ON THE PRESENT BANK INTEREST

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In the market economy, the bank interest is very sensitive and could influence the public and all economic sectors directly. The bank interest is one of important ways of administering the monetary system, accelerating the growth rate and controlling the inflation.

In Vietnam, from 1989 up to now, the Government has made basic changes to the bank interest: interest rate for savings account was higher than the inflation rate; the deposit interest rate is the real interest rate plus inflation rate; the loan rate is the deposit rate plus bank charges, interest and tax. The bank interest has made depositors feel more assured and see that putting money into banks is more profitable than buying gold or foreign currency. The sum of dead money mobilized from the public has become larger and larger. In the first six months of 1995, the banking system mobilized VNĐ4,152 billion increasing by 22% compared with the corresponding period the previous year and being equivalent to 119% compared with 1993. Of this amount, savings deposited in banks increased VNĐ1,346 billion (by 53%) compared with the first half of 1994.

The bank interest for deposit, however, has been raised too much in comparison with the inflation rate and efficiency of using capital of the economy, especially in comparison with gold and US dollar prices.

Table 1: Changes in CPI and prices of gold and the US dollar in recent years

	1992	1993	1994	1st quarter of 1995	Note
CPI	117.5	105.2	114.4	107.5	
Index of Gold price	97.7	107.4	108.0	99.7	
Index of US$ price	99.2	100.3	101.7	100.4	

Table 2: Changes in the bank interest in recent years (%/month)

	Dec 89	Dec 90	Dec 91	Dec 92	Dec 93	Dec 94	Mar 95
Interest of savings deposit on demand	5.0	2.4	2.1	1.2	0.7	0.7	0.7
Interest of 3-month savings deposit	7.0	4.0	3.5	2.3	1.4	1.4	1.4
Interest of 12-month certificate of deposit					2.0	2.0	2.0
Interest of short - term loan:							
State bank					2.1	2.1	2.1
Joint stock bank					2.7-3.0	2.7-3.0	2.7-3.0

Table 3: Return on capital of businesses in 1993

	State Enterprises	Non-state Businesses	Note
Manufacturing industry	5.15%	12.8%	
Service industry	.9%	19.6%	
Farming and forestry	0.94%		

Compared with the return on capital, the bank interest at such a high level has become a burden to businesses indebted to banks. This bank interest encouraged both the public and businesspersons to put money into banks instead of investing in business. Many businesspersons have put a part of their capital into banks with a view to earning interest and reducing risk. Only those who supply commercial services on a fair commission could pay such an interest rate to banks. As for banks, the present interest rate involves a high degree of risk: the amount of overdue debts to some commercial banks which increased considerably in 1994 compared with 1993 verified this degree of risk.

Fixing a high interest rate in comparison with the US dollar and gold prices has made the Vietnam đồng rise against gold and the US dollar prices, disheartened exporters and encouraged many businesspersons to secure loans in foreign currency with a view to importing foreign consumer goods instead of capital goods. This situation made Vietnam balance of payments unfavorable.

In short, fixing a high interest rate, the banking system can hardly perform the task of supplying capital to businesses, obtaining a stable growth rate and helping with the industrialization and modernization of the country.

What should be done now is to find out measures to keep the inflation at the level permitted by the National Assembly and at the same time, prevent the bank interest from becoming an obstacle to the economic development. In my opinion, these measures are:

1. Reducing loan interest rate by exempting banks from turnover tax imposed on bank loan: because turnover tax is an indirect tax imposed on borrowers and banks have to collect it and pay to the Government. Moreover, in the market economy, the commercial bank is a financial intermediary transferring funds from savers to borrowers for a commission. Exempting turnover tax on bank loan will reduce the bank interest by 2% or 3% per year.

Due to low lending interest rate, the capital turnover of the bank will increase and the bank will pay a bigger sum in profit tax. As for businesses, they could be sure of a profit if they borrow money from the bank to develop their businesses, and then the Government could collect a bigger sum in turnover tax and profit tax from these businesses.

As for other activities of the bank, such as trading in foreign currency, gold and supplying other services, the bank will keep on paying the turnover tax.

2. Reducing overhead cost of the bank: by offering a wider rank of services, the bank can attract more customers, increase bank deposits. Basing on well-trained personnel and good equipment, the bank can increase its capital turnover, reduce risk degree and thereby, reducing overhead cost.

3. The State Bank should carry out frequent inspections with a view to helping the commercial bank improve efficiency, preventing unhealthy competition between them and forcing them to realize the rate of interest regulated by the State Bank.

4. Taking the long view, the State Bank had better regulate annual interest rate in order to encourage the commercial bank to reduce the deposit interest rate. When the stock exchange is established, the public will become accustomed to investment business and understand that their deposit in bank is temporarily unused money and their savings could be transformed into investments or loans of low interest rate supplying to development projects■

Experience of developed countries shows that the stock exchange is necessary for mobilizing both foreign and domestic investment.

The Vietnam economy is in the transition to the market mechanism under the management of the Government. A policy on mobilizing investment in general and on forming the stock exchange will be considered successful if it could cause the majority of investors and the public to invest in stock and securities of all kinds.

Before putting money in stocks or shares, a lot of questions should be answered: What securities one had better buy, what securities bring about high profits, what is the policy of a certain company on sharing profits, how is the financial situation of the company, what securities are cheap and when we should buy, or sell them, etc.

Only financial and economic experts can answer these questions by gathering and processing related data. The public and investors can hardly give an exact estimate of a certain company even if they are supplied with all data and information about the company.

The public, both buyers and sellers of securities, could meet with this difficulty because the amount of information is too big and detailed, and they can't afford the time to gather and analyze it. Just because of this, stock exchange firms have come into being in order to help the public and investors solve this problem. In these firms, there are armies of experts and analysts specializing in stock exchange business which is almost unknown to the Vietnamese people.

So what is the stock exchange firm?

In the stock exchange, there are stockbrokers who act as intermediaries between buyers and sellers, usually charging a commission; and dealers who buy or sell for their own account and risk. The brokers usually form stock exchange firms which become a necessary financial intermediary in an economy.

Like other markets, there must be commodities in the stock exchange. Securities are commodities in the stock exchange. At present in Vietnam there have been some commodities for the stock market:

- Shares of companies with a total value of over VNĐ1,000 billion: They are issued by over 100 joint-stock companies, including 47 commercial banks, 2 finance companies, 1 insurance company.
- Bonds: Nguyễn Tất Thành street project bonds issued by HCMC