

couraged depositors because they are not worried about inflation, at the same time it affects positively borrowers who are bound to use loans sensibly and effectively. Deposits increased considerably, quality of the credit service is higher than before, the ratio of overdue debts reduced from 25% to 10%. The system of commercial banks became dynamic in trading, reduced little by little loss, and some of them began producing profit. Nonetheless, the most vital thing is that it promoted the economic development and drove inflation back, curbed it within mono-digit.

Nevertheless, there are some defects left in the execution of interest policy in our country. The State Bank has still interfered with the stipulation of interest rates of commercial banks. In other countries, Central Banks only promulgate rediscounting interest rates and control the highest interest rate of loaning. The interest rate stipulation in our country is contrary to international practices, that is to say, long- and medium-term loans yield less interest rate than short-term loans. Moreover, there is the paradox of execution of domestic interest rate: interest rates produced from long- and medium-term deposits are higher than the short-term one, but interest rate of loaning is the contrary. Moreover, the longer period of loaning is, the bigger risk is. Interest rate of capital mobilization and that of loaning between domestic and foreign currencies are of great difference, and have not yet promoted the deposit of foreign currencies, whereas it encourages enterprises to borrow foreign currencies. That results in corruption and being hard to control the use of foreign currencies in payment and circulation.

Especially credit interest rates stipulated by State Bank as of 1 Oct. 93 has been carrying out in our country in which interest rate for short-term loaning is maximum of 2.1% per month or 25.2% per year. The interest rate is so high, it is 2.5 times to 3 times as many as that of other countries (average interest rate is 6-8% per annum). The above-said interest rates are not compatible to the indexes of price increase in the market: from 10/1993 to June this year, average price increase is 1% per month, estimate made in 1994 is about 6-8% (in other countries, interest rate is adjusted regularly basing on market changes). The interest rate is incompatible to the economy in the present situation. In reality, the loaning interest rates are about 2.3-3% per month and interest rate is higher if overdue. So, it gets in the way of investment expansion.

Another defect is that the relation

between deposit interest rate of banks and that of treasury bonds. Interest rate adjustments are always discussed and reached by Finance Ministry and State Bank, but when it is put into operation, State Treasury Department carries out otherwise. For example, recently the interest rate of treasury bonds of six-month term was 1.7% per month and interest paid in advance, so the actual interest rate was 2% per month. Similarly, in respect of treasury bonds of 12 month term, actual interest rate is up to 2.6% per month. In order to mobilize capital as well as prevent money from being withdrawn out of banks for buying treasury bonds, commercial banks also have to apply interest rate equivalent to that of State Treasury Department. Due to capital mobilization of high interest rate, commercial banks have to loan with the interest rate of between 2.6% and 3% per month. Therefore, that exceeds the interest rate scale stipulated by State Bank. Analyzing the situation, banking experts said frankly that there seem to be two Central Banks which in our country, because every country has only a Central Bank which controls interest rate (commercial banks have to follow Treasury Department for interest rate adjustment for capital mobilization).

The above-said defects of carrying out interest rate policy, to some extent, have been taken into account. Nonetheless, our country is in the first step of market economy, it cannot thoroughly implement at once the requirements of interest rate like other countries. The question raised is how the measures are taken to integrate quickly into the world flow. But the measure can be carried out, as far as I'm concerned, is that the market of treasury bonds has to be deployed immediately. Treasury bonds have to be issued by State Bank and State bank holds bids for selling treasury bonds to commercial banks and any bank bidding lowest "price" will be authorized to sell. Carrying out this will avoid damages to the national budget and get the same interest rate (other countries perform the measure). The State Bank should stipulate only maximum interest rate and allow commercial banks to stipulate their specific interest rates. State Bank has to check the right performance of interest rate stipulation as well as prevent so much difference of interest rates between commercial banks. And a further step is to bridge the gap of interest rates between domestic and foreign currencies. The State Bank should make commercial banks adjust recapitalization interest rate suitable for capital mobilization interest rate in the market ♣

Currency circulation is incessant movement of money for serving the process of service and goods circulation and for making payment.

Currency circulation consists of two fields: cash circulation and non-cash circulation. The two fields has close and mutual relations.

The tendency in the world, in these days, is of non-cash circulation, of which ratio is larger and larger (about 85-90%). The result originates from the predominance of non-cash circulation when compared with cash circulation, for example if non-cash payment increases, expenses relating to cash circulation such as money printing, counting, packing, carrying will decrease. On the other hand, bank will, through services of non-cash payment, mobilize idle capital for serving production, service and goods circulation as well as expedite currency circulation.

As for enterprises and individuals, the use of means of non-cash payment make them not to be worried about cash protection and transportation during the process of payment and doing business, especially with a large amount of cash being paid and a long distance being transported.

