



commercial bank. This situation makes the General Treasury suffer a loss of VND45 billion a year on average. Moreover, it's hard for the General Treasury to control the use of interest paid by commercial banks to treasury agencies.

In 1999 and 2000, the General Treasury improved its task of supplying funds for government investment (certain public works are provided with 30% or 40% of capital they need). In some provinces, however, treasury agencies failed to make timely payments to constructors with the result that they had to borrow from banks to complete the works and the treasury agencies had to pay interest on these borrowings. The payment in bank interest, in our estimate, could reach thousand billions a year.

# MONETARY - FINANCIAL POLICIES AND DEVELOPMENT OF CAPITAL MARKET

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To implement monetary and financial policies, different instruments are used, and how to coordinate these instruments is what the financial authorities should pay full attention to. In the past few years, however, there have been many problems with the use of these instruments.

## 1. Issuing T-bills for a balanced budget

In 1999, the central bank made 46 issues by tender. Over VND4,300 billion worth of T-bills were issued and some VND3,024 billion (or some 70%) sold. The market for T-bills was considered as ineffective in 1999 because not all issues ended in success. The main cause was the fact that the interest rate offered by the Ministry of Finance was too low to attract buyers. In 2000, up to May 8, 11 issues of T-bills were made and of VND2,000 billion offered, 1,732 billion sold. The interest rate accepted fell from 6% per year in the first issue to 5.58% in the 11<sup>th</sup>.

In addition, the central bank also made the first issue of SBV bills by tender on April 25, 2000 and some

VND1,000 billion were bought at an interest rate of 4.65% per year. This shows that the potential for a capital market is promising.

Another problem to consider is the task of controlling sources of capital held by the system of treasury agencies. While the General Treasury has to issue T-bills in large quantities at high interest rates, its local agencies have to deposit hundred billions of đồngs with commercial banks and earn an interest much lower than the rate offered when T-bills are issued. To deal with this problem, the systems of treasury agencies could be computerized and the General Treasury needn't keep big reserves in order to ensure good liquidity as commercial banks do.

It's unreasonable for the General Treasury to borrow money at an interest rate of 6% per year (by issuing T-bills) while its agencies earn only 2% in interest by depositing their funds with commercial banks. According to a rough estimate, when the General Treasury is constantly in debt to the tune of VND10,000 billion, its agencies have some VND1,000 billion deposited with

## 2. Preferential interest rate and subsidies from the General Treasury

At present, besides ordinary lending rates offered by banks, there are preferential rates set by the SBV Governor on the following loans:

- Loans to the poor supplied by the Bank for the Poor from funds controlled by the Bank for Agriculture and Rural Development.

- Loans to residents in mountainous areas, border areas and islands, and to minority groups supplied by the Bank for Agriculture and Rural Development.

These soft loans depend on subsidies from the General Treasury and the SBV through the Bank for Agriculture and Rural Development.

In addition, part of government investment is based on soft loans supplied by the Bank for Investment and Development, Central Investment Agency and Investment Support Fund. Banks for Foreign Trade, for Industry and Commerce, and for Agriculture and Rural Development also supply soft loans to various programs (to buy rice, to support poor

university students, to build stilt houses in the Mekong Delta, to repair damage caused by the Storm No 5 and the great flood in 1999, etc.). In short, all state-run commercial banks supply both ordinary and soft loans based from subsidies from the General Treasury and this situation causes a lot of problems for the General Treasury to deal with if it wants to reduce expenditures and increase income. In our opinion, the Government had better form a Bank for Social Policy responsible for supplying all kinds of soft loans in order to manage better sources of finance from the General Treasury.

In 1999 and the first half of 2000 when certain industries met with difficulties (fertilizer, steel, clothing, sugar, cement, etc.) the Government had to take measures to provide state companies with necessary support (giving grace period, exempting them from payment in interest, refunding

market therefore, couldn't come into being and operate well.

### 3. Financial instruments for stimulating the spending power

To stimulate the spending power is a major program in 1999 and still implemented in 2000. Many financial and monetary measures have been taken. One of which is to increase public investment projects financed by bank credits. And there are also many problems with this measure.

- The plan to concrete ditches and canals is expected to be made by July 1999 (but it wasn't). The Ministry of Agriculture and Rural Development (MARD) couldn't issue guidelines on this plan before Sep. 25, 1999 along with guidelines given by the Ministry of Finance (MF). There were, however, many contradictions between those guidelines: the MARD said the General Treasury would sup-

In our opinion, the MF should work out ways of financing these plans and mobilizing the people's contributions and cooperation from commercial banks.

To stipulate the demand for capital, the MF can encourage and help commercial banks and work out a mechanism for supplying loans to local parties in joint ventures with foreign ones, loans for buying shares from equitized companies, loans for buying insurance or paying taxes in order to help local commercial banks expand their market shares in the competition against foreign banks.

### 4. Taxation of trade in foreign exchange

At present, trade in foreign exchange becomes the second most important operation of banks. They constantly suffer losses because the exchange rate shown in their account books is usually of the highest one. So they tend to use the average exchange rate as a basis for calculating VAT payments. In addition, the lending rate has been lowered many times in 1999 with the result that they had to lend at a rate lower than the deposit rate. The constant loss makes most commercial banks and finance companies fail to pay dividend, and thus discouraging potential share buyers and producing bad effects on the equitization program.

### 5. Bank loan repayments by local treasury agencies

Like the General Treasury, its local agencies usually have to help local state-run companies repay bank loans. For example, the Tuyên Quang treasury agency had to pay VND7 billion owed by the Tuyên Quang Cement Factory to the bank. In other province, the treasury agency transferred VND28 billion to the local SBV branch in order to invest in programs started by provincial government. Many other treasury agencies, under direction of local governments, had to repay debts for local companies or invest in local development programs.

Although these practices could bring about socioeconomic progress, they apparently go against the National Budget Law and to a certain extent, they restore the subsidy mechanism. The Government had better beef up the control over the use of funds held by the treasury system in order to facilitate the formation and development of a capital market and accelerate the rearrangement of the system of state companies



state-run banks, cutting rates and taxes, etc.). According to our estimate, many state companies couldn't improve their business performance in spite of these subsidies and preferential treatment and they became a heavy burden to the General Treasury. If the Government keeps following this policy (giving subsidies of all shapes to loss-making companies and forcing the General Treasury to issue T-bills to cover budget deficits), the General Treasury certain comes to an impasse. In addition, this policy proves to be a clear case of discrimination against non-public sectors and a cause of corruption among financial authorities. The capital

ply 40% of the necessary investment while the MF said there was nothing to be expected from the General Treasury; the term of loan, according to the MARD, was from eight to 10 years while the MF said it's only a 3-year term.

- Besides this plan, there is another plan to develop rural road network made by the Ministry of Transport and Communications in October 1999 (two months after the deadline). Those two plans demand some VND52,000 billion but nobody knows who will carry them out, what will be supplied by the General Treasury (cash or materials) or what the people should contribute to the plans.