

Some Suggestions or Interest Rate Liberalization

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In the move to market economy and international

integration, finance liberalization becomes an inevitable trend in Vietnam; and an effective financial system is a precondition for rapid economic growth. In this trend, interest rate indicates capital flows among countries and it is an important determinant affecting saving, investment, and spending. Interest rates play a significant role to a nation's growth. To help boost international integration and economic growth, the banking sector is required to reform its policies on interest rates so that credit is a motive and instrument to orientate business activities. To free interest rates in the financial liberalization is an important step in the economic development strategy on the way to a thriving market economy. To perfect the mechanism of interest rate management is an urgent problem,

requiring a proper mechanism for the process of reformation. Reformation must origin from basic interest rates and instruments affecting the money market. The sector has to decide which are the best for Vietnam's process of financial integration in the region and the world. However, the process of interest rate liberalization will face a lot of difficulties and complicated problems, in which the State Bank's role becomes crucial. After 10 years of renovation, the State Bank's interest rate policies have been managed for positive expansion and liberalization in accordance with the country's socio-economic conditions. There should be some measures to remove obstacles as follows:

- Interest rates reflect exactly the relation between capital supply and demand in the economy. According to the market mechanism, capital demand must be origin for

changing interest rates; and the economic status quo can be recognized accurately through capital demand.

- To rectify interest rates in line with average profit ratio is a fundamental solution to stimulate investment and curb inflation.

- To perfect the inter-bank money market, the Government should devise policies to encourage the development of intermediary financial institutions such as tax relief, joint venture, shareholding, etc., together with strengthening and expanding the system of commercial banks in order to generate a powerful force for the market economy. The open market plays an important role as a direct instrument in monetary policy management of the market economy as well as a tool to help the State Bank control money flows appropriately.

- Banks are permitted to exchange funds, based on the agreement of both parties in compliance with law. The State Bank's non-collateral guarantee for state-owned commercial banks should be changed into guarantee services to make them more responsible for their loans.

- To improve banking activities must be supported by the Government in an appropriate, integrated and complete legal frame. The independence of banks must be respected with a view to building a level playground between credit institutions in the system. Privatization is playing an extremely important role in the expansion of the stock market; commercial banks act as not only advisors but also underwriters for newly privatized companies.

- The market of commercial bills should be established; at present the central bank only discounts commercial bills, so it is very hard to resell them due to the absence of

this market. The trading should be carried out within the banking system; then it will be extended to businesses when they are accustomed to this kind.

- Whether the open market performance is good or bad depends upon its relations with other financial markets. In this market, the State Bank plays an important role as the end-lender. Busy operations of this market will assure commercial banks and push them to take part in the market because they believe the State Bank will offer loans when necessary.

- The banking system is required to innovate its technologies. Customers should be given favorable conditions for opening their current accounts at banks so that they take a positive part in the market economy and at the same time the State Bank may control funds in the economy.

- Policy banks should be set up to distinguish the two functions: business and social relief of a commercial bank. They are non-profit institutions and their working capital comes from the Government and insurance firms.

In short, interest rate liberalization is a thorny problem, requiring profound studies for the best reformation of Vietnam's banking system. ■

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