Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 08 Issue 02 February 2025

Article DOI: 10.47191/jefms/v8-i2-59, Impact Factor: 8.317

Page No: 1388-1396

World Economic Policy Uncertainty and the Stock Market in Vietnam: Current Situations and Policy Suggestions

Thi Lam Anh Nguyen[1], Tien Manh Pham[2], Thi Thu Huong Tran[3], Anh Tuan Tran[4]

[1,2,3,4] Banking Academy of Vietnam, Hanoi, Vietnam

ABSTRACT: This study examines the impact of global economic policy uncertainty on stock market development in Vietnam by providing a comprehensive analysis of current states and policy implications. This study contributes to the existing literature by providing a theoretical overview of world policy uncertainty and its impacts on the stock market, particularly in developing countries such as Vietnam. Furthermore, the study presents an in-depth examination of Vietnam's stock market performance in response to changes in world economic policy using the most updated data and analytical approaches. Finally, this study provides valuable policy recommendations to enhance market resilience and investor confidence and support sustainable stock market development in Vietnam.

KEYWORDS: economic policy uncertainty, stock market, Vietnam

I. INTRODUCTION

Economic policy uncertainty (EPU) is defined as a situation in which economic agents are unable to predict the future outcomes of fiscal, monetary, trade, and legal policies accurately (Baker et al., 2016). Economic policy uncertainty is often a consequence of unpredictability in government policies, such as fiscal, monetary, or trade policies, which affect the decision-making of economic agents (Gulen & Ion, 2016).

EPU has emerged as a significant factor in stock market development. According to Chen et al. (2020), the impact of EPU on markets revolves around the notion that uncertainty in economic policies creates an ambiguous environment for businesses and investors. As a result, investors may become more risk-averse, leading to increased volatility in stock markets and potentially depressing stock prices. Furthermore, Pastor and Veronesi (2013) argue that EPU can indirectly affect the stock market through several channels. For example, EPU can negatively impact the earnings of businesses and their stock prices, increase the risk premium demanded by investors, or cause investors to move their assets to safer assets and reduce demand for stocks. In developing countries, where financial markets are less mature and more volatile, EPU can lead to increased market volatility and decreased investor confidence (Grabel, 1995; Su et al. 2018).

This study analyzes the current situation of the stock market in Vietnam in response to changes in the world's economic policy using data on the stock market in Vietnam and EPU from to 2011-2024. This research period was chosen for the following reasons: (i) the availability of monthly data; (ii) this period follows the 2008 global financial crisis, during which many countries adjusted their economic policies, which increased policy uncertainty and affected their stock markets; (iii) major events such as the European sovereign debt crisis, Brexit, the U.S. – China trade war, the COVID-19 pandemic, and the Russia – Ukraine conflict occurred during this period, creating substatistical shocks to the global financial market; and (iv) the stock market in Vietnam has experienced strong growth in terms of scale, liquidity, and foreign investor participation, making it more sensitive to global economic policy uncertainty.

This study contributes to literature in several ways. First, it provides a detailed analysis of the stock market in Vietnam and world economic policy uncertainty. Second, it examines the impacts of world EPU on stock market development in Vietnam, using the most recent data and an analytical approach. Third, it offers valuable policy recommendations aimed at strengthening market resilience, investor confidence, and long-term stability of the Vietnamese stock market.

The remainder of this paper is organized as follows. Section 2 discusses the theoretical background of the impact of EPU on stock markets. Section 3 analyses the current stock market situation in Vietnam. Section 4 analyzes the current status of world EPU and its impact on the Vietnamese stock market. Section 5 concludes the study and provides relevant policy recommendations.

II. LITERATURE REVIEW

Many theories have aimed to explain the impact of EPU on stock markets. Among these are the Asymmetric Information Theory (Akerlof et al., 1970), Prospect Theory (Kahneman & Tversky, 1979), and the Efficient Maket Hypothesis (Fama, 1970). Asymmetric information theory posits that when economic policies become uncertain, stock demand decreases as investors face a lack of transparent information, leading to cautious investing behavior, preferences for safe-haven assets, and increased market volatility (Akerlof et al., 1970). The prospect Theory emphasizes the role of emotions in investment decisions, suggesting that risk-averse investors tend to prefer safer assets in uncertain periods, thereby diminishing the attractiveness of stock markets (Kahneman & Tversky, 1979). The Efficient Market Hypothesis asserts that stock prices incorporate all available information, including news regarding global economic policies. Hence, stock market fluctuations in response to EPU serve as measures of market efficiency.

