

Vietnam Stock Market Characteristics

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Abstract: The stock market plays an increasingly important role in the economy. In order for the Government to effectively manage the market as well as investors to find stable profits in the market, it is essential to understand its characteristics. Through the synthesis and analysis of market data, the study concludes that currently, the Vietnamese stock market has the following characteristics: The Vietnamese stock market has a large number of stocks. However, the capitalization scale is still low, there is a high difference in the capitalization level for some sectors and groups of stocks, the liquidity of stocks is still limited, the ability to raise capital of the market is still low. These differences are intended to protect investors and Vietnam's fledgling stock market from major fluctuations, but also bring many constraints and limitations for investors. Understanding the market and having the right plan and strategy when participating in the Vietnamese stock market is extremely important.

Keywords: Vietnam stock market, characteristics of stock market, investors

1. Introduction

Recently, despite being affected by the Covid-19 pandemic, stock market in Vietnam as well as in some other countries witnessed a remarkable recovery and growth, attracting the attention of not only investors but also policy makers. The stock market plays an extremely important role in economic development, any fluctuations in the stock market will significantly affect the stability of the economy and the return of investors. For the government, the stock market is a place where the government can mobilize financial resources without being pressured by inflation, especially when public investment capital is limited. For businesses, this is an important capital mobilization channel through the issuance of stocks, bonds, etc. which avoids high interest loans. This is also a tool to evaluate the performance of businesses, create motivation for businesses to constantly improve and be more effective. For investors, the stock market offers diverse investment and profit-seeking opportunities for citizens, suitable for a wide range of investor types and capital sizes. Because of that important role of the stock market, in order to manage effectively, maximize its benefits, seek long-term stable profits, understanding the characteristics of the stock market in each country is an extremely necessary requirement. Therefore, this article will analyze the characteristics of Vietnam's stock market, from which investors, businesses and regulators have appropriate strategies to achieve their goals.

2. Methodology, data description

The article uses qualitative research methods, synthesis of previous studies, and secondary data to make statistics, analyze and present outstanding features of Vietnam's stock market, illustrate by visual charts. On that basis, the article will draw out the advantages and disadvantages of investing in the Vietnamese stock market so that investors can adapt and earn profits on the stock market.

Research articles were searched on scholar.google.com with the keywords "Vietnam stock market", "stock investment", "stock market characteristics". Based on titles and abstracts, suitable studies are selected for further study, research results are summarized according to each content that the article wants to analyze. Secondary data are collected from reputable statistical agencies and organizations, and articles are published in official media.

3. Theoretical frameworks

3.1. Definition of stock market

A stock market is a place where people trade or exchange stocks or bonds between investors through brokerages that are securities companies or electronic trading platforms. Investor in stock market can be an organization or individual that meets the prescribed conditions to participate in buying and selling securities on the stock market for the purpose of making profits.

3.2. Classification of the stock market

The stock market can be divided into two types: the primary market and the secondary market.

The primary market is where a company issues shares for the first time to attract and raise capital on the stock market, most of the buyers in this market are large institutions or investment funds.

The secondary stock market is the place where the buying and selling of shares takes place after the primary issue. Buyers in the primary market will trade with other investors, so no money is generated, but only a change of ownership between the buyer and the seller. The secondary stock market is where individual investors can participate in trading.

3.3. Development stages of Vietnam's stock market

Since its official operation in 2000, Vietnam's stock market has had more than 20 years of development, experienced many fluctuations and is becoming more and more perfect.

Figure 1: Fluctuations of the VN-Index in the period 2000-2023.

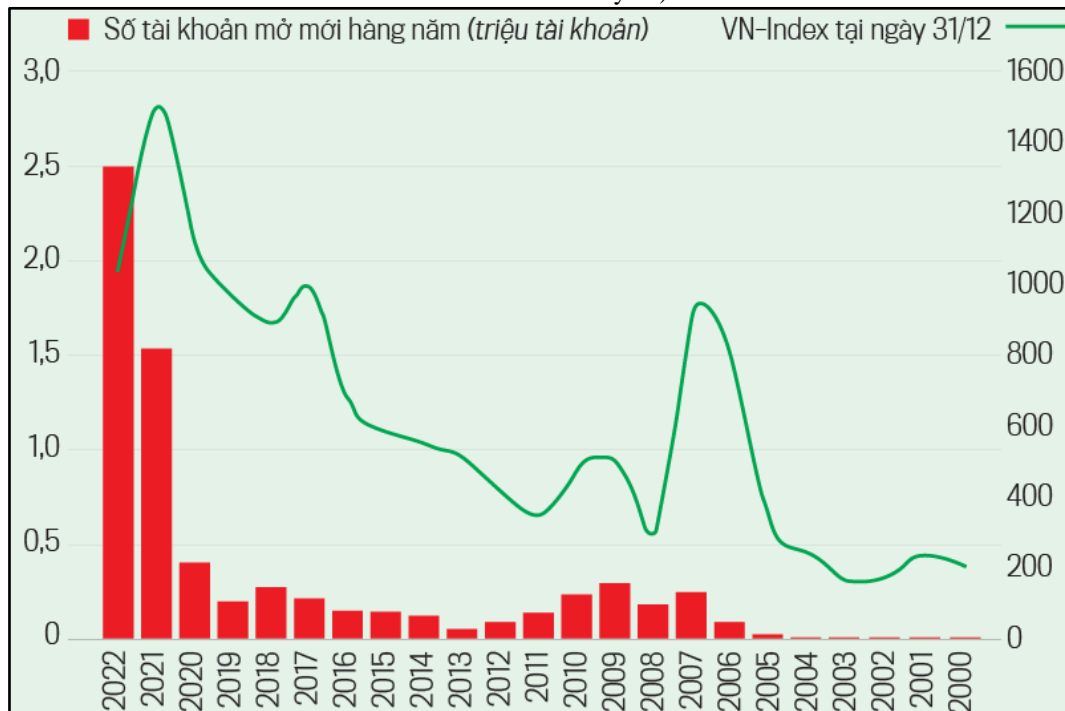


Source: Vietstock.vn

The period 2000-2005 was the infancy stage of Vietnam's stock market, the market capitalization in this period was only about 1% of GDP. The period 2006-2007 was the boom period of Vietnam's stock market with the market capitalization at times reaching up to 43% of GDP. However, 2008 was a really bad year for the stock market as the global financial crisis took place and Vietnam's stock market could not avoid being negatively affected. Market capitalization plummeted to only 18% of GDP. In 2009 the market had a slight recovery, by the end of 2009 the market capitalization increased back to 48% of GDP.

The period 2010-2019 witnessed a relatively stable recovery and growth of the stock market. In 2020, Vietnam's stock market faces a serious decline due to the impact of the Covid-19 pandemic. However, after that, the market witnessed an amazing recovery and growth, attracting a tremendous amount of capital, along with high liquidity and an unprecedented increase in the number of new accounts opened before the sharp decline in the next time. The boom-recession cycle in the period of 2020 - 2022 is much harsher than in the past period 2006-2008 because the influence of the stock market is more widespread because the number of investors has increased dozens of times.

Figure 2: Number of new accounts opened annually and VN-Index movements at the end of the year (at 31 December of each year)



