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Vietnam tries to cool bank lending

By Amy Kazmin in Hanoi

Vietnam's Finance Ministry has expressed alarm at the volume of bank lending being used to finance the purchase of shares on the country's tiny, overheated stock market.

The market has risen 85 per cent this year as investors in the Communist-ruled country discover the practice of margin trading.

In a letter sent to the State Bank of Vietnam, Tran Van Ta, deputy finance minister, urged the banking sector regulator to tighten controls on lending for stock market speculation, state media reported on Wednesday.

The letter from the central bank warned that share prices on Vietnam's stock market, which hit an all-time high yesterday, were spiralling due to speculative buying, partly financed by credit from commercial banks.

The letter said some Vietnamese investors were using their newly acquired shares as collateral to obtain loans to buy more, which could result in a surge of bad debt.

The admonition came after the State Securities Commission sounded the alarm at the level of bank lending used for stock purchases.

The State Bank is said to have asked banks to provide a full accounting of their lending for stock market acquisitions by the end of the month, before new rules are announced.

Kevin Snowball, a director of PXP Vietnam Asset Management, said banks turned to lending to equity investors after the property market cooled off. "You've got a lot of people who think it is not possible to lose money, find it easy to borrow to buy shares and don't understand the risks," he said.

Vietnam's formal stock market has 35 stocks and a market capitalisation of about \$1.8bn. Investors can also buy unlisted shares of state companies that have been partly privatised. Shares in private Vietnamese companies, including banks, are also traded in the informal, over-the-counter market.

The current frenzy began last year amid rising prices for unlisted shares of private banks, a boom spurred by major international banks buying strategic stakes in local financial institutions.

The bullishness subsequently spread to the formal stock market after an upbeat report by Merrill Lynch, which advised fund managers to buy Vietnam as a long-term investment play.

But with the market's average price-to-earnings ratio at about 24 per cent – and some stocks trading at P/Es of up to 35 per cent, foreigners have in recent weeks been net sellers, while the current run is almost entirely locally driven. ■