

fair commission could pay such an interest rate to banks. As for banks, the present interest rate involves a high degree of risk: the amount of overdue debts to some commercial banks which increased considerably in 1994 compared with 1993 verified this degree of risk.

Fixing a high interest rate in comparison with the US dollar and gold prices has made the Vietnam đồng rise against gold and the US dollar prices, disheartened exporters and encouraged many businesspersons to secure loans in foreign currency with a view to importing foreign consumer goods instead of capital goods. This situation made Vietnam balance of payments unfavorable.



In short, fixing a high interest rate, the banking system can hardly perform the task of supplying capital to businesses, obtaining a stable growth rate and helping with the industrialization and modernization of the country.

What should be done now is to find out measures to keep the inflation at the level permitted by the National Assembly and at the same time, prevent the bank interest from becoming an obstacle to the economic development. In my opinion, these measures are:

1. Reducing loan interest rate by exempting banks from turnover tax imposed on bank loan: because turnover tax is an indirect tax imposed on borrowers and banks have to collect it and pay to the Government. Moreover, in the market economy, the commercial bank is a financial intermediary transferring funds from savers to borrowers for a commission. Exempting turnover tax on bank loan will reduce the bank interest by 2%

or 3% per year.

Due to low lending interest rate, the capital turnover of the bank will increase and the bank will pay a bigger sum in profit tax. As for businesses, they could be sure of a profit if they borrow money from the bank to develop their businesses, and then the Government could collect a bigger sum in turnover tax and profit tax from these businesses.

As for other activities of the bank, such as trading in foreign currency, gold and supplying other services, the bank will keep on paying the turnover tax.

2. Reducing overhead cost of the bank: by offering a wider rank of services, the bank can attract more customers, increase bank deposits.

Basing on well-trained personnel and good equipment, the bank can increase its capital turnover, reduce risk degree and thereby, reducing overhead cost.

3. The State Bank should carry out frequent inspections with a view to helping the commercial bank improve efficiency, preventing unhealthy competition between them and forcing them to realize the rate of interest regulated by the State Bank.

4. Taking the long view, the State Bank had better regulate annual interest rate in order to encourage the commercial bank to reduce the deposit interest rate. When the stock exchange is established, the public will become accustomed to investment business and understand that their deposit in bank is temporarily unused money and their savings could be transformed into investments or loans of low interest rate supplying to development projects.

Experience of developed countries shows that the stock exchange is necessary for mobilizing both foreign and domestic investment.

The Vietnam economy is in the transition to the market mechanism under the management of the Government. A policy on mobilizing investment in general and on forming the stock exchange will be considered successful if it could cause the majority of investors and the public to invest in stock and securities of all kinds.

Before putting money in stocks or shares, a lot of questions should be answered: What securities one had better buy, what securities bring about high profits, what is the policy of a certain company on sharing profits, how is the financial situation of the company, what securities are cheap and when we should buy, or sell them, etc.

Only financial and economic experts can answer these questions by gathering and processing related data. The public and investors can hardly give an exact estimate of a certain company even if they are supplied with all data and information about the company.

The public, both buyers and sellers of securities, could meet with this difficulty because the amount of information is too big and detailed, and they can't afford the time to gather and analyze it. Just because of this, stock exchange firms have come into being in order to help the public and investors solve this problem. In these firms, there are armies of experts and analysts specializing in stock exchange business which is almost unknown to the Vietnamese people.

So what is the stock exchange firm?

