



ON THE WORKSHOP ABOUT THE BANKING BILL

by Dr. LÊ KHOA



From April 8 to 10, 1996, nearly 50 representatives from the National Assembly, the Prime Minister Office, Ministry of Justice, etc. and a lot of experts came to the conference hall of the Vietnam State Bank in Đà Lạt to attend the workshop about the Banking Bill. The delegation from HCMC comprised Dr. Nguyễn Xuân Oánh, Lâm Võ Hoàng, Huỳnh Bửu Sơn and Lê Khoa. Among hand-outs, there were the report on the realization of two ordinances on banking in the past five years and the Banking Bill.

1. The report on the realization of two ordinances on banking

These two ordinances came into effect in May 1990 when the centrally planned economy proved to be less effective; the growth rate was low: 0.4% in the period 1976-1980, 6.4% in the period 1981-1985, and 3.9% in 1986-1990 while the birth rate was around 2.4%; there was the hyperinflation in 1985. The price index increased from 100 in 1976 (as a base year) to 313 in 1981, 1,400 in 1984; 2,390 in 1985. The legal infrastructure at that time was poor.

In such a situation, the Government adopted the renovation policy which produced many encouraging achievements:

- The food output increased from 17.5 million tonnes in 1987 to 20.5 million tonnes in 1989, and Vietnam became an exporter of rice.
- Locally made commodities flooded the domestic market.
- In 1991, there was a trade surplus.
- The growth rate was on the increase: 6% in 1991, 8.1% in 1992, 8.6% in 1993, 8.8% in 1994 and 9.5% in 1995.

The ordinances had good effects on the banking system:

- The one-level banking system developed into the two-level one. All economic sectors were allowed to take part in the system.
- The State Bank became relatively independent under the direction of the Government. It operated in the market economy and played the leading role in the system.
- The system for making settlement operated faster.
- The role of the monetary policy was recognized along with different instruments to carry out this policy (money supply control, interest rate, reserve requirement, exchange rate, openmarket operations, etc.)
- The banking system attracted deposits in order to supply loans, instead of issuing more currency.

- The State Bank has inspected commercial and other banks.

However, there were some defects in these ordinances (the independence of the State Bank wasn't stated clearly, certain regulations about reserve requirement, settlements, protection of deposits and loans, pooling, buying shares... were vague and irrational), therefore there must be a Banking Act in order to solve these problems.

2. On the Banking Bill

The Banking Bill includes two parts: the State Bank Bill and Credit Organizations Bill.

The following were main topics under discussion in the workshop.

a. The State Bank

- Many opinions suggested that the State Bank can be renamed as Vietnam National Bank, or the Central Bank, or the Bank of Vietnam.

- The independence of the banking system was also controversial.

- Is there a council for the State Bank? What's its name and what are its duties?

- Some problems such as the banking inspection, reserve requirement, capital and profits and reserves of banks were also under discussion.

b. Credit organizations

- Subjects: banks of all kinds and non-credit organizations.

- Their organization and operation.

- Branches of foreign banks in Vietnam.

- Banking inspection and reserve funds.

During three days, many opinions about these topics were delivered animatedly. Dr. Nguyễn Xuân Oánh said that the more independent the banking system was the better. Other opinions suggested that the State Bank could be renamed as the Vietnam Central Bank. The Treasury had better not supply loans because supplying loans was the business of the banking system.

The banking system has attracted a large amount of dead money from the market.

The banking system has given equal treatment to all economic sectors.

The monetary policy according to the market mechanism has been basically carried out.

The report has only presented the monetary policy but said only a few words about the credit supply.

The branches of foreign banks aren't mandated to keep reserve requirement. They receive capital from their mother banks if need be and they

didn't keep the reserve requirement, so it's difficult for the State Bank to handle this matter.

3. Suggestions

a. On the report on the realization of two ordinances:

- The banking system has made a major contribution to the economic activity when it solved the problem of cash shortage.

- The usage of personal cheque was introduced. The State Bank had better form a Regulation Office and issue regulations ruling that all payments of over VND1 million must be made through banks and salary will be paid to personal accounts, etc.

- In Vietnam, the only legal tender must be the Vietnam đồng. Foreign currencies and gold are used for paying to foreign parties.

- The exchange rate: in 1991 the exchange rate reached VND 11,800 to the US dollar. From then on, the rate reduced by 20.4% in 1992, increased by 0.7% in 1993, by 0.4% in 1994 and stayed at VND 11,014 to the US dollar on April 7, 1996, that is, this rate was still lower in comparison with its peak in 1992. During this period, the price index increased by 17.6% in 1992, 5.3% in 1993, and 12.7% in 1995. The total came to 35.6%. In the first three months of 1996, the price index increased by 3%-4%. Adding the increase in price index to the decrease in the US\$ price, we saw that the financial situation of local factories, in comparison with foreign ones, had become worse and worse (at least by 45%). This led to the increase in imports while the exports could make only small increase. For example, the Corporation of Mulberry and Silk couldn't pay debts to banks, the Điện Quang Lamp Factory couldn't sell its stock. In the first 8 months of 1995, around VND14,250 billion were used for smuggling. The imported goods flooded the domestic market and reduced profits of local factories. We suggest that the State Bank should control the exchange rate with a view to helping local exporters and manufacturers develop their businesses.

- In 1995, keeping the inflation rate at 12.7% was one of good achievements of the banking system. However, the inflation at present is different from the inflation in the 1980s when there was a permanent shortage of commodities and foreign currency. Today, there is a surplus in commodities and foreign currency so we need more bank notes to make commodities circulate more quickly. So there must be a monetary policy to

protect local commodities and production and at the same time, control the inflation.

- All of us are happy with an increase of 9.5% in Vietnam GDP in 1995. However, because of our low starting point, there was only a small increase of some tens US dollars in the personal income, while a growth rate of 0.6% in Japan could make a rise of US\$400 or 500 in personal income. So we must try to develop faster, around 15% or more.

- The interest rate was reduced, but still higher than the lending rate offered by banks in foreign countries.

- We should establish the stock exchange and allow joint stock companies to be formed as soon as possible.

b. On the Banking Bill

- We had better rename the State Bank as the Vietnam Central Bank.

- Conditions for good operation of the banking system are:

+ Good relations with foreign countries: foreign parties could make investment in Vietnam, supply loans or buying Vietnam goods.

+ Good relations with the Government: the Government had better borrow money to spend on investment plan, instead of spending on the administrative machinery.

+ Good relations with families: all families will deposit their savings in banks.

+ Good relations with companies: they could make profits and repay bank loans.

However, the banking system had better take measures to help companies increase their sales and profits.

- The Banking system had better establish an advisory council comprising economic experts and directors of factories. This council can help with making banking policies.

- We suggest that information about the banking system should be publicized.

- The banking system had better make the SNA which includes five accounts. Of these five accounts, the banking system and the Ministry of Finance can control four accounts, except for the family account which can be worked out basing the other four. In foreign countries, the central banks use the SNA to make policies on banking business, and on credit and monetary system.

- As for salary paid to banks' employees, when banks make big profits, their employees can receive big salary along with houses or housing benefit as their counterparts in foreign banks can. ■