

**A**t present, Vietnamese banks are looking for clients while clients are hunting for bank loans. Clients and the public shift the blame on banks and banks are waiting new policies. The loan interest rates have been slashed to the bottom in the past 10 years of renovation. The interest rate announced by the central bank went down to 0.6%/month, the highest loan interest rates of commercial banks stay at only 0.56-0.58%/month, their loans are rather abundant, and the demand for money of economic sectors is rising. Although the loan interest rate is low, but both of the capital supply and demand have not yet met, and the main reason is still obstacles of old policies.

According to suggestions of the Corporate Forum – Bankers' Group on September 11, 2001, the State Bank of Vietnam (SBV) has worked with this group. In their opinions, obstacles arising and hampering the financing of foreign banks' branches and joint venture banks to foreign and local investment projects are as follows:

The foreign banks' branches are facing a shortage of disposable capital in Vietnamese đồng but the interbank market operates ineffectively. The limit on loan interest rate in Vietnamese đồng is not logical. The system for forex control should be improved. The restrictions on collateral-free loans of foreign banks' branches need be cancelled. The limitations on the extending and refinancing of the branches' loans should be lowered. The barriers to using short-term deposits for medium and long-term loans should be raised. The statistical reports should be rationalized. The proportion of required reserve (15%) for deposits in

US dollars is too high. So far, the foreign banks' branches have not yet used swap facilities to secure liquidation because it takes 4 days at least for the central bank to consider and transfer money including 2 days for consideration and 2 days for transfer. The costs of guarantee and opening L/Cs are controlled under the ceiling rate, and they should be liberalized.

tives. Especially the cooperatives want to take loans for building projects in rural areas and providing some services that families cannot do. However the biggest obstacle to their borrowing is the loan guarantee because their equity capital is low and their mortgage almost nothing. Moreover, nobody of the management board dares to use their assets for collateral.

# CAPITAL AWAITING NEW POLICIES

by Dr. NGUYỄN ĐẮC HÙNG

However, one month has elapsed while the SBV Governor gave an only instruction on procedure simplification and reduction of swap time to one day. The proportion of required reserve is considered for cutting.

The master plan is available but the detailed plan is not, so banks dare not undertake investments. In addition, many investment projects presented by the Ministry of Planning and Investment have only a name and their concrete contents and the approvals from competent agencies are not available, so the bank cannot make loans due to no evidence.

Cooperatives are new potential borrowers of commercial banks because many cooperatives have begun producing profits and proved their active role in the community since they were consolidated and changed in accordance with the Law on Coopera-

Some cooperatives operate ineffectively and only nominally.

According to Term 1, Article 1 of the Law on Banking Institutions, the maximum loan given to each customer must not surpass 15% of the equity capital of the institution, in a special case, the Government will permit the loan for each specific project. Nevertheless, the equity capital of Vietnamese banking institutions is too low. The Bank for Agriculture and Rural Development tops the list with its capital of VND 2,200 billion, three other state-run commercial banks have only VND1,100 billion each, and the joint stock commercial banks commonly VND100 billion, especially the Asia Commercial Bank obtains over VND350 billion. As a result, a bank cannot meet the demand for tens of millions of dollars, hundreds of billions to thousands of billions of



Photo by Nguyễn Ngọc Đạo



đồng in huge projects of the Vietnam Electricity Corporation and the sectors including post and telecommunications, aviation, cement, navigation, oil and gas, transport, etc. Commercial banks are not always willing to join for syndicate loaning or co-financing or it takes a long time to reach a consensus. In addition, the procedure for the Government's approval is cumbersome and time consuming. These factors will make enterprises miss business opportunities.

There are no detailed regulations on the borrower in the Law on Banking Institutions. The central bank has promulgated the statute on banking institutions' lending, accordingly it restricts some loans for financial needs including loans for tax payment, capital contribution in joint

and customers in recent years has impeded credit expansion, especially for private businesses although they have good investment projects. Relevant agencies often blame bank officers for losses even in case the lender suffers losses due to force majeure such as market upheavals, tricks, natural disaster, etc.

Cumbersome procedures are also obstacles to farmers' access to bank loans. According to statistics, a dossier for loaning requires 8 kinds of different documents including three made by the borrower and five by the bank officer with nearly 10 stamps. This is obviously appropriate to the educational level of farmers and causes bank officers' overworking.

According to current regulations, a common farm household is entitled to take a collateral-free loan worth

In respect of determining the value of land use right for loan guarantee: According to the 1999 Amended Land Law, the Government Decree 17 and Decree 178, the value of mortgaged land depends on the land prices set by the city or provincial People's Committee. But they are much lower than the market prices. In case the land lessee has already paid the rent in a period shorter than 5 years (this case is now common), and the land is allocated to farm, salt and aquaculture production without paying land use charge, the value of land use right must not be calculated for loans. This case has caused great obstacles to the bank lending.

Regarding the implementation of Decree 178, Article 39 rules that the Ministries of Public Security, of Transport and of Fisheries issue



ventures, stock purchase, foreign debt payment... due to high risks and difficulty in inspection and supervision of loans. Commercial banks have to consult the SBV and explain each case and waste much time in this practice.

Commercial banks are also a kind of business; their goods are money mobilized from the people. Therefore, they always find how to make loans, secure to take them back when due, offset reasonable costs and earn incomes. They will go into the red and then bankrupt if they cannot make loans, keep money stockpiled and pay interests to depositors. As a result, banks compete with one another, proactively seek customers for lending and save their costs.

However, the situation of criminalization of economic and civil relations in credit links between banks

maximum VND10 million, especially families possessing large farms can borrow VND20 million. These figures are only suitable to those growing crops and raising animals; but remain low for families engaged in aquaculture along the coast because each of them requires hundreds of millions of đồng to invest in fixed and movable assets. Furthermore, no agency can verify the scale of their farms, so they can hardly borrow VND20 million.

At present, it is prevalent across the country that the proportion of farm households which are granted certificates of long-term land use right is low, from 15 to 20%. Therefore, those, which do not possess large farms, can hardly borrow over VND10 million because they have no mortgage or loan guarantee. The percentage of these households is rather high.

guidelines for using the copy of the registration certificate for means of transport and fishing boats when mortgaging at banks. The SBV has made written proposals for many times, but until now these ministries have not yet issued guiding circulars, so relevant customers can hardly take bank loans. In reality, the number of people purchasing vehicles and boats is increasing. They have to borrow money from private lenders with high interest rate.

The demand stimulation depends on not only reduction in interest rates but also administrative reform in the banking sector and others. The central bank is required to lessen its intervention in credit institutions' business activities and avoid the fact of capital awaiting new policies ■