

Recently, many papers have carried reports of the credit surplus in commercial banks and most of them come to the conclusion that the main reason was limits on the volume of credit set by the Vietnam State Bank. Is that right? We had better discuss the matter.



Limits on the volume of credit are set by the central bank every year. They are limits on amounts of credit (loans, overdrafts, etc.) supplied by banks to the public. The credit control is a measure taken by many central banks, in changeable economies, to control the amount of money in circulation and stabilize the monetary system. The credit control will produce good effects when there is a high inflation rate. That is why the Vietnam State Bank uses this instrument to keep the inflation rate well under control. Have limits on the volume of credit made commercial banks unable to change deposits into loans with the result that they met with credit surplus? In our opinion, the answer is "no".

Although the State Bank sets limits on the volume of credit but these limits in 1996 are higher than those set in 1995. Based on the size and ability of each bank, the State Bank raises the limit by 20% on average. This increase isn't too tight for our present economic conditions. As we know, the bases for fixing limits on the volume of credit are the growth rate and inflation rate. With the pre-

sent growth rate of 8% to 9% and the mono-digit inflation rate, an increase of 20% in limit on the volume of credit compared with 1995 is acceptable.

But in fact, the bank deposits are in surplus. What are the reasons?

Firstly, a large amount of foreign goods is bought by deferred payment. This is the main reason for the increase in bank deposits. As we know, buying foreign products by deferred payment means using foreign source of capital, not the domestic one. Many shipments could be paid for in a time limit of 12 months, so importers, if they have no venture to embark on after selling these imports, they can deposit money in commercial banks to gain interest in the intervening time. In HCMC alone, some thousands of billion đồngs brought in by selling these goods were deposited with commercial banks. That is why banks have credit surpluses until recently.

Secondly, a decrease in interest rate also makes borrowers worry and affects the supply of credit by banks. Some people argued that after receiving deposits at high interest rate, banks couldn't lend money at a lower interest rate. However, banks will suffer greater losses if they hold deposits instead of lending them.

interest rate decreases, and then borrow new loans at a lower interest rate. So the decrease in interest rate is also a reason for credit surpluses in commercial banks.

Thirdly, many programs for socio-economic development such as job creation, agricultural mechanization in suburbs, etc. haven't been carried out. The realization of these programs will reduce credit surpluses in banks.

What mentioned above show that limits on the volume of credit didn't cause credit surpluses. A decrease in these surpluses after the government's order for banks to increase the supply of loans and repay foreign debts verified these analyses. However, although limit on the volume of credit isn't the cause of credit surplus but it isn't an effective instrument for regulating the national monetary policy because of the following reasons:

- The limit on the volume of credit will relax the competition between commercial banks for deposits and loan supply, whereas competition is something indispensable to the market economy.

- The limit on the volume of credit could make sources of capital become inaccessible to many investment plans.

DID LIMITS ON THE VOLUME OF CREDIT CAUSE CREDIT SURPLUS IN COMMERCIAL BANKS?

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In fact, banks are worried by the decrease in interest rate because this decrease will make demands for loans greater, so banks have to consider more carefully before lending. Moreover, banks have to meet reserve requirements because there may be a bank run when the interest decreases. As for borrowers, they always want to repay debts when the

- The limit could also encourage the development of new financial middlemen outside the control of banks.

The situation shows that the State Bank didn't achieve its planned aims by setting limits on the volume of credit, so it's necessary to re-examine this matter as soon as possible■