

The issue of the bank promissory note in Vietnam was protested by many economists who considered it as merely a bank note of too big a denomination that could damage the monetary policy. Some years after it was introduced, most people admitted that promissory notes had really reduced payments through banks and made the Vietnamese banking system one of the worst systems in the world. Businesspersons who want to hide their sales and profits gave it a big round of applause because it made

with bank loans and couldn't force them to pay back these debts. That is why many borrowers, such as Epcos and Minh Phung, could put a lot of bank loans in real estate.

Before 1854, the Bank of England issue notes of 1,000 pound to help businesspersons make daily payments and these notes were usually sent back to banks at the end of the day. In 1854, the bank clearing service was introduced in order to exchange checks and drafts made by businesspersons and settle differences at the end of the day,

million and above through banks: this practice will help banks keep a close watch on customers' expenditures and sales and prevent wrong use of bank loans.

- imposing high taxes on payments in cash: in France where the use of checks is very common, the government still charges high tax rates on shop selling goods for cash with the aim of preventing tax evasion.

- popularizing international methods of making payments: for example, payments in form of LCs are broadly

## ARE BANK PROMISSORY NOTES NECESSARY?

by VŨ NGỌC NHUNG

their payments in cash easier. Banking and tax authorities found it difficult to control the movement of cash flows through banks. Under the centrally-planned mechanism, all companies were forced to make payments through banks and the only source of finance for state-run companies is the banking system, therefore banking authorities could get information about sales, expenditures, profit and loss of all company debtors. At present, the fall in payments through banks may be the worst shortcoming in the banking system as compared with the period under the centrally-planned mechanism.

When debtors could borrow from other lenders and make payments in cash to one another, the banks couldn't know what debtors did

and as a result, there was no need for the 1,000-pound notes. The bank clearing service reduced remarkably the amount of bank notes in circulation. The banks changed from issuing and holding bank notes to acting as customer's agent in paying and receiving payments.

Thus, the introduction of bank promissory notes, as bank notes of the biggest denomination, has turned Vietnamese banks into bank of cash like banks in England before 1854. To encourage payments through banks, it's necessary to revoke bank promissory notes, and then, the Government and central bank should take the following measures:

- forcing customers who borrow VND100 million or more from the banks to make payments of VND1

used among developed countries according to the UCP500 rules set by the International Chamber of Commerce while this kind of payment represents only 1% of payments through banks in Vietnam, because the SBV considers LC as the paying method used only by traders who lack mutual trust and the Decision 22-QĐ/NH1 made by the SBV Governor on Feb.21, 1994 gave only 1.5 pages to this method while the UCP500 is a volume of more than 100 pages.

Reforms in non-cash payment service should be started with documents from the Government and central bank. It's a precondition for recovering this service and prevent damage to the banking system.

