is no such regulation.

We petition the Government to take this measure and consider it as a non-tariff barrier in the strategy to join the AFTA which can help local companies compete against foreign rivals and this measure should be brought into effect before local companies come to the brink of bankruptcy.

c. *Government expenditure on investment projects*

- Giving priority to intensive investments instead of new ones: From both theoretical and practical aspects, intensive investments always prove more effective and productive than new investments. Therefore new investments are only allowed when the project aims at producing a product that has never been made in Vietnam.

- Giving soft loans to projects that are producing exports and controlling a large share of the domestic market: To carry out this measure properly, the Government should have a new mechanism which is free from corruption.

- Keeping on financing major investment projects: In this measure, the Government should take socio-economic effects of these projects, along with other consequences, into consideration, and avoid investing in too many projects and leaving next generations burdened with debts.

- Increasing foreign exchange reserve: The central bank can buy foreign exchange at high prices to increase the reserve, and then depreciate the domestic currency step by step (from 0.5% to 1.0% a quarter for example) in order to reduce difference between real and nominal exchange rates and help local companies enhance their competitiveness.

d. *Reform in wage system*

This reform can help to stimulate the spending and could go in parallel with the extension of consumer credit to wage earners in order to deal with gluts of certain goods, promote social welfare and develop production.

e. *Adjustment to the VAT Law*

For the time being, a tax reimbursement mechanism should be worked out in order to make companies trust in the tax system and keep on expanding their business. In the long run, necessary adjustments should be made to the VAT Law.

f. *Promotion of non-cash payments*

This measure should be carried out in parallel with above-mentioned ones to achieve the three following targets:

+ Curbing the inflation rate by controlling the volume of bank notes.

+ Helping realize the VAT Law by inspecting payment documents sent to banks.

+ Increasing bank current deposits which are of low interest rate in order to allow banks to ensure their profit ratio and supply loans at a reasonable interest rate to companies.

g. *International competition and marketing strategies*

Three parties, governmental bodies; research institutes and companies, had better cooperate in working out a strategy to market local goods to foreign countries and help Vietnam take part in international specialization and cooperation. For the time being, the following measures could be taken:

- Organizing a "Vietnam Day", on September 2 every year for example, to advertise Vietnam's goods.

- Developing relations with, and then, joining international professional associations.

- Getting access to Commodities Exchange Center in Chicago in order to penetrate into the American market and establishing centers of the same kind in HCMC and Hà Nội open to both foreign and local traders.

- Selecting some company managers and having them work as commercial counselors in Vietnamese embassies.

- Giving export subsidies and incentives to local companies producing exports.

h. *Macro-economic management*

- Making exact and clear delegation of authority and assignments in order to prevent duplication of functions and recrimination among governmental bodies at different levels.

- Getting and studying feedback from the public and companies in order to review policies and mechanism if need be.

- Necessary studies should be made and working plans should be prepared before introducing any policies and mechanisms in order to avoid unnecessary and time-consuming adjustments.

Finally, the overall measure is to mobilize everybody to take part in the struggle against corruption and red tape in order to make other measures produce intended results■

Our banking system has ran into bad conditions, with high overdue debts, losses via criminal casesdue to poor performance. Another reason is a lack of scientific credit policy.

In the subsidization period, commercial credit was banned and only state banks were allowed to offer credit. This is an erroneous will to abolish the capital market. But in the *đổi mới* period, there is no new credit policy to replace the old one. In fact, commercial credit has been floated, both domestically and overseas. It included deferred payment L/Cs carelessly opened in 1995 and early 1996, leading to the Epco-Minh Phụng case with losses of US$100 million (VND 1,300 billion). Commercial credit was widespread across local marketplaces. Small-and medium-sized enterprises had to sell their goods to private traders (owning kiosks in the marketplaces) with deferred payment and an interest rate equivalent to 150%-200% of the bank rate.

Enterprises, especially state-owned ones, have taken over others' capital, even though the public arrears of VND10,000 billion were cleared in 1998, but the current figure requiring clearance amounts to 134,000 billion. How many bank loans need buyers and become overdue ones? Theoretically, commercial credit will transfer bank credit from one enterprise to another, one industry to another and diverge the bank capital distribution from key industries. There are no agencies responsible for the management of this kind of commercial credit. These debts sold on credit have no debt certification because there are only 4 articles of the Trade Law concerning commercial bills and no guidelines for the implementation.