Empirical evidence also shows the significant impact of EPU on the stock market. Paster and Veronesia (2012) identified two key mechanisms through which policy changes impact stock prices: (i) policy changes generally increase firms' expected profits, leading to positive impacts on stock prices, and (ii) policy changes heighten business uncertainty, increasing investment risks and the required rate of return for investors. They found that positive policy changes often have a limited impact, as they are usually anticipated by investors, whereas negative policy changes tend to generate large market reactions because of their unexpected nature. Arouri et al. (2016) analyzed the long-term relationship between EPU and the U.S. stock market and found that rising EPU signficantly reduces stock returns, with the negative impact intensifying and persisting during period of high market fluctuations. Supporting the results of Arouri et al. (2016), Javaheri et al. (2022) indicated that a decline in economic and policy uncertainty is associated with increases in U.S. stock market indices from 1990 to 2019. Bianconi et al. (2021) assessed the impact of trade policy uncertainty on stock returns by analyzing U.S. congressional votes on revoking preferential tariffs for Chinese imports (1990-2001). They found that industries heavily reliant on Chinese raw materials experienced sharp stock price declines during periods of heightened policy uncertainty.

Regarding developing markets, Géa et al. (2021) studied the Brazilian stock market and suggested a negative correlation between EPU and current excess stock returns but a positive correlation between EPU and future excess returns. Cheng (2017) examined the stock market of South Korea and concluded that it was significantly and negatively affected by both foreign and domestic policy uncertainty shocks. Xu et al. (2021) found similar results for Chinese stock markets.

Cross-country studies also suggested similar negative impact of EPU on stock market development. The study of Kundu and Paul (2021) on G7 countries found that rising EPU increases market volatility and lowers retursn, expect in cases where uncertainty shocks are positive. Paule-Vianez et al. (2023) assessed the interaction between EPU and stock returns within different economic cyles and found that EPU's negatively impact stock returns is more pronounced during economi downturns, particularly for small-cap stocks. Kwabi et al. (2023) used a sample of 42 countries (2001-2019) and discovered that EPU reduces market size and liquidity whil increasing transaction cost and the institutional quality pays a role in mitigating these adverse effects.

III. THE CURRENT SITUATION OF THE STOCK MARKET IN VIETNAM

In 1998, the Vietnamese stock market was established under Decree 48/1998/NĐ-CP. On July 20, 2000, the Ho Chi Minh City Securities Trading Center, the predecessor of the Ho Chi Minh Stock Exchange (HOSE), was established. The market's first trading session was on July 28, 2000, with two initial stock listings: REE and SAM (Nguyen, 2020). In 2005, the Hanoi Securities Trading Center, the predecessor of the Hanoi Stock Exchange (HNX), was lauched, with the primary purpose of facilitating auctions for the privatization of state-owned enterprises (Truong, 2006). The Vietnamese stock market has achieved significant milestones throughout its more than 20 years of establishment.

Figure 1 describes the development of the Vietnamese stock market using data on the price and trading volume of the VNindex. During the research period from to 2011-2024, the Vietnamese stock market underwent various changes and is affected by major economic and financial policies.

The 2011-2015 period

During this period, the VNindex fluctuated between 350 and 600 points, with relatively low and stable liquidity. This phase reflects the slow recovery of the Vietnamese stock market after the 2008 Global Financial Crisis. In this timeframe, the State Bank of Vietnam (SBV) implemented a tight monetary policy, with the interest rate increased and credit control tightened to stabilize the economy and curb inflation (Anwar & Nguyen, 2018; Pham et al., 2021). Additionally, SBV initiated banking system restructuring, addressing bad debts and reinforcing financial institutions to establish a more sustainable foundation for the stock market's recovery and long-term growth. At the end of 2015, the Vietnamese financial system consolidated significantly, with the number of credit institutions being reduced by 15 banks. The SBV also acquired three financially weak banks (VNCB, OceanBank, and GPBank) for zero VND, preventing systemic collapse, and ensuring financial stability (SBV, 2015).

