

In the National Assembly's fifth session, term X, many deputies showed their concerns over economic slowdown. According to Deputy PM Nguyễn Tấn Dũng, cum Governor of the State Bank of Vietnam (SBV), the 1998 GDP rose only 5.83%, lowest rate in years. In the first quarter of 1999, the growth rate

Government to boost consumption, the SBV role is apparent, especially in interest rate reduction. In addition, the National Assembly's six measures to curb economic recession include "to settle pressing financial and monetary problems". Again, the SBV role is indicated through following tasks:

its responsibility for management of credit institutions. It cannot allow state-run commercial banks to continue to run deeply into bad debts and finally the banking system's reputation which has been recovered after a long time of subsidization vanished. This factor will have a great impact on capital mobili-

dium-term, rural credit and loans given to the People's Credit Fund. From 1992 until now, the interest rates dropped year by year in accordance with declining inflation. In spite of their advantages, the interest rates set by the SBV are still of administrative orders and their guidelines have not yet been emphasized. The Article 18 of the SBV Law rules: "The SBV determines and announces the basic interest rates, and rediscount rates". The Article 19 explained: "Basic rates are grounds for credit institutions to fix their business rates". Therefore, the remaining is just how the SBV determines ceiling rates in accordance with law and reality. This is also an opportunity for the SBV to renovate its policy on interest rate management and increase its guidelines rather than administrative orders.

Because the inflation fell drastically to 1.9% in the first half of 1999, in particular the economy faced with deflation con-



continued to go down to 4.5%, industrial production up 10.1%, export earnings down 7.5%, import receipts down 13.8%, foreign investment down 64%, state budget collection down 2.4% over a year ago. In the fact that purchasing power declined, goods stockpiled and had bad effects on production, a lot of solutions are devised to stimulate demands. It is an important precondition for economic growth. The main stimulator is no one else than the Government-the macro-economic manager. So what is the SBV role in demand stimulation? In the four groups of measures such as increasing investment, decreasing prices, lowering tax rates, and reducing interest rates adopted by the

SBV ROLE IN DEMAND STIMULATION

by MEcon. TRƯƠNG THỊ HỒNG

1. Restructuring banking activities

There are many lessons from regional countries and Vietnam: financial and banking officials' scandals led to a series of banks' bankruptcy in Japan; bad loans in big cases of Tamexco, Epco-Minh Phụng. This documents the important role of banks in economic progress. A growing economy implies increasing consumption in line with solvency and production. So the SBV and other credit institutions should be restructured. The SBV must show

zation for economic growth.

2. Applying flexible interest rates, reducing interest rates to spur capital attraction and expand credit

In the past, the SBV has made significant progress in using interest rate instrument. Before 1992, the inflation could not be controlled due to negative interest rates. Since they became fully positive in the first quarter of 1993. Since 1996, the SBV implemented maximum loan rates including four ceiling rates in line with short-term urban, me-

tinuously, and stood at -0.7%, -0.6% and 0.4% in March, April and May respectively, the SBV Governor issued Decision 189/1999/QĐNHNN on May 29, 1999 to adjust ceiling loan rates for credit institutions and Decision 190/1999/QĐNHNN to change interest rates of capital reallocated to credit institutions. These two decisions take effective from June 1, 1999.

The SBV's ceiling rates plunge from 1.2%/month for credit institutions' short-term loans and 1.25%/month for medium- and long-term ones to

1.15%/month for all loans in urban and rural areas. The People's Credit Fund still applies the ceiling loan rate of 1.5%/month. The interest rates of soft loans given to the poor households, students, and natural disaster relief, remain unchanged as at present.

The SBV's interest rate of capital reallocated to credit institutions for loans to purchase rice paddy for export drops from 0.9% to 0.85%/month.

As a result, the adjustment has terminated many ceiling loan rates and applied only one rate to banks regardless of state-run or joint stock banks. This has substantial meanings to attracting investment, creating jobs and increasing incomes. That also implies the SBV shows its role in demand stimulation and curbing economic downturn.

3. Better controlling flows of foreign currency in line with the flexible exchange rate system

The flexible exchange rate will boost export, control import and increase foreign currency reserve. So the SBV role in deciding on suitable rate is undeniable. One of reasons of the Thailand's financial

crisis is rigid exchange rate. The baht remained 25 to U.S. dollar during 13 years, and finally along with other events such as inappropriate economic structure, loose financial and banking management., it devaluated fast and sparked the whole region's economic meltdown.

4. Actively preparing conditions for the establishment of stock transaction centers

According to Mr. Lê Văn Châu, Chairman of the State Securities Committee (SSC), the HCMC stock transaction center will be put into operation by the end of this year. The Prime Minister has decided to transfer the building No.49/47, Bến Chương Dương Street to the SSC for the HCMC center's head office. The Ministry of Finance has granted VND200 billion to refurbish the office.

As a result, we have already enough conditions to build a marketplace. Then what are goods sold in this market? Mr. Châu said an amount of bonds, Treasury bills worth VND1,800 billion has been issued by the Ministry of Finance. State-owned enterprises have great needs for capital through bonds issuance, as the Vietnam

Petroleum Corporation, US\$300 million, the Power Corporation No.2, US\$100 million. Regarding shares, there are now 150 state enterprises which have already changed into joint stock companies with total chartered capital of VND850 billion; additional 200 joint stock companies, about 9,000 limited companies with an average capital of VND800 million. They will be significant stock suppliers in the initial stage of the stock transaction center.

The demand for stocks is still hidden, but the public idle money is estimated at US\$1-2 billion under the form of gold and foreign currency, so only part of this amount is invested in stocks, there are hundreds of million dollars put into production. And the ailing economy will have a chance for rejuvenation.

5. Making more money supply

The economy shows signs of deflation, so theoretically, more money supply is needed. The SBV has many ways to inject money via Government's expenses, intermediate banks, and gold, forex and money markets. The central bank should buy short-term bonds to increase

loans of intermediate banks. However, in my opinion, because the country's money market still operates weakly, the SBV cannot easily increase its money supply by this way. The more feasible one is to promote government's spending. But the spending must target at investment. This is one of Chinese lessons in the period facing with effects of the Asian financial crisis. China has not devaluated its currency, its GDP continued to rise. These results came from many factors including the fact that the Chinese government increased its investments in infrastructure expansion. Many projects in our country has been suspended due to lack of funds. As a result, the SBV should give loans to the Government, that is, supplying money via the Government's expenses.

In short, to increase the Government's spending on investments means to generate more jobs and more incomes to the people. Thereby, the public consumption will be boosted and our economy will avoid depression in the current challenging path of industrialization and modernization.

