

SAVING AND TURNING PERSONAL SAVINGS INTO INVESTMENTS

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1. The role of saving in the economic development

Saving is a process in which a part of income is put aside for future use or for investment to produce more income. Saving can be undertaken by households for later personal spending (buying house, medical care, living after retirement, etc.), by businesses when they keep retained profits with a view to financing new investment and by governments when they put aside budget surplus for future development projects. Finally, all savings made by an economy could be turned into finance resources that will be used to increase the economic growth. That is why countries with high savings ratios can carry out big investment projects and generate a higher growth rate.

One of good examples of this is the stable and fast development of South Asian economies in the past three decades. Their average growth rate of 7 - 8% per year is ensured by the gross investment equaling some 30% of GDP. Thus, a high growth rate is always coupled with a high savings ratio.

In this article, we want to concentrate on saving and attracting personal savings.

2. Vietnam's present financial situation

Vietnam has planned to become an industrialized country by 2020. To double the national incomes by 2000, in the years 1996 - 2000 the economy needs a gross investment of US\$42 billion. It's planned that 22 billion of which would come from domestic sources and other 20 from foreign sources. This plan has become a great challenge to the national financial system and macroeconomic policy makers.

To grasp the present financial situation in Vietnam, we had better reexamine the growth rate (gY), the gross investment/GDP ratio (I/Y) and the savings ratio (S/Y) in the period between 1991 and 1995.

Table 1

Year	1991	1992	1993	1994	1995	1996
gY	6%	8.6%	8%	8.8%	9.5%	9.5%
I/Y	15%	17.6%	24.9%	25.5%	26.9%	27.8%
S/Y	10.1%	13.8%	14.8%	17.6%	19.1%	21.1%

Sources: Vietnam Economic Time, January 1997. Thời Báo Kinh Tế Saigon, July 10, 1997. ADB Report, Vietnam Investment Review, April 22, 1996.

We see that all indicators increase year after year. In 1996, a growth rate of 9.5% means that the economy needed a gross investment equaling 28% of its GDP. However, its savings ratio was only 21.1%. Apparently, the domestic savings ratio failed to meet demand for new investment. It's worth noting that the bigger the difference between savings and investment, the greater the budget deficit and trade gap, sometimes the budget deficit is bigger than the usual limit of 5%. According to the ADB, to obtain a high and sustainable growth rate, Vietnam must obtain a savings ratio of 32% in 1996 and

34% in 1997 (compared with the planned target of 22%). Thus, facing the great demand for capital, especially in the period of industrialization, the task of attracting personal savings in order to finance investment projects becomes more urgent than ever.

3. Personal savings and their structure

The following table from *Khảo Sát Mức Sống Dân Cư Việt Nam 1992 - 1993* (A Survey of Vietnam's Living Standard) published by the General Statistics Department in 1993 could give us an overview of the structure of personal savings in Vietnam.

Use of savings	Average amount (VND)	%
Deposits in banking system	174,100	8
Deposits in other organizations	71,600	4
In cash	179,100	10
In US\$	65,700	4
In gold	784,300	44
In real estate	357,300	20
Other possessions	175,900	10

From this table, we see that common uses of savings are:

- Storing savings in the dollar and gold is the most popular practice because it is the easiest and safest. The common people not only worry about the devaluation of domestic currency, but also have a tendency to use the dollar, instead of gold, as a means of storing value and a medium of exchange. This is a worrying fact in present situation.

- Investing in real estate: The people are increasingly worrying about housing problem, especially in the present trend of urbanization and town planning. Investment and speculation in real estate has attracted a lot of dead money. When the realty market is in the doldrums, a large amount of money becomes unproductive.

- Investing in business or unofficial financial services.

- Keeping cash and buying valuable possessions (motorbike, TV set): Low-income families usually keep cash, instead of depositing it with banks, with a view to dealing with bad contingencies. Consumerism is becoming common among middle-income groups, so they tend to buy expensive things that make their lives more comfortable.

- Depositing in banks: Banks attract only a small amount of savings (around 8%). The public image of banks went from bad to worse when they had suffered a lot of great losses because of careless lending made by corrupt officials.

- Buying stocks and bonds: These commodities are completely new to the common people. The T-bills aren't attractive and popular. The equitization program has

met with a lot of difficulties coming from policy makers and directors of state enterprises.

According to Keynes, the common people have three reasons to keep cash:

- In the simple circular flow model, all transactions they make are of small size so cash is considered as the most flexible and convenient medium of exchange.