The 2016-2018 period

This period marked a phase of strong growth in Vietnam's stock market, reaching its peak in early 2018 at approximately 1,200 points. While trading volume increased steadily, it did not experience sudden surges. This growth was primarily caused by economic reforms, supported government policies, and increased foreign investment inflows. The SBV adopted a loose monetary policy, reducing interest rates and expanding credit to stimulate economic growth. In particular, the Vietnamese government accelerated the equitization and listing of state-owned enterprises (SOEs), significantly increasing the supply of high-quality stocks in the market. According to the MOF (2018), between 2016 and 2018, Vietnam successfully equitized 147 enterprises, including large state-owned companies, with a total divested state capital of 18.3 trillion VND (approximately US$ 720 million).

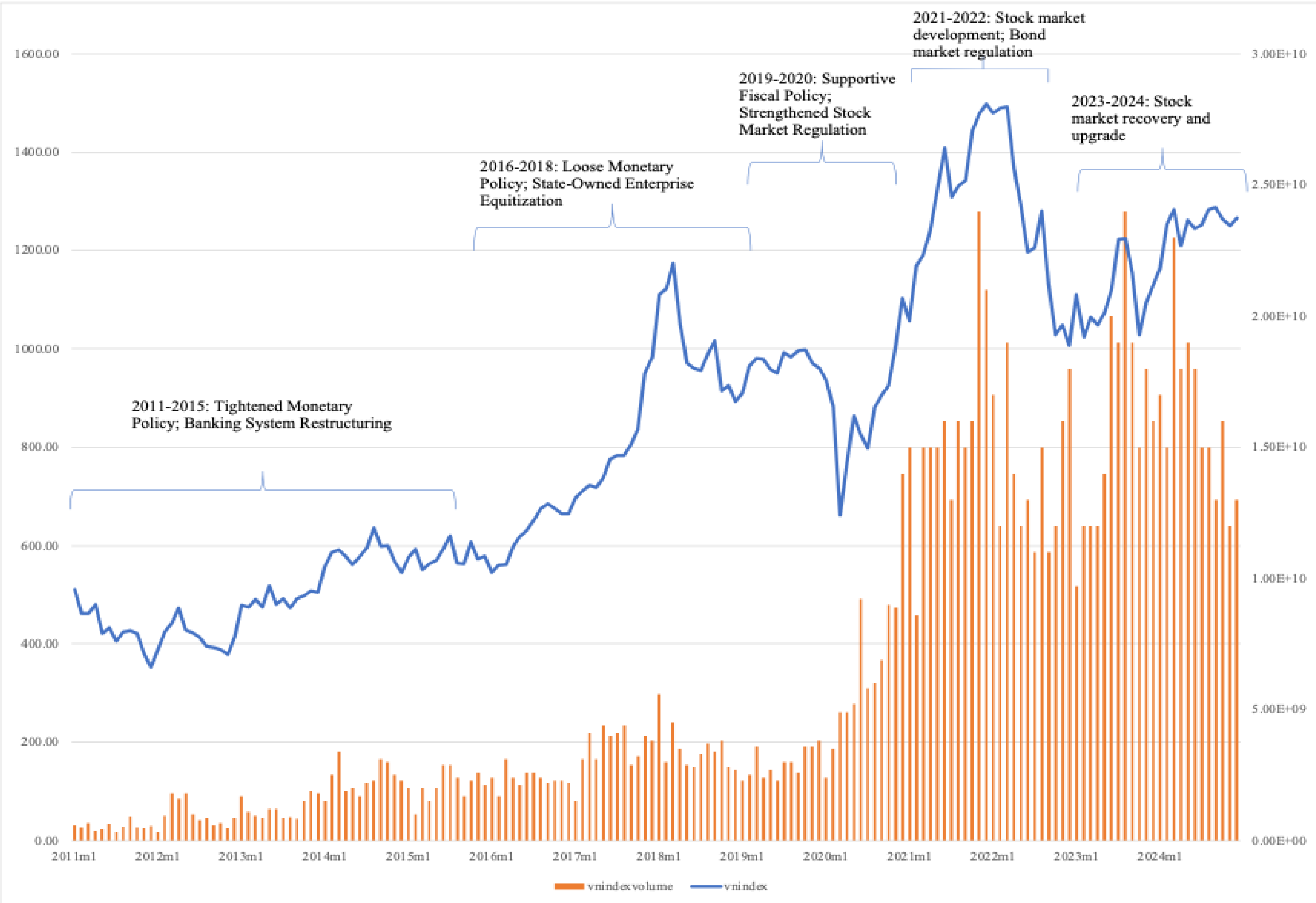

Figure 1. VNindex value and trading volume

Source: *Widata(2025)*

The 2019 – 2020 period

During the 2019-2020 period, Vietnam's stock market and global markets faced significant downturns due to the COVID-19 pandemic. After peaking at 1,200 points in 2018, the VNindex declined sharply to below 700 points in early 2020. Despite high volatility, this period withness gradually increased the trading volume, reflecting greater investor participation in the market. To respond to economic disruptions, the Vietnamese government and the SBV introduced financial support packages, interest rate reductions, and debt repayment extensions for businesses to maintain market stability and liquidity during the crisis (SBV, 2020). Concurrently, the State Securities Commission of Vietnam (SSC) implemented new regulations to enhance market transparency and investor protection. Specifically, in 2019, Securities Law No. 54/2019/QH14 was enacted, introducing significant amendments, particularly relating to information disclosure measurements.

The 2020-2021 period

During this period, the VNindex increased from 700 points (late 2020) to a peak of approximately 1,500 points by the end of 2021, marking the highest liquidity levels in the study period. This remarkable growth was primarily due to a surge in domestic capital inflows to the market facilitated by low interest rates and the rapid expansion of securities companies (Nguyen & Le, 2023).

