



Capital is the indispensable condition for the economic growth. The VCP 8th Congress Resolution planned that in the period 1996-2000, to double Vietnam GDP by 2000, we must secure from US\$ 41 to 43 billion. But we are facing now a paradox: there is a shortage of investment while the existing sources of capital aren't employed effectively, that is, we are always in short of capital but didn't know how to make the best use of what we had in hand.

The said Resolution also considered the domestic sources of capital as decisive and the foreign ones as important. But in the past few years, especially in 1996- the first year we carried out this Resolution-one of the most urgent problem needed to be solved is the credit surplus in the system of commercial banks.

According to a report made by the State Bank, the total credit surplus, after taking away required reserve and legal reserve, varied from VND 3,200 billion in the first months of 1996 to 2,870 billion in June and 2,000 billion in September. These data are on paper only because some banks haven't sent their reports to the State Bank yet, that is, this number is larger in fact. The credit source is in surplus even when the lending rate decrease to unprecedented levels: the minimum lending rate ruled by the State Bank was reduced from 1.75% (January 1996) to 1.6% (July 1996), 1.5% (September 1996) and 1.25% (October 1996).

Banks couldn't find borrowers, but when they try to supply loans, the amount of overdue debt increases. According to the said report, overdue debts represented 4.37% up to September 1996, in some commercial banks this percentage came up to some 10%. Many opinions also maintained that this percentage was even higher in reality. Thus, a large amount of capital hasn't been used effectively.

Regarding foreign sources of capital, as we know, Vietnam has made arrangements to get loans from many foreign financial institutions, but only a few was put in Vietnam. As for ODA sources, up to August 1996, we have just received US\$365 million out of 850 million planned for the year (around 36%). In total, foreign financiers have agreed to lend us US\$5 billion, but in the period 1993-1995, we received only US\$1.7 billion, or 30%.

Regarding loans from WB, from 1993 to August 1996, we have received US\$175.43 billion out of US\$1,296.7 million which WB had

TO SECURE CAPITAL FOR THE ECONOMIC GROWTH

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agreed to lend to 12 projects.

Up to June 1996, we received US\$460.4 million out of US\$725 million agreed on by IMF. As for borrowings from ADB, we have even received a smaller percentage.

Thus, the urgent problem now is not how to mobilize capital but how to use it effectively. If we didn't know how to use these sources of capital effectively, foreign financiers and financial institutions will delay their plans to supply us with loans, therefore the circulation of funds in our country will be also hindered.

Regarding domestic sources of capital, we could temporarily leave aside the analysis of the causes of credit surplus in commercial banks (such as: the banking system was expanded, prestige of banks was enhanced, the domestic currency is stabilized, personal income rose and the people are still in the habit of saving money, deferred payment L/C, the Treasury bought back T-bills, etc.) and concentrate on analysis of the ways commercial banks employ bank deposits.

Until recently, commercial banks have improved their ways of doing business: supplying various kinds of loan with interest rates and procedures appropriate to different borrowers, especially borrowers deserving preferential treatments. Up to September 1996, Banks for the Poor (established in the end of 1995) have supplied over VNĐ1,400 billion to 850,000 households; Banks for Commerce and Industry supplied 2.2 billion to students, 8.3 billion to 76 job-creation projects, 22 billion to the project to raise floors of houses in flood-plains of the Mekong Delta, 922 billion to maricultural projects, 4,200 million to projects purchasing rice, 1,200 billion to exportation projects, etc. These were main loans in the total of over 110,000 billion supplied in the first three quarters of 1996. Then why is there a credit surplus when the lending rate is on the decrease?

Although the market mechanism is accepted but many companies were still in the habit of asking the Government for subsidies or soft loans instead of bearing full responsibility for their business. It's worth mentioning that in developed economies, capital of a company (both legal and equity capital) consists of shares which earn annual dividend. If dividend is small, these shares will be sold and this will produce bad effects on the prestige and business of the company. That is why a company in foreign countries tends to keep its equity capital low and uses borrowings from

banks as working capital. Meanwhile, in Vietnam, state-run companies receive capital and investment from the Treasury and pay no interest for it, so they get into the habit of depending on government subsidy and aren't accustomed to loans secured from banks.

