LISTEN TO EXPERTS' OPINIONS ABOUT POTENTIAL DANGERS

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The VCP was right to judge that we were facing both opportunities and potential dangers. They are considered as "potential dangers" because it's difficult to discover them, therefore it's difficult to deal with them when they make appearance. That is why we had better review certain dangers that left us with disastrous consequences because we had failed to deal with them quickly and aggressively, and some other dangers which were well handled.

The first danger we had met was the high interest rate. In 1989, the interest rate increased to 12% a month or 289% a year if the interest was compounded on a monthly basis. This danger was discovered in mid-1989 and warnings about a collapse of the system of credit unions were given but they went unnoticed with the result that this collapse did happen in 1990.

The interest rate rose high again in 1994 when the State Bank cancelled all limits on interest rates because the price index had topped 10% then. In a meeting with the PM in the spring of 1995, many businesspersons suggested putting limits on interest rate. The PM agreed and asked them how to lower the interest rate. But the act of putting limits on interest rate could only be approved by the National Assembly with 51.1% of the vote in 1996. Many members of the National Assembly said no to this proposal because they supposed wrongly that the exemption from sales tax was of benefit to the banks only although it was stated clearly that the exemption from sales tax aimed at saving businesses from high interest rates.

Although the danger was discovered but the interest rate wasn't lowered soon with the result that the banking system had to reduce interest rates four times in 1996 and suffer a lot of losses. When the interest rate was reduced, no attention was paid to the usury that was very common in rural areas and towns, so the interest rate-ceiling hasn't been observed up to now. Falls in interest rate have made the banking system become deficient in working capital since November 1996. This situation would produce complicated and unpredictable effects. The National Assembly and banking authorities had better study this problem carefully. Certain economists have been aware of this danger but they weren't kept well informed or they lack professional knowledge so they couldn't detect profound effects of this danger. One of the best ways to get experts' opinion is to organize workshops.

The second danger is the revaluation of the domestic currency. The Government has been aware of this danger and a revaluation of the dollar has produced good results. The revaluation of the dollar was well under control so the Government didn't need to issue more money to buy the dollar from foreign exchange market. Many foreign experts have worried about wide fluctuations in the exchange value of the dollar, but Vietnam has suceeded in preventing it. So foreign governments have believed that the Vietnam government would be able to control the exchange rate.

The third danger is the opening of L/Cs for imports under deferred payment term. This danger was discovered in the end of 1995. The Government has demanded the State Bank to make inquiry about this problem. But, in most commercial banks, records of these L/Cs were made outside books of account, so it took the State Bank several months to add up the value of these L/Cs which had amounted to some US$1.2 billion, however, it's surprising that this figure has kept on increasing.

Up to now, bad effects caused by importation of goods under deferred payment term on the economy have become distinguishable but many people still think that regulations on the opening of L/Cs set up by the State Bank are strict enough to prevent all risks if banks and companies don't violate them. In fact, if some billion dollars worth of goods bought by L/Cs are treated as items off books of account by import companies, the banks will certainly fail to keep a weather eye on operation of these companies. As a result, many companies, Epco for example, have been albe to sell goods bought by L/Cs at knock-out price in order to accumulate enough money to invest in other ventures (real estate for example) and many of them have gone bankrupt.

Regulations on the opening of L/Cs aren't strict, there is no measure to inspect companies' solvency before and after LCs are opened. Documents of ownership of assets mortgaged by companies to banks aren't inspected by banks or certified by notary public. When commercial banks required the State bank to set up regulations on the opening of L/Cs, the State Bank answered that the director - general of a commercial bank had rights to set up these regulations of his/her own. Many commercial banks have not agreed with this answer. They were of the opinion that commercial banks couldn't act as legal bodies to set up such regulations and if they did so, there would be too many different regulations. The State Bank officials have insisted on their opinion.

In foreign countries, bills of exchange are considered as negotiable instruments because they have made laws to deal with these bills and had strong law - enforcement agencies. In Vietnam where the law system isn't perfect and law-enforcement bodies are not strong enough, can a person be allowed to mortgage bills of exchange to banks in order to open an L/C? Unfortunately, there hasn't been any regulation on bill of exchange in Vietnam so far.

The lack of regulations in question has caused damage to the local capital market. We hope that the National Assembly will study this problem carefully and take necessary measures to prevent this danger from caused more damage to the economy■