Additionally, the 2019 Securities Law officially took effect in 2021, enhancing market transparency and efficiency and further contributing to the stock market's growth momentum.

The 2022-2023 period

This period witnessed a sharp decline in the VNindex to approximately 900 points, largely driven by the SBV's tightening monetary policy. The liquidity levels also declined, although they remained higher than the pre-2020 levels. Notably, in September and October 2022, the SBV raised policy interest rates twice (increased by a total of 200 basis points) to curb inflation and stabilize exchange rates amid pressure from the U.S. Federal Reserve's tightening measures (Reuters, 2022). Furthermore, regulatory changes in October 2022 further exacerbate liquidity constraints in financial markets. The Circular No. 10/2022/TT-NHNN imposed stricter credit regulations on high-risk sectors such as real estate and securities, leading to a liquidity decrease. Simultaneously, Decree No. 65/2022/ND-CP tightened regulations on private bond issuance, increasing liquidity pressure on large corporations.

The 2023-2024 period

The VNindex rebounded to approximately 1,300 points by the end of 2024, with trading volume increasing and staying at high levels. The reasons for this upward trend were likely monetary easing and expectations regarding the upgrade of Vietnam's stock markets. In 2024, the SBV lowered policy interest rates, reduced borrowing costs for businesses, stimulated economic activities, and improved corporate profitability (SBV, 2024). Additionally, investors in this period were increasingly optimistic about Vietnam's potential stock market upgrade from "frontier" to "emerging" market, planned to occur in September 2025 (The investor, 2024). This upgrade is projected to attract substantial foreign capital inflows, provide long-run growth momentum, and enhance sustainable development in the Vietnamese stock market.

IV. THE CURRENT SITUATION OF THE WORLD ECONOMIC POLICY UNCERTAINTY AND ITS IMPACTS ON THE STOCK MARKET IN VIETNAM

Figure 2 shows the economic policy uncertainty index of the world (upper line) and the U.S. (lower line). The data were obtained from the study by Ahir et al. (2022). The 2011-2024 period witnessed significant economic, financial, and political changes worldwide, contributing to the variation of the indices both in the U.S. and globally. These uncertainties have played a crucial role in shaping investor sentiment, market volatility, and policy responses across economies.