In foreign countries, borrowers have to complete many procedures to get loans from banks and there are a lot of laws controlling the employment of these loans with a view to preventing malvolent acts, whereas in Vietnam the law system is insufficient and imperfect, the law isn't enforced properly with the result that borrowers have chances to disclaim their responsibility and banks are reluctant to supply more loans to companies. Moreover, when borrowers become defaulters, banks have to bear full responsibility before law for this. The fact that commercial banks were inspected too regularly and many banking officials were put on trial in 1996 has made bankers more reluctant to give credit.

At present, leading customers of banks are state-run companies, but difficulties facing these companies in making mortgage, getting bank guarantee, haven't been solved until July 1996 when the Interdepartmental Circular 01 was issued jointly by Ministries of Finance, of Justice, and the State Bank dealing with this problem. But this Circular includes many irrational contents and many protests were heard from both banks and state-run companies. The relationship between the ownership and the right to use assets of a state-run company wasn't stated clearly. As for private and family businesses, one of their problems is how to make a mortgage. Most of them haven't got land certificate yet. These facts make it difficult for banks to supply loans.

There are many other causes that lead to credit surplus, but the most important ones are that the capital market hasn't been developed in Vietnam; and many policies adopted by the State Bank, especially such instruments as interest rate, credit limit, etc. weren't appropriate to new conditions.

Causes that make us fail to receive loans from international financial institutions sooner are: the management of projects is weak (many projects have no direct management); the management had to spend a lot of time on studying policies of WB, ADB or IMF; etc.

The mechanism for controlling and employing loan capital in Vietnam is too complex; related rules and regulations is not consistent with one

another; procedures for getting loans, transferring capital and controlling capital movements haven't been perfected yet; processes and regulations applied in Vietnam are different from what adopted by international institutions.

The process of evaluating projects in Vietnam is imperfect and fails to anticipate future happenings, that is why we have to make changes to credit or investment agreements.

Local legal procedures are cumbersome. There is no clear and consistent policy on emigration and immigration, on taxes charged on projects financed by WB, ADB... The coordination of related departments (Ministry of Finance, Ministry of Planning and Investment, the State Bank and project organizers) is poor. Procedures for getting approval and getting money from banks or the Treasury are very time-consuming with the result that capital isn't sent to project organizers on time.

In such a situation, international financial institutions advised Vietnam to find out ways to make the best use of foreign sources of finance, especially IDA sources provided by WB in the coming years when these sources of finance from the institutions become more limited, the number of borrowing nations will increase, that is, it will be more difficult to get loans from these institutions.

Apparently, in Vietnam, many ways leading to sources of finance have been sealed off. The best solution to this problem, in my opinion, is to accelerate the development of the capital market.

The State Bank has brought the inter-bank domestic and foreign currencies market into operation for some years. The operation of this market must be summed up in order to draw necessary lessons, and find out its defects and make this market operate more effectively and regularly and more attractive in the eyes of commercial banks, finance companies, insurance companies and mutual funds. At the same time, it's necessary to encourage all banks and non-banking financial institutions to take part regularly in this market, thereby speeding the flow of capital within the banking system.

Interest is the price paid for loan capital. Realities in 1996 show that the lending rate offered by commercial banks had been on the decrease before the State Bank decided on lowering the interest rate-ceiling. Thus the State Bank had better revoke regulation on the ceiling on lending rate, it need only publicize the discount rate and inter-bank rate

and let these rates regulate other rates of interest and the relation between supply of and demand for capital. The inter-bank market has operated well, the supply of and demand for capital have changed, the number of commercial banks has increased and banking facilities have been innovated... Thus it's time the State Bank started to control the discount rate only. If other rates go beyond control then, the State Bank can easily return to the regulation on the lending rate-ceiling.

