

# ON INTEREST PAYING TO ACCOUNT OF ECONOMIC CONCERNS

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At present, the total amount of money standing to the credit of current accounts at almost commercial banks occupied a large percentage in total bank deposits. This formed a remarkable and attractive source of capital for banks. According to current regulations of the State Bank, interest rate of these accounts is 0.1 per cent a month. This interest rate is a controversial problem. One opinion said that current accounts of economic concerns would receive no interest, but the other argued that current accounts of economic concerns, like savings account, might receive interest. Which opinion is acceptable? And is the current interest rate reasonable?

The first opinion (paying no interest to current accounts of economic concerns) based on realities in different countries in the world. In our opinion, however, this problem should be studied on a basis of its relation with other interest rates. Could we pay no interest to these current accounts when savings accounts received an interest rate of 0.7 per cent a month? If we can pay to savings accounts an interest rate of 0.7 per cent an interest rate which many countries didn't accept—so why do we want to pay no interest to current accounts as other countries did? Moreover, we can't say that those who deposit money in order to have their payments done by banks can't demand an interest rate, because payment service supplied by Vietnam banks is still imperfect. On the other hand, economic concerns had to pay bank charges for services.

As for the second opinion (paying the same interest rate to both current and savings accounts), we think that it's necessary to keep a difference in interest rate between current and savings accounts in order to encourage economic concerns to use capital for developing their businesses instead of making profits by depositing money in banks.

But how much is the necessary difference? Is the current difference of 0.6 per cent reasonable?

In fact, interest rate of current account is a problem which banks have interested in but found no satisfactory answer. Watch changes over times in interest rate of current account in comparison with that of savings account to see banks' uncertainty.

## Decrease in interest rate compared with previous periods

	Interest rate of current account of economic concerns (A)	Interest rate of savings account (B)	A/B
01.8.92	- 50%	- 33%	1.5
22.10.92	- 40%	- 16.7%	2.4
20.4.93	- 67%	- 20%	3.4
01.10.93	0%	- 10%	-

These data showed that there were uneven fluctuations of interest rates of those two kinds of account. The decrease in interest rate of current account is faster than that of savings account: 1.5 times on August 1, 1992; 2.4 times on Oct 22, 1992; and 3.4 times on April 20, 1993. But on Oct 1, 1993, interest rate of current account saw no change, while interest rate of savings account decreased by 10 per cent, so the difference between two rates was shortened.

But the difference is still too large, because:

- An interest rate 0.1 per cent is too low compared with other interest rates.

- In fact, the interest rate of current accounts is of no effect now. In order to attract deposits from economic concerns, many commercial banks have offered various kinds of bonus apart from paying regular interest rate.

So we suggest that the difference between those two rates should be shortened once again. This measure

could produce good effects:

+ Reducing losses to economic concerns.

+ Encouraging economic concerns to increase their cash at bank and enhance their capability of paying debt.

+ Preventing capital of companies (especially state-owned ones) from being changed into personal

money, thereby avoiding losses and changes to capital of economic concerns.

As for commercial banks, reducing the difference between those two interest rates can increase their expenses, but in return for this, high-interest source of money (savings account) will decrease and low-interest one (current account) will increase, because economic concerns, being content with a reasonable interest rate, will deposit money in current account instead of savings account or certificate of deposit.

On the other hand, banks can attract cash balance of many concerns who didn't like to do business with banks because of complex procedures or trivial interest rate.

Generally, reduction of difference between two interest rates can help bank deposits increase remarkably. A strong banking system can help economic concerns develop healthily, and well-developed economic concerns can create conditions favorable to banking activities.