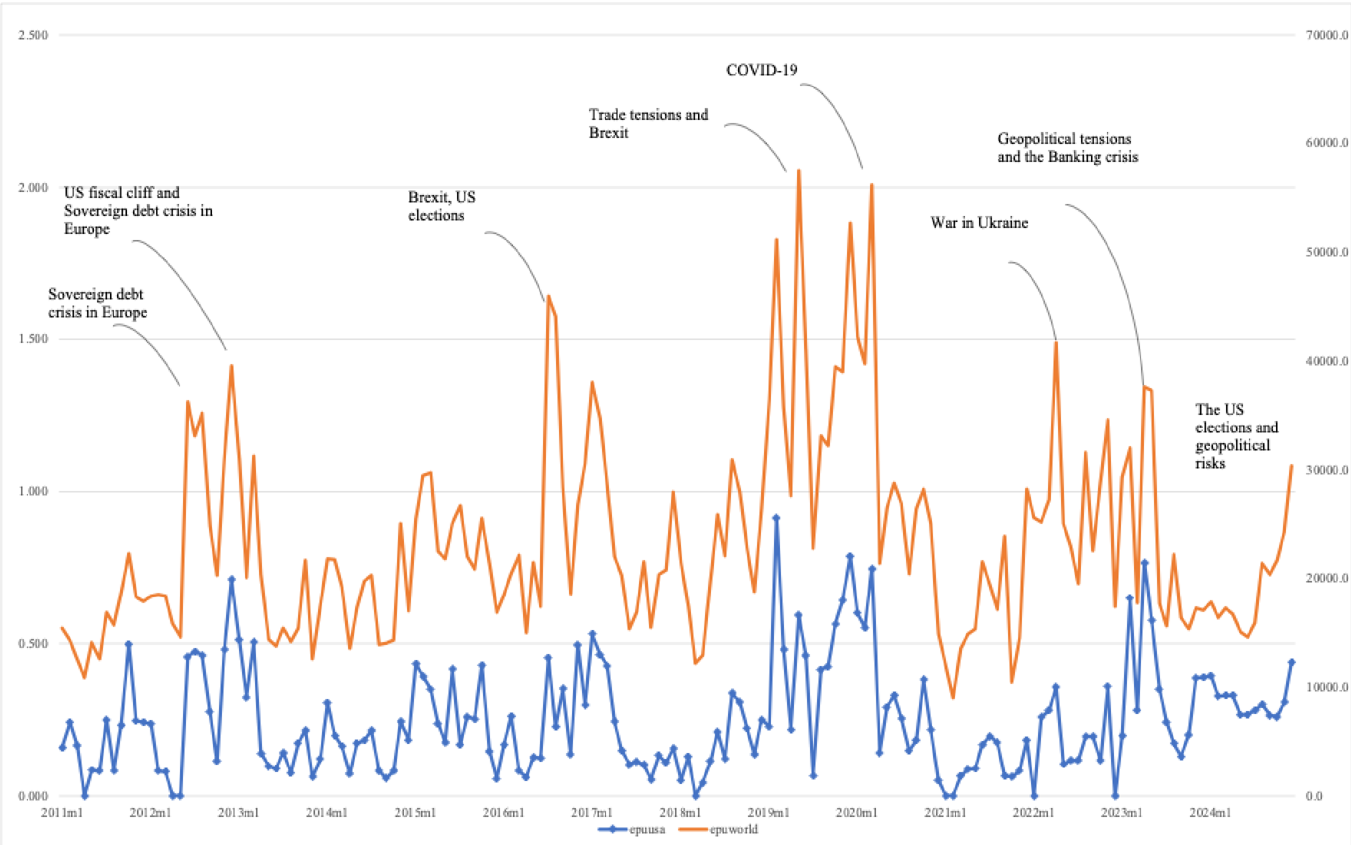

Figure 2. World and the U.S. Economic policy uncertainty

Source: *Ahir et al. (2022)*

The 2011-2013 period

During this period, both global and U.S. indices increased significantly, particularly during the European sovereign debt crisis and the U.S. fiscal cliff in 2012. The European debt crisis began in 2010 and severely threatened the stability of the Eurozone, particularly Italy, Greece, and Spain. These nations faced substantial public debt burdens, increased borrowing costs, and a high risk of default for their financial obligations. In response, a series of bailout packages, austerity measures, and financial reforms were implemented in affected countries. The crisis resulted in severe consequences including social unrest, political circles, and prolonged economic stagnation (Reboredo and Ugolini 2015).

The 2012 fiscal cliff in the U.S. resulted from the simultaneous expiration of tax cuts and the implementation of automatic spending reductions in early 2013, which was forecasted to trigger a recession and rising unemployment. The Congressional Budget Office (CBO) estimated a decrease of approximately 560 billion if the U.S. fell on a fiscal cliff. However, the country could face a rising unemployment rate and economic contraction (Congressional Budget Office, 2012). To mitigate this risk, the U.S. passed the American Taxpayer Relief Act of 2012 on January 1, 2013.

