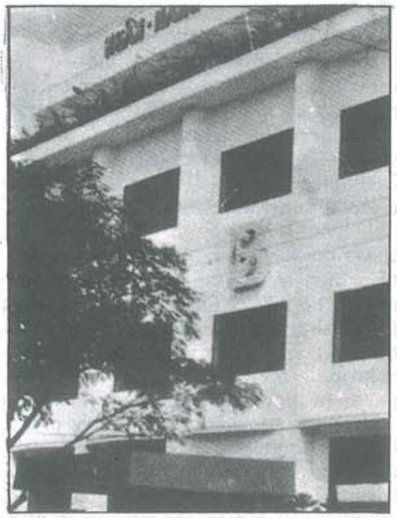

SOME OPINIONS ABOUT CREDIT INTEREST RATE

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In the system of macro-economic policies, the policy on credit interest rate plays an important role, it is very sensitive and affects directly every economic sector and every social stratum. Loaning interest rate is also the most important tool in the management of national monetary policy, expediting the economic growth as well as curbing inflation.

In our country, from 1989 up to now, credit interest rate policy has been changing fundamentally. The State Bank has adjusted elastically interest rate basing on the inflation rate and objectives targeted at in each period. Deposit interest rates were higher than inflation rates, the interest rates of deposit and of loaning have been adjusted sensibly as shown in the chart below:

The interest rate change for six years now (%/month)

	3.89	12.89	11.90	9.91	10.92	10.93
- Non-fixed time savings interest rate	9.0	5.0	2.4	2.1	1.2	0.7
- Three month period savingsinterest rate	12.0	7.0	4.0	3.5	2.3	1.4
- Maximum loaning interest rate	3.5	3.9	2.9	3.0	3.5	2.1
- Inflation rates (average rate of recent 3 month)	5.9	2.7	7.6	4.0	0.2	-0.3

Source: State Bank of VN

Especially in 6/92, there was a landmark in the interest rate policy: from negative interest rate policy to positive interest rate one, it terminated the last step of State subsidy through loaning and began putting it into operation in market mechanism. The interest rate structure consists of: capital mobilization interest rate which made up of basic interest rate (real interest rate) and price index in the market; (average) loaning interest rate which made up of (average) capital mobilization interest rate plus costs and reasonable interest of bank. The State Bank only stipulates the maximum and minimum interest rate scales and wherefore it has given the activeness to commercial banks. The discrimination of loaning interest rate towards economic sectors has been brought an end. Interest rate keeps capital of borrowers and depositors intact. The interest rate policy has en-

couraged depositors because they are not worried about inflation, at the same time it affects positively borrowers who are bound to use loans sensibly and effectively. Deposits increased considerably, quality of the credit service is higher than before, the ratio of overdue debts reduced from 25% to 10%. The system of commercial banks became dynamic in trading,reduced little by little loss, and some of them began producing profit. Nonetheless, the most vital thing is that it promoted the economic development and drove inflation back, curbed it within mono-digit.

Nevertheless, there are some defects left in the execution of interest policy in our country. The State Bank has still interfered with the stipulation of interest rates of commercial banks. In other countries, Central Banks only promulgate rediscounting interest rates and control the highest interest rate of loaning. The interest rate stipulation in our country is contrary to international practices, that is to say, long- and medium-term loans yield less interest rate than short-term loans. Moreover, there is the paradox of execution of domestic interest rate: interest rates produced from long- and medium-term deposits are higher than the short-term one, but interest rate of loaning is the contrary. Moreover, the longer period of loaning is, the bigger risk is. Interest rate of capital mobilization and that of loaning between domestic and foreign currencies are of great difference, and have not yet promoted the deposit of foreign currencies, whereas it encourages enterprises to borrow foreign currencies. That results in corruption and being hard to control the use of foreign currencies in payment and circulation.

