

The system of state commercial banks has branches in every district, but its real size is still limited, because the banking facilities are poor, both in forms and equipment, therefore the people and businesses aren't offered best services.

In order to attract capital from the public and businesses and make it investment, the Central State Bank has to help commercial banks expand their real size by providing them with banking facilities, so the people can easily approach and use these facilities.

As for the public, the commercial bank can offer fixed deposit account and call account deposit services.

As to call deposit, at present, the people have not been allowed to open checking account and use check. This is a mistake that caused commercial banks to go short of deposits or cash. The commercial banks should give the customers (of any economic sector provided that they have legal ability) the right to open checking account (or current account). This can help stop using and reserving banknotes in quantity and mobilize money not immediately needed into banks.

Experience showed that if there is someone who draws money, then there is also someone who deposits. This money isn't one's savings, but it will be spent, the owner neednot draw from his (or her) account and they can pay by check. What remains to be done is to carry out this service perfectly in order to win people's trust. As a result of economic development and market expansion, there will be a great need for opening checking accounts: it's a way of paying (bill, debt, charge... to any individual or organization) without drawing cash from the bank. It can keep the bank away from going short of notes.

When economic activities become more complicated and livelier, the act of paying should be done quickly, therefore any individual or organization will keep deposits in their current accounts. However, these deposits are always kept appropriate to the need for paying because they bear only a small interest. If the bank can offer best services to the customers, that amount of deposited money will be very large and will be an important source of money for bank's activities.

As regard the public, the bank must be a reliable place for them to deposit the idle money instead of making it dead money or hiding it somewhere. Putting into the bank, this money could be used effectively for developing the economy.

THE CENTRAL STATE BANK AND THE EXPANSION OF COMMERCIAL BANK SYSTEM

by LÊ NAM HẢI

As regard the bank, when the people are allowed to open checking accounts, one VND they deposit can make total deposited money in the system of commercial banks to increase by many times, perhaps four, five, or even 10 times compared with initial deposit according as how much the reserve ratio stipulated by the Central State Bank is. Contrarily, one VND taken out of checking account could make total deposited money in the system to decrease by many times. For that reason, the right to open checking account should be granted to the people as soon as possible in order to increase the source of money for the bank and to meet the need for capital of the people and businesses.

As regard fixed deposit account and savings account: although they were allowed to open but represented only a small amount (32% of the sum of money deposited in the bank), the main cause of this is the low interest rate. This is the impact of interest rate on savings, a controversial problem. There is a contradiction between businesspersons who want to pay a low interest on loan capital and savers who don't want to deposit money in the bank because of low interest rate, especially when this rate is lower than inflation rate.

Acting as an financial intermediary, the commercial bank is also a business and its owner always wants to maximize the profits through lending and borrowing. The bank offers favorable conditions for depositing and tries to lend these deposits at interest. The bank uses managerial skills to make a list of investment capital of various kinds, although depositors only concern themself-

ves in the interest rate or convenience of using check. The managerial skills of a banker include knowing in total sum of money deposited in his (or her) bank, how much should be kept as short-term liabilities, and he (or she) could have long-term liabilities lent at an interest rate, which is higher than bank interest paid to customers, and in appropriate time before he (or she) should repay deposited money to customers. Without this intermediary agent, the depositors cannot know where to invest their money in because they are lacking in time and professional knowledge. This is a service provided by the bank as an intermediary.

As for businesses, besides call-deposit account and checking account, the bank can offer them the bank overdraft service by which the bank allows customers to overdraft their checking account and use this agreed sum of money for an agreed length of time. This arrangement helps businesses easily get needed sum of money larger than what they have in their accounts, and help the bank know well about financial situation and activities of that business. In addition, by loaning through current accounts the bank created deposits, that means they could increase the bank deposits. This is what R.G. Hawtey in 1920 called "loans make deposits".

Besides providing banking facilities, means of risk transfer and distribution are also needed.

A well-operated banking system also supplies another important service: risk transfer and distribution. Banking activities involve the highest degree of risk and a well-operated banking system can minimize the degree of risk, except for force majeure such as earthquake, the world economic depression...

On the contrary, if the risk transfer and distribution aren't done effectively, the banking system could easily be collapsed because the people rush to take their money out of the bank.