The state credit is now on the move due to demand stimulation. The open market almost stops operation because the Treasury bonds are not adequately injected into or attracted from circulation. There are almost no commercial banks taking part in the interbank market since the lending bank still requests the borrowing bank's treasury bonds as collateral. In France, the interbank market uses non-transferable treasury bonds (in the money market) to make the borrowing and lending among commercial banks the simple and convenient deals in treasury bonds. As a result, the lending contracts complex and hard to be far conducted can be avoided.

A SCIENTIFIC CREDIT POLICY IS NEEDED

by VŨ NGỌC NHUNG

The Government has not identified the utilization of state credit for consumption and investment.

The consumption credit has not been given guidelines in line with a particular policy, so overspending is one of reasons bringing Thailand into monetary crisis. Commercial banks which had rushed into lending for installment sales of consumer goods in 1994-1995 faced crunch times due to overdue debts. The fact that clients buying goods by installments and immediately sell them just in the front of shops to gain capital was reported by many papers but it has not yet waken up the central bank to clarify its policy for this kind of consumption credit. Its target and range have not yet been paid full attention to so that it can become a uniform policy for forms of credit.

Usury has long lasted since the feudalism. Even during the feudality, the capitalists had fought against usury and the King decreed a ceiling rate of interest was kept at 10-12% per year. Those lenders violating these regulations would be punished. In our country, usury exists publicly, lenders mobilize capital at too high interest rates without license and they are not arrested unless they defraud someone (not because they open "illicit banks"). Interest rates in marketplaces, especially in rural areas, double and even triple those of commercial banks so commercial banks fear if they reduce interest rates, there will be no depositors.

In 1997, the ceiling loan rate of interest went down to 1%, joint stock banks ironically endured losses because they lowered deposit interest rate only by 0.5% and the gap between loan and deposit rates was 0.15% while the average costs were 0.3%. (In 1996, the National Assembly set the gap of 0.35% and certainly causing losses. In France, the costs are 5.6%/year or 0.47%/month according to sources from the Association of French Bankers). Even interest rate policy is not transparent, so the interest rate was negative before 1989, extremely high from 1989 to 1990 (deposit rate plunged from 12%/month to 7%/month) making credit cooperatives mushroom and then bankrupt in 1990. In 1994-1996, the interest rates went down slowly, 5-7 times higher than other countries' ones. This generated banks' capital glut (they used only 57% of deposits on average). As a result, the interest rates plummeted four times in 1996, the ceiling loan rate dropped to 1% per month in 1997, forcing joint stock banks to reduce profits to 3.1% per year. Their credit quality was poor, and in addition they had lowest profit ratio among industries.

The reason for volatile interest rates is there is no interest policy in line with Karl Marx's theory: "Loan interest is part of profits that manufacturing capitalists share to lending capitalists". That theory forced bank interest rate not to exceed average profit ratio. This practice has not yet occurred in the interest rate policy, so credit cooperatives collapsed and the banking system was poor. The interest rate lower than the average profit ratio will attract businesspersons to take loans, and higher interest rates lure only reckless guys like Tăng Minh Phụng and others which are insolvent and lending at any rates to repay debts.

In addition, the existing credit policy tends to change the debt collection from collateral into a unique form of debt collection, so the joint stock banks' consideration for loans is currently just evaluation of mortgages, they underestimate the clients' efficiency of projects for loans and solvency. In case of fiduciary loans, this evaluation will be carefully carried out. Those enterprises, especially small- and medium sized enterprises have effective projects for loans but their borrowing is refused because they have no collateral. The State Bank of Vietnam's Governor issued Decision 324/1998/QĐ-NHNN1 on Sep 30, 1998 ruling that in Article 7, the fifth condition for loans is " to comply with the Government's regulations and SBV's guidelines concerning loan guarantee". Therefore, the credit policy does not accept fiduciary loans. It is misunderstood that collateralized loans will be surely guaranteed. Rather, the main debt collection depends on clients' incomes.

In such a condition, I suggest relevant agencies such as Ministries of Finance; of Trade; of Industry; SBV, and the Vietnam Chamber of Commerce and Industry to jointly hold a workshop to make a general credit policy. Thereby commercial banks will have their own detailed policy and no longer use high interest rates to charm depositors and "break" the set ceiling rate of interest to serve reckless clients who are seeking capital at any prices■