

According to experts, to achieve the planned growth rate by 2000 (doubling personal income in comparison with 1995), we have to secure from US\$41 to 43 billion from both foreign and domestic sources. The problem is how to employ effectively foreign investment and foreign loans, to repay debt and to save the next generation from the burden of foreign debt.

To put foreign debt under control, the PM, in August 1993, issued the Decree 58/CP providing regulations on borrowing and repaying foreign debt. The State Bank has also issued many guidelines and regulations to realize this Decree. However, the problem is that both banks and companies didn't abide by these regulations. Violation of them could take different forms; and the following are some examples:

- Regulations ruled that every company with foreign investment has to open an account in foreign currency and an account in domestic currency at a commercial bank. If the company has branches, the company can open extra accounts for these branches at local banks. But a report made by the State Bank's Department of Foreign Exchange stated that in 1995, of 92 companies surveyed, 40% abided by regulations, 30% opened main accounts at four banks at least. Particularly, Proconeo, a Franco-Vietnamese joint venture, and the Mekong Corporation opened accounts at eight different banks.

- Borrowings from foreign sources secured by companies with foreign investment are also a problem. For many of these companies, loan capital from foreign sources represented some 70% of their capital. According to the Decree 58/CP, companies must obtain permission from the State Bank to get these borrowings, but in fact, according to the said report, of 484 companies surveyed, 141 have got foreign loans, and only 62 had permission granted by the State Bank.

- Many commercial banks have allowed companies with foreign investment to transfer sums of foreign currency to repay debts which were made without permission, for exam-



PROBLEMS ARISING FROM THE TASK OF CONTROLLING FOREIGN DEBT

by NGUYỄN ĐỨC HOÀN

ple, a branch of BNP has helped the HCMC-based International Burotel transfer two sums of money totalling US\$3,625,000.

- Debts owed by companies in question (such as TIC, Vinaflour, VMEP, etc.) are sometimes larger than the licensed legal capital. Some companies only asked for permission from the State Bank after the agreements were exchanged and made things more difficult and complicated because many clauses in these agreements went against the law (transferring shares to creditors, mortgaging assets to foreigners, opening accounts at foreign banks, etc.) Moreover, many companies have paid too high interest and fee for these loans (Libor plus 4 or 4.5 per cent). Some of them were Sao Mai Cement Company, Hải Phòng Glass Company, Sông Bé Foremost Milk Company...

In the task of controlling foreign exchange and foreign debt, proper attention should be paid not only to companies with foreign investment,

but also to bank guarantee operation.

In the last two years, the banking system, including both the State Bank and commercial banks, has given bank guarantee to most loans secured (the amount of long-and medium-term loans amounted to 172 totalling US\$1.7 billion). The State Bank has also guaranteed to repay a total amount of US\$427 million for 12 loans owed by companies and four loans owed by commercial banks. These foreign loans guaranteed by the State Bank were used to finance important projects such as Nghệ An Cement Factory (US\$250 million), Yaly Hydroelectric Plant (US\$12 million), Hải Phòng-based Ching Fong Cement Factory (US\$49 million), Vietnam Steel Corporation (US\$16 million), etc.

Nguyễn Ngọc Minh, Chief of Department of Foreign Exchange, said

that in general, the bank guarantee operation was carried out according to the law and the projects have produced intended results after receiving foreign loans. The knotty problem is bank guarantee given to L/C opened by importers of consumer goods. The State Bank estimated that up to now, there is no disastrous consequences of these guarantees, but in the future, it's likely that banks will have

to repay debts for importers. Because the financial situation of companies that have opened L/C to import consumer goods on instalment plans showed complex signs, the State Bank had better intervene in this business as soon as possible. In the first eight months of 1996, the total value of L/C opened by banks for importers who bought goods on instalment plans has amounted to US\$1.2 billion, an unprecedented level. Most of these importers are in HCMC.

To intervene in this business, the Governor of the State Bank has issued Instruction 06/NH7-CT in improvement of the task of controlling foreign debt, and Official Letter 434/CV-NH7 providing guidelines on realization of the above-mentioned Instruction.

However, effects of these law documents depend on operation of the State Bank, commercial banks and related government bodies.