- They need cash to meet contingencies. The life involves many risks of all kinds. Moreover, in Vietnam, the law system isn't perfect and there is always a shortage of information, therefore the people take precautions of keeping cash.

- They need cash to make speculation, in real estate for example.

In their way of thinking, the means of saving should meet the following requirements:

- Money put in savings accounts must be kept safe because this is everything they can put aside for their future and they want their account balance to be kept secret. It seems that Vietnam's banking system fails to meet this requirement.

- Kinds of savings accounts held with banks must be diversified, that is, their term can vary from 6 to 12 months for example, and these accounts must be interchanged easily. Procedures for depositing and withdrawing money must be simple. Location of banks must be convenient.

- Banks had better pay a reasonable rate of interest on savings account. In recent years, the inflation rate in Vietnam has been kept well under control and depositors have enjoyed real positive rates of interest, therefore banks could attract more dead money from the public. However, the rate of interest is usually adjusted by the State Bank at short notice with the result that depositors tend to withdraw savings from banks and put in other investments because income from bank interest is unstable.

In our opinion, not only the banking system but also economic authorities and macroeconomic policy makers must pay full attention to the problem of attracting personal savings.

4. Short- and long-range measures to attract personal savings

From what mentioned above, we want to suggest here some measures to solve this problem.

a. Short-range measures

- To stabilize the macroeconomic environment is one of the most important problems for an economy. In Vietnam, to obtain this, we must keep the national budget and the balance of trade away from deficit and achieve a balance between capital accumulation and investment.

- To keep the budget well balanced, the budget deficit must be under 5% of the GDP. At this limit we could deal with any difficulties without increasing inflationary pressure and could find out necessary measures on time if financial situation becomes worse.

- To keep the balance of trade favorable, we must minimize the trade gap without reducing import. This is no easy task and it requires the Government to make the exchange rate system flexible enough to promote export and ensure international competitiveness of local products.

- It's necessary to provide the perfect setting for business and investment. As we know, the function of saving is to finance investment projects, thereby accelerating the economic development. Good investment environment can encourage private investment and as a result the banking service will develop when the demand for capital increases.

First of all, the system of investment and business laws must be perfected and the performance of economic

authorities must be improved. To enhance the quality of macroeconomic management, especially the task of making accurate predictions done by economic planning authorities, is also a measure to reduce business risk in Vietnam. Another measure is to supply full economic information to the public with a view to helping them make right business decisions.

- The public image of the banking system must be improved and there must be measures to protect the depositor against bankruptcy of banks or other depository organizations. Besides perfecting the Banking Bill and law on depository organizations, economic authorities must help the banking system develop its business. When the demand for capital increases, the banking system will try its best to find out measures to attract dead money from the public. A relevant problem needed to be solved is the system of policies and guidelines on banking operation that is described by many banking officials as a risky and difficult business. In present legal environment, to force banks to meet deposit target assigned by the central bank is rather unrealistic.

- As for the State Bank, it can't control the interest rate paid to savings accounts by simply setting up a ceiling on interest rate, it had better use other instruments that causes no shock to the public: reserve requirements, rates of discount and rediscount, credit control, etc. These instruments prove to be effective and flexible and very common among developed countries. In addition, regulations on interest rate ceiling must be based on careful studies of the supply of and demand for capital, because if the bank wants to encourage the borrower by lowering the deposit rate, will this rate ensure adequate supplies of savings?

- As for commercial banks, they had better encourage payments made through banks by offering current account facilities: private persons are allowed to open accounts to transmit money to other provinces; companies can pay wages to bank accounts opened by their workers, etc. This service is of great benefit to the economy because it helps the common people get accustomed to the banking facilities, it makes it easier for the government to control the finance system and increases banks' working capital.

b. Long-range measures

- Developing financial intermediaries: besides commercial banks, finance companies and urban development funds, it's necessary to pay attention to rural credit funds. It's wrong to think that rural residents have no savings to put in banks. The development of the system of BRI banks in Indonesia a good example worth studying. Other depository institutions such as housing associations, retirement funds, life insurance companies, etc. could be also developed in Vietnam.

- Establishing a stock market: the establishment of the State Securities and Exchange Commission is an encouraging sign. To establish a stock exchange in Vietnam, however, the equitization program must be accelerated and commodities offered must be attractive in the eyes of investors and the public as well.

5. Conclusion

Although the finance system has developed remarkably in recent years, the economy is still facing many challenges. In the national industrialization and modernization, we must know how to identify all potentials. Difficulties and solutions to them adopted by successful economies require policy makers and economic authorities to work out long-range and overall strategies that can encourage not only savings and private investment, but also sound investment projects.