The government can take the following ways to raise money for infrastructure and production development:

+ Issuing T-bills of medium term from 1 to 5 years, and for the time being, from 1 to 3 years.
+ Issuing "Project bond" for projects approved by the Government.
+ Issuing T-bills of short term (under one year) by tender: The State Bank will be an agent of the Ministry of Finance in selling them and liquidating them when they become due. At the same time, the State Bank could use T-bills as an instrument to realize the fiscal policy through the open market.

- Allowing state commercial banks and state enterprises to issue bonds.
- Keeping on equitizing state enterprises which the Government need not hold 100% of their capital.
- Allowing state enterprises to issue shares, especially profit-making ones.

2. Measures to attract foreign capital

- Creating favorable conditions for foreign direct investment.
- Securing soft loans from international financial organizations as IMF, ADB, WB, etc, and from foreign governments (ODA sources).
- Diversifying forms of co-operation and joint-venture.
- Issuing bonds in foreign markets: The Government has permitted the Ministry of Finance, state commercial banks and state enterprises to issue bonds in foreign markets. In



1995, the Ministry of Finance will pilot the issuance of a small amount of bonds in foreign capital markets before state commercial banks and qualified state enterprises could be allowed by the Government to issue their bonds in foreign markets to raise capital necessary for investment projects.

- Studying ways of selling Vietnam shares to foreign countries in the future.

- Forming the stock market in Vietnam as soon as possible: At present, legal infrastructure and other preconditions for forming a stock market in Vietnam are taking shape.

+ Stabilizing the economy and raising savings level.

+ Creating favorable legal infrastructure.

+ Diversifying commodities exchanged in the stock market.

+ Forming financial intermediaries: finance company, insurance fund, trust fund, etc.

+ Consolidating independent auditing system, reforming state accounting system.

+ Training personnel.

We hope that next year, stock markets will take shape in Hà Nội and HCMC.

With these measures taken, the capital market in Vietnam will be brought into operation. It will supply capital to Vietnam business and supply opportunities to foreign investors■

(This is the speech given by Mr. Vice Minister of Finance at the World Economic Forum held in HCMC from April 6 to April 8,1995).

MAKING THE BANKING SYSTEM STRONG AND MODERN TO SERVE ALL DEVELOPMENT GOALS

by LÊ VĂN CHÂU
Vice-Governor of the Vietnam State Bank

Since 1990, the Vietnam economy has changed from the centrally planned to the market-oriented one under the management of the Government. In this process, Vietnam banking system has also changed itself. The renovation process of the banking system began to pick up speed when two banking ordinances were issued in 1990 to change the mono-level banking system to the bi-level one in which the Vietnam State Bank acting as the central bank who controls monetary policies and issues currency notes; and a number of state commercial and joint-stock banks providing banking services to the economy.

From 1993 on, the inter-bank foreign exchange market and domestic currency market came into operation and played a useful role in regulating sources of capital. In April, 1995, an auction of treasury bills (T-bills) is carried out as part of a drive to create preconditions for formation of a stock market in the near future.

Progress in external and internal affairs can't be made without reformations in monetary, financial and credit businesses. In the early stage of the renovation process, the reformations have oriented the economy towards the market mechanism. The reformation of banking system includes:

- Changing to bi-level banking system and forcing the central bank to control the monetary system according to the market mechanism. By doing so, the role and managerial skill of the Vietnam State Bank have been enhanced.

- Using monetary system to control the economy.

- Diversifying financial institutions and organizations and forcing them to enhance managerial skill and efficency.

In the past years, the Vietnam banking system has achieved many good results and played an essential