Especially credit interest rates stipulated by State Bank as of 1 Oct. 93 has been carrying out in our country in which interest rate for short-term loaning is maximum of 2.1% per month or 25.2% per year. The interest rate is so high, it is 2.5 times to 3 times as many as that of other countries (average interest rate is 6-8% per annum). The above-said interest rates are not compatible to the indexes of price increase in the market: from 10/1993 to June this year, average price increase is 1% per month, estimate made in 1994 is about 6-8% (in other countries, interest rate is adjusted regularly basing on market changes). The interest rate is incompatible to the economy in the present situation. In reality, the loaning interest rates are about 2.3-3% per month and interest rate is higher if overdue. So, it gets in the way of investment expansion.

Another defect is that the relation between deposit interest rate of banks and that of treasury bonds. Interest rate adjustments are always discussed and reached by Finance Ministry and State Bank, but when it is put into operation, State Treasury Department carries out otherwise. For example, recently the interest rate of treasury bonds of six-month term was 1.7% per month and interest paid in advance, so the actual interest rate was 2% per month. Similarly, in respect of treasury bonds of 12 month term, actual interest rate is up to 2.6% per month. In order to mobilize capital as well as prevent money from being withdrawn out of banks for buying treasury bonds, commercial banks also have to apply interest rate equivalent to that of State Treasury Department. Due to capital mobilization of high interest rate, commercial banks have to loan with the interest rate of between 2.6% and 3% per month. Therefore, that exceeds the interest rate scale stipulated by State Bank. Analyzing the situation,banking experts said frankly that there seem to be two Central Banks which in our country, because every country has only a Central Bank which controls interest rate (commercial banks have to follow Treasury Department for interest rate adjustment for capital mobilization).

The above-said defects of carrying out interest rate policy, to some extent, have been taken into account. Nonetheless, our country is in the first step of market economy, it cannot thoroughly implement at once the requirements of interest rate like other countries. The question raised is how the measures are taken to integrate quickly into the world flow. But the measure can be carried out, as far as I'm concerned, is that the market of treasury bonds has to be deployed immediately. Treasury bonds have to be issued by State Bank and State bank holds bids for selling treasury bonds to commercial banks and any bank bidding lowest "price" will be authorized to sell. Carrying out this will avoid damages to the national budget and get the same interest rate (other countries perform the measure). The State Bank should stipulate only maximum interest rate and allow commercial banks to stipulate their specific interest rates. State Bank has to check the right performance of interest rate stipulation as well as prevent so much difference of interest rates between commercial banks, And a further step is to bridge the gap of interest rates between domestic and foreign currencies. The State Bank should make commercial banks adjust recapitalization interest rate suitable for capital mobilization interest rate in the market ♣

Currency circulation is incessant movement of money for serving the process of service and goods circulation and for making payment.

Currency circulation consists of two fields: cash circulation and non-cash circulation. The two fields has close and mutual relations.

The tendency in the world, in these days, is of non-cash circulation, of which ratio is larger and larger (about 85-90%). The result originates from the predominance of non-cash circulation when compared with cash circulation, for example if non-cash payment increases,expenses relating to cash circulation such as money printing,counting,packing,carrying will decrease. On the other hand, bank will, through services of non-cash payment, mobilize idle capital for serving production, service and goods circulation as well as expedite currency circulation.

As for enterprises and individuals, the use of means of non-cash payment make them not to be worried about cash protection and transportation during the process of payment and doing business, especially with a large amount of cash being paid and a long distance being transported.

In order to serve the field of non-cash circulation, kinds of means of making payment have been used such as cheque, credit card... in which cheque is a means of making payment that has been used so long and so popularly in most of the countries in the world.

According to Geneve Convention in 1931, cheque is defined as an written order to a bank asking them to pay money from a customer's account to the account of the person whose name is written on the order(drawee). So, when drawing a cheque, first of all, a drawer have to be a person who has opened a checking account in a bank.

In other words, an account holder can draws a cheque under the principle:

Face value of cheques $\leq$ the credit balance on checking account.

So, what will happen when a drawer violates this principle?

The result is that the payment towards this cheque will be obstructed and the drawee's benefit will be violated.

In order to realize more clearly, let's have a look at the chart about the process of cheque payment: