

**T**he banking system is one of main arteries of the economy and its health affects greatly the economic growth. In Vietnam's economic reform, the role of the banking system becomes increasingly important and everyone must admit that the banking system has contributed a lot to economic stabilization, inflation control and economic development in recent years.

However, there are many problems with our market economy model and they must be solved in order to perfect the Vietnam's model, and some of these problems have something to do with the banking system.

This article is intended to discuss the most urgent problems in the banking system.

### 1. Bank interest rates

In recent years, the lending rate has been reduced gradually (until recently, the short-term lending rate reduced from 1.25% to 1.0% a month, and the medium-term lending rate from 1.35% to 1.0% a month). This is a right policy to adopt, however, this lending rate is still higher than the profit ratio gained by most businesses (the average profit ratio at present is 6-7% a year while the lending rate is 12% a year). Thus, the lending rate discouraged investment in business, it could only encourage the public to deposit money with banks. That is why the bank deposits increased recently while all banks were looking in vain for new borrowers.

As for local producers, they have to cover high production costs (including taxes, fees and other expenses), so the profit ratio of business is lower than the bank lending rate. This situation means that the banking system failed to function as a channel for the flows of fund between "capital-surplus units" and "capital-deficit units".

In the market mechanism in Vietnam today, there is a noteworthy phenomenon: because of a lack of equal opportunity and fair competition, the profit rate varies unreasonably over industries. The service sector tends to make bigger profit than the primary and secondary sectors. In the secondary sector, labor-intensive firms usually earn more profit than capital-intensive firms. This fact gives no encouragement to industrialization and modernization of all businesses. The Government had better take different measures, including supply of loans to companies and a reasonable lending rate, to solve this problem.

### 2. Flows of funds in the economy

At present, most companies especially medium and small companies are badly in need of capital.

Some of them didn't want to borrow from banks because of the high lending rate, many others could get nothing or only a drop in the bucket from banks because they had nothing to mortgage or they were loaned according to their equity capital. On the other hand, a handful of companies with close relations with banking authorities were flooded with credits. Some banks have helped these companies by supplying loans (without credit line), opening L/Cs or giving advice on ways for getting bank loans- to put public money in real estate or in imported products which could be turned quickly into cash. In fact, these bank loans and guarantees were not used for business purpose, but as a means for them to embezzle the public fund. Regretably, many banking officials who had been Party members and had matured during the wartime, were involved in this mess.

The fact we must take into con-

sideration now is that in Vietnam, officials of state banks do business with the public funds and they pay no attention to banking risks.

### 3. Banking supervision

The present mechanism for managing the banking system proved to be inefficient, although its machinery was big and well-developed. Credit rating officials from banks, however regular their inspections were, failed to discover that their customers had run down and had been on a razor's edge. A bank, in a short time, had loaned, and guaranteed, some VNĐ3,000-4,000 billion to a limited company (this amount equalled the total working capital of the system of banks for commerce an industry) before everything was discovered by the press and banking authorities. May be this is one of lesson in banking supervision the banking system has to pay for.

### 4. Basic money supply

Although at present an end was put to the shortage of cash, transaction and payments made through banks became more widespread, however we must admit that most of payments in Vietnam were still made in cash and this is one of defects in the economy that made it difficult for financial and tax authorities to inspect cash flows of companies and income of private persons. The banking system has to take measures to improve the quality of services supplied with a view to encouraging companies and private persons to make all payments and transaction through banks. This will help not only to upgrade the banking system, but also to reduce cash in circulation and reform the control over monetary system in the market economy in Vietnam. ■

## URGENT PROBLEMS ARISING FROM THE BANKING ACTIVITY

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