In order to serve the field of non-cash circulation, kinds of means of making payment have been used such as cheque, credit card... in which cheque is a means of making payment that has been used so long and so popularly in most of the countries in the world.

According to Geneva Convention in 1931, cheque is defined as an written order to a bank asking them to pay money from a customer's account to the account of the person whose name is written on the order (drawee). So, when drawing a cheque, first of all, a drawer have to be a person who has opened a checking account in a bank.

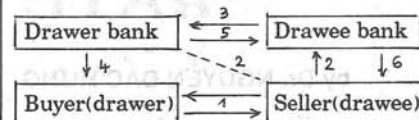
In other words, an account holder can draw a cheque under the principle:

Face value of cheques \leq the credit balance on checking account.

So, what will happen when a drawer violates this principle?

The result is that the payment towards this cheque will be obstructed and the drawee's benefit will be violated.

In order to realize more clearly, let's have a look at the chart about the process of cheque payment:



CAN CHEQUE BECOME POPULAR MEANS OF SETTLEMENT?

by LÊ TUYẾT HOA

Notes:

1. The seller delivers goods; the buyer delivers cheque.
2. The seller delivers cheque to his or her bank.
3. This cheque is transferred to the buyer bank.
4. Bank collects money from buyer (making debit into checking account of drawer).
5. Transferring money to the seller bank.
6. The seller bank makes payment to seller (making credit into checking account of drawee).

Clearly, if there is no, or not enough, money in checking account of a drawer, the bank cannot transfer the sum to the drawee. Therefore, in addition to the above-mentioned principle, the "Regulations on issuance and use of individual cheques" (promulgated under the decision no. 236/QĐ-NH1 dated 11 Dec. 93 by the Governor of State Bank), at point 2, specifies: "any customer who wants to get individual cheque so as to draw cheque has to acquire the credit of the bank in respect of payment capability which is considered by the director of the bank where the account was opened."

In order to restrict risks in payment of cheque and enhance the credibility of drawees towards cheque and contribute its part to guarantee the cheque circulation accordingly, the "Regulation" specifies at point 4: "any cheque which is drawn a sum of over VND 5 million, the drawer has to make the procedure of payment guarantee of cheque at a bank where the checking account opened. Cheque of under VND 5 million, the drawer doesn't have to make the above procedure."

In the usage process of payment means through cheque, it is possible that drawers violate some principles of drawing cheques. So, with a view to guaranteeing performance of the payment through cheque, the State Bank has stipulated the following:

- The drawer shall be fined the amount of 30% of the sum exceeding the credit balance

- The drawer shall be subject to a fine of deferred payment in accordance with the highest interest rate applied to overdue debt of loaning at the bank of drawer.

- Any account holder who draws two cheques exceeding the credit balance shall be suspended the drawing right for the period of at least 3 months, if violating again, he or she shall be suspended forever.

- After 10 days (as of the sum on cheque has been found exceeding credit balance), if a drawer has not repaid yet the sum exceeding credit balance, he or she shall be prosecuted.

According to the decision of the Governor of State Bank of Vietnam, individual cheque was officially used in Ho Chi Minh city, Ha Noi, Hai Phong

as of 1 Jan. 94. This can be considered a new event in the economic activity.

Together with other non-cash means of making payment, cheque will help expand the scope of non-cash payment in the economy and contribute its part to more favourable payment and circulation of goods and service.

Nevertheless, initial difficulties is hard to be avoided. So, for obtaining the satisfactory result in the application of cheque, there have to be unanimous efforts from entities concerned such as bank, drawer, drawee..., specifies as follows:

1. In respect of bank

- a. By means of mass media, bank had better give publicity to matters relating to cheque usage.

- b. Encouraging and giving favourable condition to those who want to open checking accounts. Interest rate of credit balance can be 50% of the one of call savings account, at the same time cash demand has to be met sufficiently.

- c. Researching and issuing kinds of cheque favourable to use and of high safety.

- d. Some banking measures such as blank cheque, cheque payment, cheque guarantee of payment... have to be carried out safely, quickly, exactly.

- e. Dealing with violation of cheque usage principles justly and strictly, especially in the process of tentative cheque usage.

2. In respect of customer

- a. Individuals in their capacity as drawers have to strictly observe principles of drawing cheque. This is the premise for curbing the risks of violating payment principles, and for obtaining drawees' credibility.

- b. Individuals in their capacity as drawees have to realize the benefit of payment means wherefore they are prepared to accept cheques in the process of doing business.

Nevertheless, in the tentative period, as far as I'm concerned, we had better encourage to use approved cheque. Of course, this triggers off some trouble towards drawers and some difficulties towards banks, but in return, we make drawees believe upon their cheque receipt.

With the satisfactory results of the tentative period, we hope and believe that cheque usage will little by little become a practice of the public in our city ♣