Risk is something as old as the hills. Risk refers to something that may happen, a change of loss, a luck going unnoticed or an unforeseen fact with bad consequences.

In banking business, credit is the case assumed for the possible nonpayment or overdue of credit extended. Supplying credit is one of main operations of banks, so credit risk can lead to disastrous consequences, or even bankruptcy. Unlike the collapse of a trading company or factory, the breakdown of a bank could produce a domino effect in the banking system. As the nervous system of the economy, the banking system's collapse certainly leads to temporary or prolonged crises in the economy with unpredictable bad effects. That is why banks always try their best to limit risk, especially credit risk.

INCREASING CAPITAL OF COMPANY

A MEASURE TO LIMIT RISK IN BANKING BUSINESS

by LÊ THỊ HIỆP THƯƠNG

Until recently, activity of the banking system has developed well. In 1995, the short-term debit increased by 36.7%, the long-and medium-term debit by 24.6%. Loans have been supplied to all social classes. Loans supplied to non-state sectors represented 41.5% of total debit (compared with 36% in 1994). However, there are signs of potential credit risk: in 1995, the overdue debt increased by 0.26% compared with 1994 (not including written-offs). Many banks suffered big bad debts and overdue debts. These debts represented 14% of total debits in state-run banks.

There are many causes of this alarming phenomenon. One of them is that the borrowing capacity of companies is low. They can hardly become equal trading partners of banks and repay debts when due, so they make the credit risk likelier. In bank's policy, companies can borrow a sum of money equivalent to their capital. According to company statistics up to Dec.31,1995, private businesses, representing 54% of total companies, have an average capital of VNĐ165 million each; limited companies, representing 22%, have an average capital of VNĐ 790 million each (1). Their need for working capital is enormous, so in theory, they can't borrow big loans from banks, but in fact, they can secure large sums of money in spite of banks' policy. A trading company with total capital of VNĐ5,456 million has been loaned VNĐ5,950 million plus US$605,000 (VNĐ6,650 billion); Vạn Thành Company in Đồng Tháp borrowed from Eximbank VNĐ3 billion to buy rice for export while its assets were valued at VNĐ550 million only. Giving loans against bank's policy is common in most commercial banks. This fact show that bank's policy on supplying loan needs to be improved and companies have to try their best to increase their capital.

Article 25 of the Company Act ruled that all limited companies have to accumulate capital enough before their establishment and they aren't allowed to issue shares. Article 30 rules that all joint stock companies are allowed to issue shares. This enables joint stock companies to secure bigger working capital than limited companies do. Thus, to increase capital of a company, the following measures could be taken:

- The Government can increase the level of legal capital for each kind of company with a view to making it more appropriate to the current economic development. This measure will force companies to increase their capital.

- Joint stock companies can issue more shares in order to increase their working capital.

- Limited companies and private businesses can increase their capital by forcing their founders to contribute more money or changing into public limited companies.

In a situation where private companies and limited companies represent 70% of companies in Vietnam, to accelerate the equitization of them could help them improve their borrowing capacity and reduce credit risk for the banking system. In addition, the public could share risk with the banking system by buying shares. This could be also considered as a way to deal with credit surpluses in commercial banks in the past few months■

(1) *Thông tin khoa học ngân hàng* (Banking Science Information Magazine) June, 1996, P.24

(continued from p.27)

Among the attendance at the closing ceremony at Majestic Hotel, 3.30 pm, 30 October, was Prof. Nguyễn Ngọc Giao, Vice President of the Vietnam National University, HCMC. Besides leaders of the two colleges (Lotus, Agriculture & Forestry) were Prof. Đào Văn Tài, Editor-in-Chief of *Economic Development Review* and Prof. Nguyễn Thành Xương, Vice Rector of College of Economics, who had talked with Liam Swords last November. Another distinguished guest was H.E. Nick Carter, British Consul General in HCMC, whose formal speech seemed to emphasize the importance of LCCIEB's participation in the two big animated English training "markets" in Vietnam: Hanoi and HCMC. LCCIEB's presence might be regarded as another imprint on the development of educational co-operation between the two countries■