



The stock market is a basic element of the modern market economy. At present, the stock market exists in all developed countries and becomes a financial institution indispensable to the economic life in market economies all over the world.

In most countries, the stock market has come into existence and developed without being planned. In Vietnam, it will come into being according to the plan set forth by the Government and central bank. In its first development stage, the stock market will be governed by a governmental body. However, the relationship between the central bank and stock market referred to by the State-run Banking Law and Credit Organizations Law isn't clearly defined. This fact will affect, to a certain extent, the formation and operation of a stock market in Vietnam.

Experience from countries with well developed stock markets shows that the central bank plays an important role in the process of forming and developing the stock market. A closer look at this aspect will give us some general notions.

THE CENTRAL BANK AND THE FORMATION AND OPERATION OF STOCK MARKET

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- The central bank acts as a starting force preparing preconditions for the formation and development of stock market by implementing a series of policies, such as:

+ Policy to control the money supply: To facilitate the flow of funds between "capital surplus units" and "capital deficit units", there should be enough liquid assets. Liquidity can not only smooth the flow of funds, but also help make fixed assets liquid. If liquidity is lacking, the capital surplus will become idle or be held in form of land, buildings, gold and valuable objects. The supply of liquidity requires a wide use of money in all economic activities. The stock of money depends on the ability to supply money, and this ability depends on

the monetary policies adopted by the central bank. A stock market can only operate well when liquidity of all kinds is widely used directly as means of payment.

+ Interest rate policy: the interest rate has great effects on prices of stock, and the sale and purchase of stocks. If the bank deposit rate is higher than the earnings-price ratio, the prices of stocks will fall, and savers prefer to deposit their money with banks instead of buying shares and stocks.

+ Fund mobilization policy: The system of financial markets, and the stock market to be precise, can operate well when the capital accumulation is large enough. Thus, the policy to attract deposit adopted by the central

bank will affect greatly personal saving. To ensure good results for this policy, a legal infrastructure for protecting personal saving is needed.

In the role as a starting force, the central bank could also take part in the stock market. The degree and form of its participation vary over countries. Generally, its participation is very active in the money market and government securities market. In England for example, the central bank plays the main role in issuing government securities and acts as an issuing house supporting companies that want to make new issue of securities.

- The central bank helps organize the system for clearance and settlement of transactions, and

it could take part in operations of the system. An ideal clearance and settlement system should ensure that when settling a transaction, both the buyer and seller will act and finish their work simultaneously. The stock market will become more attractive and effective when this system can ensure fast and safe transactions for investors.

- The central bank can help maintain the stability and safety for the finance market, including the stock market. The central

+ the stock market is an important instrument for the central bank to implement the monetary policies through open market operations.

+ happenings of the stock market can affect the operation of banks or prices of bonds and shares issued by commercial banks, and operation of members of the stock market can cause harm to the banking system.

+ the stock market can lead to collapse of the banks' system for payment

c against malpractice, and preventing financial crisis from occurring and spreading. This participation helps enhance the efficiency of the market and encourage its development. To beef up its surveillance of the stock market, the central bank is authorized to punish individuals and firms who violate regulations and give appropriate incentives to those who observe them.

Although the central bank has an important

- Changes in the stock market can affect the work of mobilizing idle capital done by banks and companies.

As a source of long-term capital, the stock market can affect the public finance, interest rate on government bonds and securities and changes in the money supply. If the stock market fails to help the government cover budget deficit (by consuming government securities), the government has to borrow from the central bank,



pays full attention to the healthy operation of the stock market because:

+ the stock market plays an important role in linking savers with investors and in encouraging personal saving.

+ earnings per share have great effects on financing the government expenditures. In addition, the development of stock market can help cover government expenditure without causing the inflation rate to rise.

+ the government bonds market plays an essential role in fixing the base rate and helps with fixing prices of shares issued by companies and interest rate on loans from the inter-bank market.

and clearance.

+ the stock market can cause damage to the central bank if its customers suffer risk.

To save its bacon, the central bank should keep a close watch on members of the stock market by taking different measures, such as establishing certain minimum criteria for all individuals and firms operating in the stock market, their practice; management and minimum capital, etc. Particularly, the central bank pays full attention to the government securities and money markets, its surveillance of trading practices on the markets aims at ensuring safety for the market, protecting the investing publi-

role in the formation and operation of the stock market, it isn't the one-way relation because after coming into being and operation, the stock market can produce many effects on the central bank, such as:

- The stock market provides the central bank with new instrument for regulating and implementing monetary policies.

- Happenings in the stock market provide the central bank with exact information about economic activities and impact of the monetary policies. This information can help the central bank adjust its policies and take new measures opportunely.

thus increasing the money supply; inflationary pressure and capital outflows. The structure of prices on the stock market could be deformed unfavorably if banks are forced to buy bonds in large quantities whose interest rate is lower than the market rate.

In short, the central bank plays a role important to the operation of stock market and it could provide preconditions for the formation and operation of stock market. In its turn, the stock market, after coming into operation, could provide the central bank with useful instruments for regulating and implementing the monetary policy■