The 2016 period

In 2016, the EPU indices increased sharply, primarily caused by two major events: Brexit (the United Kingdom's decision to leave the European Union) and the 2016 U.S. Presidential Election. Brexit was a landmark event that had profound implications for European trade and investment policies (Van Reene, 2016). Complex regulatory changes and customs procedures have resulted in delays in investment decisions and forced companies to restructure their productoin activities and reassess supply chains. Additionally, Brexit required the UK to renegotiate multiple trade agreements with countries worldwide, a complicated and time-consuming process that heightened uncertainty for businesses and investors.

The 2016 U.S. Presidential Election, which resulted in Donald Trump's victory, marked the start of a period with significant policy changes, especially in economic policies, which aimed at stimulating economic growth and job creation. Furthermore, a significant shift in the U.S. – China trade relationship occurred in this period, with the U.S imposing a series of tariffs on Chinese goods, citing unfair trade practices and intellectual property violations. This action led to a prolonged trade war between the two countries, which eventually culminated in the signing of the "Phase One" trade agreement in January 2020 (Swenson, 2024).

The 2018-2019 period

During 2018-2019, the U.S – China trade war significantly hightened the U.S. economic policy uncertainty index, particularly in 2018. The changes in trade policies and import tarriffs between the two countries has widespread global impacts, particularly on trade-dependent countries. The world EPU index also increased sharply as the international markets reacted to the trade and geopolitical tensions. Vietnam was among countries that are significantly affected by the trade war. As the U.S. imposed tariff on Chinese goods, many businesses shifted their production to Vietnam to avoid trade barriers. This shift has benefited Vietnam and led to a significant increase (approximately 14%) in Vietnam's exports to the U.S. However, Vietnam also faced challenges during this period as the rapid surge in investment and production might place presure on infrastructure, human resources, and economic management (IMF, 2024).

The 2020-2021 period

The 2020-2021 period experienced unprecedented EPU levels, peaking in early 2020 as the COVID-19 pandemic spread globally. Governments worldwide implemented drastic measures to curb the virus's spread, including economic lockdowns, social distancing, and large-scale fiscal stimulus policies (IMF, 2021). These measures caused significant disruptions to business activities and global supply chains in addition to changes in market sentiment, consumer behavior, and economic policy direction. Although the fiscal stimulus packages provided short-term economic relief for the affected countries, they also raised concerns about inflation risks and the sustainability of public debt.

The 2022-2023 period

During this period, the EPU index remained highly volatile, influenced by the 2022 Ukraine war and the 2023 banking crisis. The Ukraine conflict disrupted energy markets, global supply chains, and international foreign poslicy, which led to extensive market instability. The 2023 banking crisis, with the collapse of major financial institutions such as Credit Suisse, Silicon Valey Bank, and Signature Bank, led to stricter oversight of banking regulation and risk management. In particular, it encourages closer cooperation among central banks and regulators worldwide to restore confidence in banking systems and prevent a broad economic recession (Metrick, 2024).

The 2024 period

In late 2024, the EPU index rose again, driven by increasing geopolitical tensions and the 2024 U.S. presidential election. Market participants expressed concerns over potential changes in interest rates, trade, and tax policy, which contributed to a more cautious investment climate and heightened market volatility. Additionally, rising conflicts in various regions, including trade disputes and diplomatic tensions between major global economies, further fueled market apprehension. These uncertainties led to risk-averse behavior, which contributed to fluctuations in stock markets, currency movements, and commodity price changes (Baker et al., 2024).

Figure 3 illustrates the volatility of the VNindex in response to the world EPU index. Figure 3 suggests an inverse relationship between global eocnomic policy uncertainty and the Vietnamese stock market.

During periods of high economic policy uncertainty, such as the European sovereign debt crisis and the U.S. fiscal cliff (2012-2013), the COVID-19 pandemic (2019-2020), and geopolitical tensions and the U.S. banking crisis (2022-2023), the VNindex had a tendency to decline significantly. This trend reflects increased market risk aversion and capital outflows from developing markets, including Vietnam.

