ON WAYS FOR CONTROLLING INTEREST RATE

by THANH NGỌC

In 1994, instead of lowering the interest rate according to the policy adopted by the Conference of Bankers at the beginning of the year, the State Bank preserved the status quo on the grounds that the inflation rate in the first half of 1994 had shown a tendency to become higher by the second half than what had been planned by the National Assembly. In 1994, the inflation rate reached 14.4%, and the real interest rate was: 25.2%-14.4% = 10.8%. Many commercial banks had even offered much higher deposit rates (from 32% to 36% a year) and caused the real interest rate to increase to 18-22%, therefore it's obvious that the state Bank should have reduced the interest rate in 1994.

In 1996, the State Bank reduced the interest rate four times and caused a lot of losses to commercial banks. The first joint stock bank in Vietnam, by publicizing its balance sheet, had to admit that its interest in black was lower than its interest in red. Up to now, there is no answers to such questions as how many joint stock banks had to suffer losses because of the reductions of the interest rate and how many banks had to violate regulations on interest rates with a view to saving themselves from losses.

Bits of information gathered in 1996 showed that rural joint stock banks had to increase the deposit rate to 1.6-1.7% a month, thus they had certainly been allowed to violate the interest rate-ceiling of 1.5%. A branch of foreign banks has violated the regulation on interest rate-ceiling by requiring local banks to deposit 50% of loans supplied by this branch, thus it has doubled the lending rate on loans in foreign currencies. This branch, therefore has avoided the danger of bad loan because it held 50% of the loan supplied.

Calculations publicized by the press showed that in 1996 banks had to suffer losses because even if they could lend 80% of their deposits, they couldn't collect enough interest on loans to cover their interest in red, that is, their overheads became losses.

In July 1997 when the interest rate-ceiling was reduced, no attention was paid to losses suffered by joint stock banks. If they observe the bank margin of 0.35%, the deposit rate will be only 0.65% and become unattractive, therefore joint stock banks have to offer a deposit rate of 0.8-0.85% to 3-month deposits, and raise bank charges in order to reduce potential losses.

Let's study an example: With deposits of 100 billion, a bank has to pay 0.8-0.85% interest, or 80-85 million. If it can lend 80 billion (this is rarely seen in reality) and receives interest at 1%, or 80 billion, it will certainly suffer losses because it has to pay the overheads. The loss will be bigger if it pays 0.85% interest on deposit.

Only State-owned commercial banks (except for banks for agriculture) can avoid losses because its call deposits represent over 50% of its total deposits. Strange to say, the State Bank has paid no attention to this situation although many bankers at the conference have given voice to the regulation on interest rate-ceiling. The State Bank has thought that joint stock banks as well as state owned bank had to suffer losses in order to carry out the regulation on interest rate.

In order to avoid losses and bankruptcy, joint stock banks have to find ways to increase the lending rate. One of alternatives is to follow in footsteps of the branch of foreign bank as stated above.

When the interest rate-ceiling is reduced, it's necessary to help joint stock companies to avoid losses. The present interest rate-ceiling is fixed by the Government (this practice was rejected by many foreign governments since the 1970s). It isn't the same as other interbank offered rates which are often used as a basis for calculating other rates of interest but aren't considered as an interest rate-ceiling.

The interbank offered rate is considered as a common base rate. When the central bank wants to encourage the economic development, it will lower the interest rate, whereas the interest rate-ceiling in Vietnam is fixed by the Government, so the central bank has to use administrative measures to enforce it, however, the regulation didn't provide for subsidies given to banks suffering losses, therefore all officials from the central bank tended to pay no attention to the fact that joint stock banks had raised the lending rate. That is why many rural banks have officially offered the deposit rate of 1.6-1.7%.

At present, most commercial banks are suffering losses and have lost their market shares to branches of foreign banks. The market share controlled by foreign banks has increased from 20.52% in 1996 to 29.96% in June 1997 in HCMC, and has reached 49.9% in Hà Nội.

It's obvious to everyone that the State Bank had better control the interest rate through a base rate (or a minimum lending rate) instead of fixing an interest rate-ceiling. At present, when the interest rate-ceiling was reduced on July 1, 1997, it's difficult for the State Bank to remove this regulation, so the most feasible solution is to allow joint stock banks to offer agreed rates of interest to their customers, both depositors and borrowers.

We hope that the problem of choosing a way to control the interest rate will be discussed openly in order to help the banking system avoid losses■