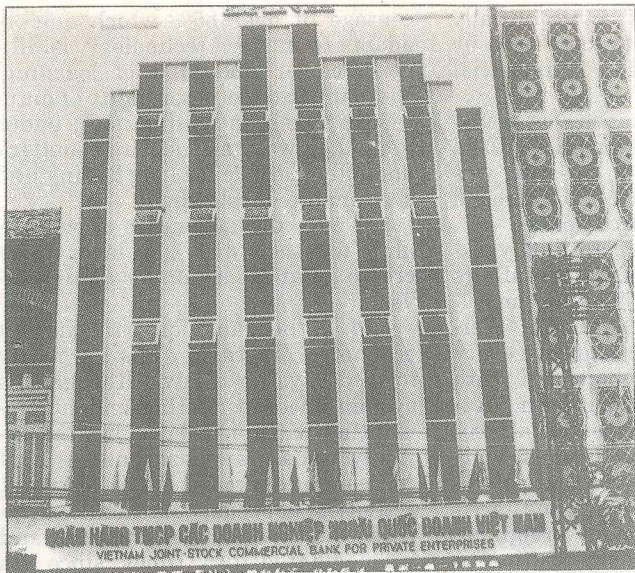
In the stock exchange, there are stockbrokers who act as intermediaries between buyers and sellers, usually charging a commission; and dealers who buy or sell for their own account and risk. The brokers usually form stock exchange firms which become a necessary financial intermediary in an economy.

Like other markets, there must be commodities in the stock exchange. Securities are commodities in the stock exchange. At present in Vietnam there have been some commodities for the stock market:

- Shares of companies with a total value of over VNĐ1,000 billion: They are issued by over 100 joint-stock companies, including 47 commercial banks, 2 finance companies, 1 insurance company.

- Bonds: Nguyễn Tất Thành street project bonds issued by HCMC





# BASIC SOLUTIONS TO FORMATION OF STOCK EXCHANGE FIRMS

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authorities have borrowed VNĐ24.7 billion from the public, bonds of the Bank for Investment and Development attracted VNĐ200 billion and US\$1 million, bonds of the Bank for Agriculture VNĐ500 billion. So around 734.7 billion đồngs have been mobilized from the public.

These bonds and shares are worth over VNĐ1,734.7 billion but this amount can't bear comparison with the dead money held by the public which is estimated at VNĐ40,000 to 60,000 billion. This amount is held in some unproductive investment (buying immovable property, gold, precious stone or foreign currency).

Thus, why can't we mobilize this amount of dead money? Why didn't savings surplus units meet savings deficit units? Because there is no appropriate financial intermediary in Vietnam, that is, we need stockbrokers.

If a company wants to issue shares, it will meet with a lot of difficulties doing it, because the company lacks professional knowledge and skill at doing it. Stockbroker or firm of stockbrokers can help the company issue shares easily. On the other hand, the public and investors could easily place trust in stockbrokers instead of researching into financial situation of company making issue.

At present, we had better take the following solutions in order to encourage formation of stock exchange firms:

- When we have no stock exchange, the Government can allow the formation of stock exchange firms because they can smooth the flow of funds between lenders and borrowers

and make dead money productive investment effectively.

Stockbrokers are required to have a degree in law, finance or economics; to work at least for three years for a finance firm and to pass a training course in stock exchange. Moreover, they should be moral persons.

- The role of commercial banks: in the early stage in the development of stock exchange firms, all commercial banks, both state-run or private ones, usually run short of long-term loans although they have earned prestige in the community, therefore, they had better form independent stock exchange firms which have separate legal entity and capital. These firms will supply the following services:

+ Acting as intermediary between sellers and buyers on commission.

+ Buying securities to sell at a profit as a principal.

+ Analyzing value of securities and helping the public and investors buy or sell securities profitably.

+ Acting as issue brokers supporting a company that is making a new issue of securities.

- In order to stimulate activities in the stock market, it's necessary to form joint ventures between Vietnamese commercial banks or finance companies with foreign stock exchange firms. This solution is very appropriate to the present conditions because we are in need of professional knowledge of the stock exchange, whereas foreign investors are looking for information about Vietnam situation before deciding on investment.

In addition, the Government should establish the National Securities and Exchange Commission which will be responsible for issuing statute of the stock exchange and creating conditions favorable for healthy and effective operation of stock exchange firms.

In short, the stock exchange isn't constituted of shareholders or those who want to buy stocks and shares. It's a marketplace where securities are traded by members of the exchange, that is, brokers and dealers and their firms. This is the basic principle of organization and operation of the stock exchange. It ensures that all traded securities are listed ones and it helps the stock exchange operate legally and regularly; so it protects the rights and interests of the public and investors; helps the Government realize its strategy for mobilizing capital, employ capital effectively and accelerate the economic growth rate■