Conversely, during stable economic policy periods, such as 2017-2019, 2021-2022, and 2023-2024, the VNindex showed strong growth. These stable periods were also aligned with Vietnam's monetary policy easing, which contributed to the sustainable development of the Vietnamese stock and bond markets. The 2017-2019 period benefitted from global economic recovery and stronger international trade, which boosted confidence and attracted foreign investors to Vietnam's stock markets. Similarly, during 2021-2022, the post-pandemic recovery saw improved economic stability with Vietnam's securities market reforms and increased transparency under the 2019 Securities Law. The 2023-2024 period also marked a turnaround for the VNindex as Vietnam's implementation of monetary policy easing and expectations of stock market upgrade from "frontier" to "emerging".

This analysis underlines the sensitivity of Vietnam's stock market to global policy uncertainty, indicating that domestic monetary policies can mitigate external shocks and support market stability.

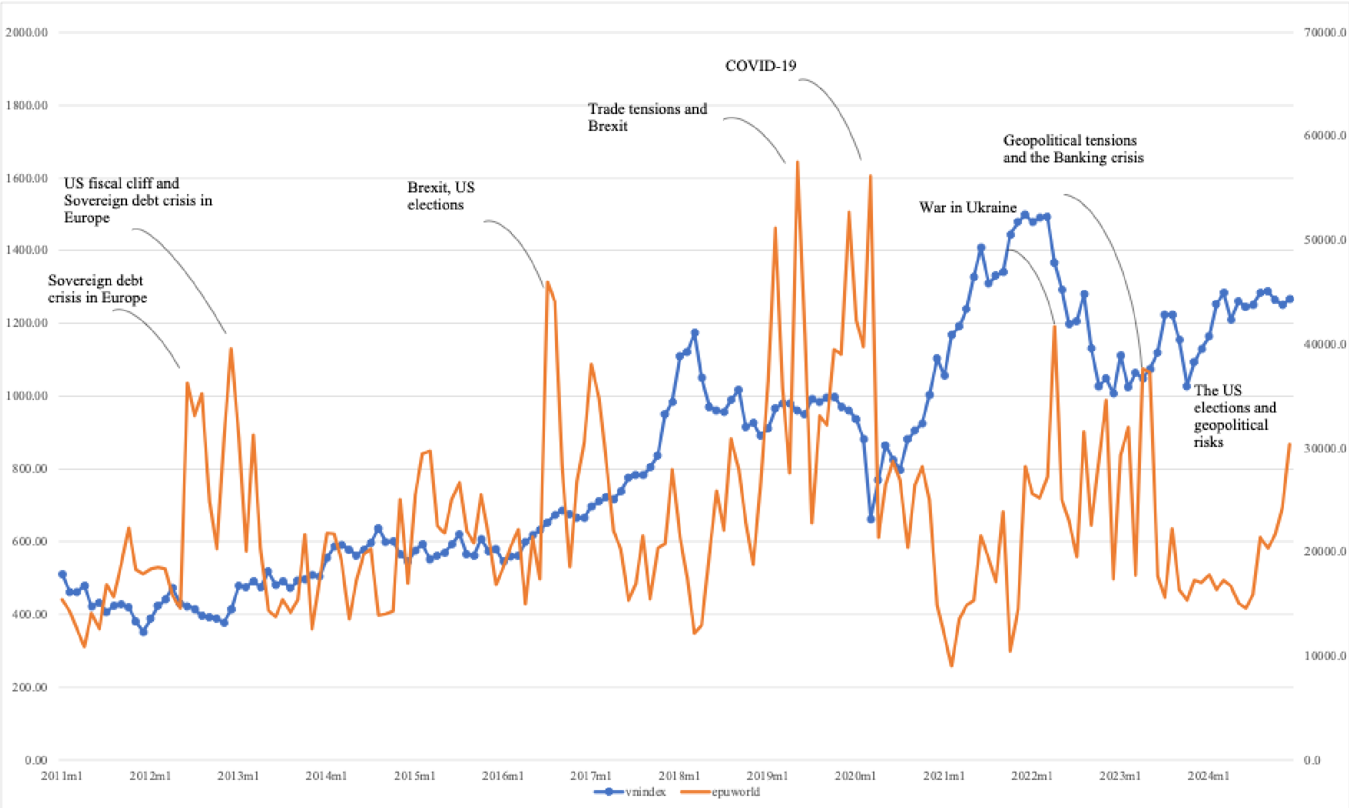

Figure 2. World and the U.S. Economic policy uncertainty

Source: *Widata (2025)*

V. CONCLUSIONS AND POLICY SUGGESTIONS

This study examines the current situation of global economic policy uncertainty, the stock market in Vietnam, and how global economic policy uncertainty impacts the Vietnamese stock market. Using qualitative analysis using the most updated data on world EPU and Vietnam's stock market, the authors identified certain limitations of the stock market in Vietnam and it is evidently and negatively influenced by the changes in world economic policy.