The market for T-bills was brought into operation in June 1995. In the first ten months of 1996, the State Bank has auctioned three batches of government bonds and 11 batches of T-bills selling VND1,030 billion worth of bills and bonds while the total sum offered was worth 4,000 billion: the supply always exceeds the demand. By issuing bills and bonds by tender, the interest rate was reduced from 13.8% a year to 10.62%, and 9.5% and then, 8.3% in comparison with the rate of 12% when the Treasury issued its bills directly. Then why don't we have all T-bills issued by tender? Why don't we assign to the State Bank the task of issuing project bills? Issuing bills by tender is a way to reduce credit surplus in commercial banks, to encourage banks to attract dead money from the public, to supply infrastructure projects with cheap capital and to reduce burden on the Treasury. It's also a way to accelerate the development of the capital market.

As for credit limit applied to four state-run commercial banks and 17 joint stock banks from the beginning of 1995, it was introduced on the grounds that it was an instrument for controlling the volume of credit and inflation rate. But why didn't the State Bank impose the credit limit in the period 1991-1994 when the inflation rate was very high? And from the beginning of 1996, the inflation rate stayed low (2.5% during nine months) why didn't the State Bank revoke the credit limit? Thus it's hard to justify the existence of the credit limit. It must be revoked in order to help commercial banks expand their supply of credit, at the same time, the State Bank had better force all commercial banks to fulfil reserve requirements, and carry out inspections more regularly in order to prevent

bad debts and overdue debts, that is, ensure that the supply of credit is run as required by law.

Since 1993, 16 state-run companies all over the country have been picked to be equitized, and in the near future, other 50 state-run companies will be also equitized. But in fact, this program was carried out very slowly: up to now only 10 of them were equitized. As for the army of equitized companies, besides 53 joint stock commercial banks, two joint stock finance companies, and some 700 credit cooperatives under joint ownership; there are only a few joint stock companies in other industries. This raises the question of why we don't equitize certain state-run companies that are making profits and aren't included in key industries (such as Saigon Beer Company, Vietnam Milk Company, Hà Nội Beer Company, Hoàng Thạch Cement Company, etc.)



If these companies are equitized, it's certain that the equitization program will be realized faster, more shares and stocks will be sold to the public, and a stock exchange will come into being soon in Vietnam.

Banking services supplied by Vietnam banks, in general, are poor and obsolete. Their main operation is to supply direct loans. The banking system had better pay attention to other services such as financing development projects, providing financial leases, supplying bank guarantee, discounting negotiable instruments, etc. It's not always right to force customers to mortgage their assets. Bank could agree to supply loans after studying the financial statement of a company, the feasibility of a plan or the degree of trust that can be placed in a company or a private person.

One of urgent tasks is to train banking personnel in professional knowledge and foreign languages in order that they could control projects financed by foreign parties. The banking authorities had better send them to make studies abroad; revise procedures for-and cooperation between related bodies in-controlling external loans; realize the "one-door" mechanism in the State Bank; perfect legal procedures for evaluating development projects; adopt consistent policies on emigration, immigration, taxation and supply of capital to each project, etc.

It's not persuasive to petition repeatedly for a more perfect legal infrastructure, because a lot of acts and laws must be made first and the promulgation of laws on economic activity (such as laws on banking, trade, stock, personal cheque, share, bill and bond...) depends on the process of making and passing law in the National Assembly, that is, it will take time to build a perfect legal infrastructure, however, the State Bank, together with the Ministries of Finance, of Justice... had better revise and amend existing laws and bulk of delegated legislation with a view to making them more appropriate to new environment. The Government had better issue related decrees in order to provide a basis for the birth of these acts and laws in the near future.

The reality shows that the source of dead money from the people, the Vietnamese expatriates and foreign parties is very large, but the problem of great importance is how to use this source effectively and how to repay debts when due. The measure to make supply and demand forces meet is to produce appropriate policies and mechanism. We had better not be reluctant to use instruments provided by the market mechanism.

Economic growth and inflation control are two leading macroeconomic objectives, but it's not easy to obtain both of them simultaneously. In present conditions in Vietnam, the top priority must be given to the economic growth, that is, we have to accept inflation to some extent, therefore, we have to take appropriate measures to direct, regulate and make short-term policies ■