One of the causes of risk of bad debt is the lack of information about borrower, about feasibility of investment project and activities of businesses, along with the lack of knowledge and experience of bank's officials. In addition, some necessary banking facilities and institutions haven't been organized by the State Bank in its role as a central bank.

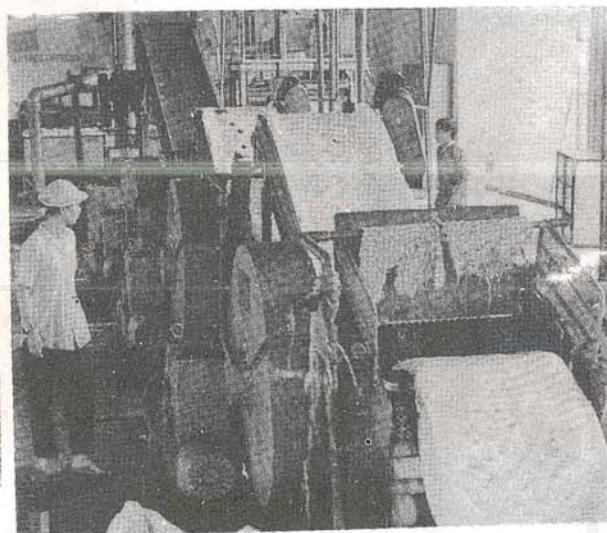
Besides measures to get information about borrowers and investment projects, and to raise the educational standard of bank's officials, we should introduce common banking facilities of the banking system operating in the market economy, such as utilization of bill of exchange, promissory note, warehouse warrant. They are credit documents which can help transfer and distribute risk effectively by two ways:

- They are bills which the bank is always ready to discount: there is only a low degree of risk doing this because everybody who signed on these bills are responsible for paying to the bank. The risk here has been distributed among many people.

- By way of debt assignment by endorsement, the bank could transfer risk to other financial institutions which are ready to accept it.

There are many other ways of distributing risk such as fixing due date, choosing between a fixed interest rate or an adjustable one, dividing loans into many types, insisting on collateral or warrantor...

In addition, the Central State Bank can help reduce risk degree by means of providing information and improving reliability of information about borrowers (businesspersons, enterprises, commercial banks...). One of the best ways is to form Risk Center to collect information about the financial situation and the degree of trust can be placed on borrowers... and supply that information to banking concerns ♣



One of difficulties in HCMC industrial production is the capacity of equipment and labor efficiency weren't used up. Besides that, the sources of capital and techniques aren't stable. All of these resulted in a low labor efficiency, a high maintenance cost and a low product quality. Otherwise, due to lack of right orientation in reformation, planning, investment and development of various industries; and also in government direction and management, the structure of HCMC industry is unreasonable.

However, in recent years, the public sector in HCMC has been changed to such an extent that it could, more or less, meet requirements of its tasks in the new situation:

HCMC Service of Industry has recently planned to reinforce and innovate the public sector. According to its plan, until late 1995, 50% of state enterprises will be annexed, dissolved or transformed into limited (or joint stock) companies.

This task is necessary. But, perhaps, we have to consider it more carefully and carry it out more cautiously. Examining both newly-formed and well-developed market economies, we saw that rearrangement of state enterprises doesn't always result in success everywhere. The viewpoints of these countries, of course, are different from ours—they stressed on privatization—but we can also draw from their success (or failure) some lessons necessary for the rearrangement of state enterprises in our country.

In the workshop "Process and pace of economic reformation in Vietnam", "Techniques of intensification and development in Vietnam economy" on Aug 4 and 5, 1994, Guy Schulders, professor of the University of Paris I said that:

Poland case is exceptional and it provided us with useful experience. Poland state-owned enterprises have responded favorably to new economic reality and have taken part in reconstructing Poland industry.

In mid-1992, the World Bank conducted a survey of 75 typical enterprises which were of state ownership before economic reformation taking place in Poland.

Sixty-four enterprises have responded to the survey and have sent to WB their replies including monthly information (as of June 1991) about their sales, cost, profits, wage and salary, taxes, loans... These enterprises operate in 5 industries: steel, electric engineering, chemical, light industry (textile, leather) and food processing. Up to mid-1992, of these 64 enterprises, 3 have been privatized completely, 24