Although Vietnam's stock market has grown remarkably in terms of scale, liquidity, and investor participation – both individual and institutional–several issues have emerged during the research period of 2011-2024.

First, investor sentiment in the Vietnamese stock market remains highly reactive to macroeconomic fluctuations, contributing to market instability. For instance, from 2018 to 2020, the VNindex plummeted from 1,200 points to below 700 points due to the COVID-19 pandemic and the U.S-China trade war. Similarly, in 2022, the VNindex dropped sharply from 1,500 to below 900 points following monetary tightening and negative incidents in the corporate bond market. These fluctuations highlight the market's vulnerability to external shocks and policy changes.

Second, the Vietnamese stock market remains highly exposed to the risks of corporate bonds and credit policies. Since 2022, Vietnam has tightened regulations on the corporate bond market, limiting businesses' ability to raise capital through bond issuances. Additionally, scandals involving stock prices and bond market manipulation undermine investor confidence.

Third, despite its strong growth potential, Vietnam has yet to achieve an upgrade to an emerging market status, restricting significant foreign capital inflows, as foreign investors might find the market less attractive. Furthermore, foreign ownership limits in certain sectors continue to hinder foreign investment and decrease the overall market competitiveness.

Finally, regarding policies related to the Vietnamese stock market and global economic uncertainty, some periods witnessed overstrict regulations that limited market growth potential. Specifically, during the 2011-2015 period, although the Vietnamese stock market maintained its growth despite global economic policy uncertainty, this growth was considered modest compared to the market's potential. The main reason was the adoption of tight monetary policies, including high interest rates and credit control measures, which limited market expansion. Similarly, in the 2022-2023 period, when the country implemented strict regulations on bond issuance and investment and an excessively tightened credit policy, stock market liquidity declined sharply. These risk management measures have inadvertently hindered trading activities and investor confidence, demonstrating the challenges of balancing regulatory control with market growth objectives.

Based on the above analysis, to limit the impacts of global economic policy uncertainty on the Vietnamese stock market and foster sustainable market growth, the authors offer the following policy suggestions.

First, given the high sensitivity of investor sentiment to macroeconomic fluctuations, Vietnam must prioritize measures that enhance market stability and boost investor confidence. These measures include improving information transparency, strengthening market surveillance mechanisms, and implementing investor protection policies effectively.

Second, Vietnam needs to balance regulatory oversight in the corporate bond market. While tightening corporate bond regulations was necessary to prevent excessive risk-taking and financial misconduct, overly strict credit policies in 2022-2023 limited market liquidity. Hence, a balanced approach is needed to ensure transparency and accountability, while allowing firms to access capital efficiently. Vietnam can consider gradually easing credit restrictions for businesses with strong financial fundamentals, while maintaining stricter supervision over higher-risk bond issuers.

Third, Vietnam needs to accelerate the process of market upgrade to an emerging market status to increase the country's visibility among global investors, further enhancing market liquidity and stability. This measure may require Vietnam to ease foreign ownership restrictions in key sectors, strengthen corporate governance standards, and streamline capital repatriation procedures.

Fourth, Vietnam can consider strengthening liquidity and reducing market reliance on a limited range of financial products. Vietname should expand and diversify its financial instruments. Vietnam can consider encouraging the development of derivatives markets, ETFs, and structured financial products, which can also provide investors with additional risk management tools.

Finally, Vietnam must strengthen its institutional quality and market governance to mitigate risks related to financial misconduct. In particular, Vietnam needs to enhance its legal framework for securities violations, increase penalties for stock price and bond market manipulation, and ensure prompt regulatory actions to help restore investor trust and market confidence. Although this study provides a comprehensive analysis of the relationship between world eocnomic policy uncertainty and the Vietnamese stock market, it primarily relies on descriptive qualitative insights, which might limit the depth of its conclusions. We suggest that future research use a quantitative approach to empirically estimate the short-term and long-term impacts of world EPU on the Vietnamese market and other developing stock markets.

ACKNOWLEDGMENT

The authors gratefully acknowledge the financial support from the Banking Academy of Vietnam.

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