TO SUPPORT INDUSTRIAL DEVELOPMENT BY REDUCING INTEREST RATE

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On Oct 13, 1995, in HCMC branch of the State Bank, the workshop discussing "Taxes charged on banks, interest rate and economic development" was held by *Thời báo ngân hàng* (Banking Times) and *Ngân hàng* (Banking Magazine). Of participants in the workshop, there were many high-ranking officials from the Ministry of Finance, many finance and banking experts working in HCMC-based institutions and economic concerns.

Various opinions were presented in the workshop. The following are some notable ones.

1. Vietnam taxes and interest rate are too high

Bùi Huy Hùng, Director-general of Joint-stock Commercial Bank for Non-state Businesses gave an example: A business importing components for assembling electronic products has to pay turnover tax of 8% and import duty of 5%, whereas another business importing the same electronic product has to pay only the turnover tax 4%. A business producing goods for export has to pay company income tax of over 30%. The income tax charged on local businesses is nearly twice the income tax rate paid by a joint venture co-operating with foreign partners.

2. Interest rate and taxes on banks

Many speakers were of opinion that the bank's lending rate for advances was too high. This rate varied from 2% to 2.7% per month (while the same rate in foreign countries varied from 8% to 12% per year). If it takes two years to build a factory, the investor will have to pay 48% of his (her) borrowing capital before he (she) can produce something and make profits. So, not many people want to use bank loans to start a business. In short, the banks supply only short-term loans and they usually supply these loans to trading businesses and contribute nothing to industrial development.

So the bank's lending rate for advances should be reduced, medium - and long - term loans should be offered in order to develop the manufacturing industry.

Three measures to reduce the bank's lending rate were suggested:

- Reducing the bank's borrowing rate for deposits: the current interest rate paid to savings account is 1.3% per month, or 15.5% per year. But as we know, the CPI has increased by 11.7% in the first eight months of 1995. If this figure is kept unchanged until the year's end, the real interest rate for deposits will be 4.2%. but if the CPI continues to increases the interest rate will decrease. Thus, this measure seems unrealistic.

- Reducing operating expenses of the bank: commercial banks should leave from 20% to 30% of bank deposits in the State Bank's safe keeping. They can't loan this stock of money to customers but they have to pay interest for it. This is an irreducible expenditure, so are expenses on wages and other expenses.

- Abolishing turnover tax charged on the bank: the turnover tax rate charged on commercial banks is 15%, representing 0.14% of lending rate for advances. In 1995, all commercial banks should pay VNĐ400 billion in turnover tax. If this tax is abolished, the banks can reduce the lending rate by 0,25% or 0,30% per month. The budget income will decrease by VNĐ 400 billion, but manufacturing factories will pay an amount much bigger than 400 billion in profits tax when their profits increase because of the low lending rate.

The third measure suggested by the *Thời báo ngân hàng* got a big hand in the workshop. In my opinion, besides the abolition of turnover tax charged on the banks, the Government can take many other measures to reduce the lending rate:

+ Reducing interest rate for savings accounts: In South Vietnam before 1975, the interest rate for savings accounts was always lower than the rise in CPI, but bank deposits increased year after year. So it's unnecessary to fix the interest rate for savings account at a level higher than the inflation rate in order to increase bank deposits. By reducing the bank's borrowing rate, the lending rate can be reduced also.

+ Encouraging the people to open current accounts: Generally bank customers opening current accounts may receive no interest or very low interest because customers open current accounts to cash and draw cheques. In foreign countries, current accounts compose the main source of capital for commercial banks. In Vietnam, the Vietnam State Bank has recently allowed private persons and organizations to open current accounts and draw cheques, but these cheques are not negotiable, so we had better form a clearing house in HCMC.

Some other measures could be taken to encourage cheque usage: giving tax relief to those who use cheques to buy houses, real estates or goods, etc. These measures have helped banks in foreign countries get an abundant sources of working capital and have ability to supply loans of low interest rate in comparison with Vietnamese bank's lending rate.

+ Reducing reserve ratio of commercial banks from 20% or 30% to 15% or 25%, following in Japanese bankers' footsteps.

+ The central state banks could allow commercial banks to mortgage security mortgaged by bank's customer to the State Bank in order to borrow low interest loans if the original mortgagor uses bank loans to invest in business. By doing so, the lending rate of medium - term loans could be reduced some more■