Source: State Securities Commission

4. Empirical findings

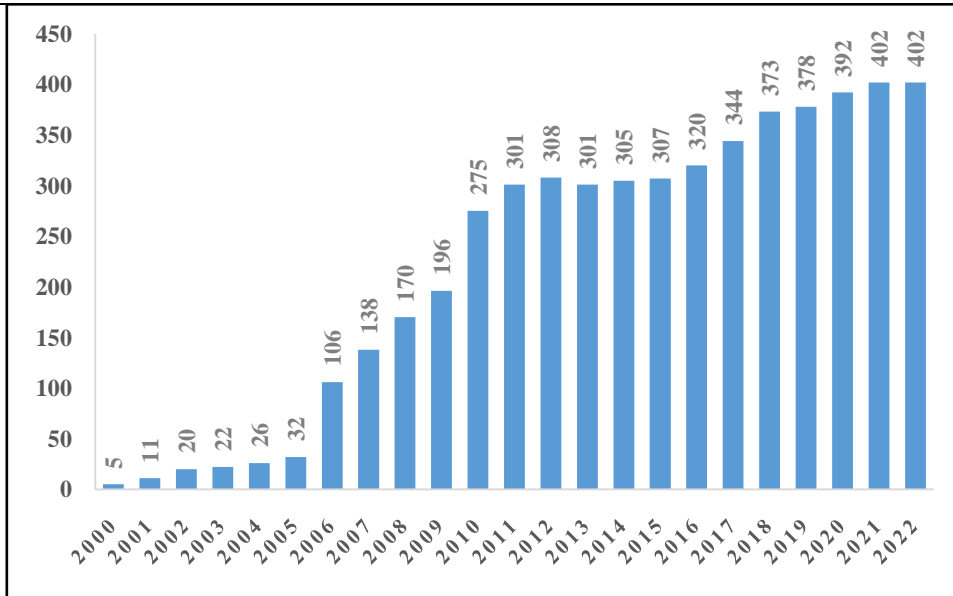
Research results show that Vietnam's stock market has the following outstanding features:

4.1. High number of stocks on exchanges.

Currently, the Vietnamese stock market has 2 main stock exchanges, namely the Ho Chi Minh City Stock Exchange and the Hanoi Stock Exchange, which trade listed stocks, in addition, there is also an Upcom exchange that trades shares of companies about to be listed.

Although the scale of Vietnam's market is much smaller than the stock market of other countries in the region, the number of listed companies is not inferior. According to data from the State Securities Commission, by the end of 2019, there were a total of 1617 enterprises listed on all 3 exchanges, in which HOSE contributed 378 listed enterprises. By the end of 2022, the number of enterprises listed on all 3 exchanges has increased to 1823, of which there are 402 listed companies on HOSE.

Figure 3: Number of listed companies on HOSE by year

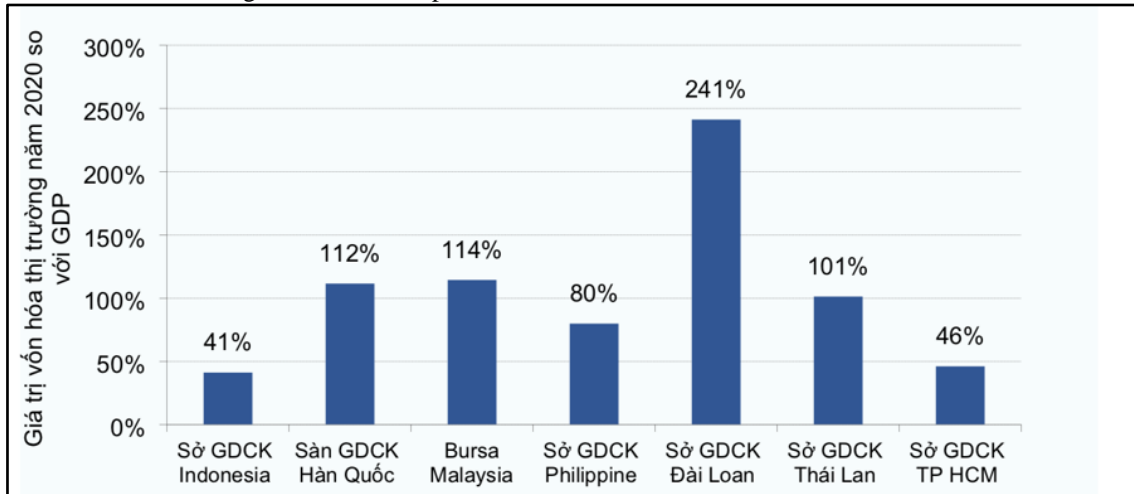


Source: Author compiled data from the State Securities Commission

4.2. The market capitalization of Vietnam's stock market is still low.

Despite the high growth rate, the total market capitalization of Vietnam's stock market is the lowest in the ASEAN region, the market capitalization to GDP is below 50%.

Figure 4: Market capitalization/GDP in ASEAN countries in 2020

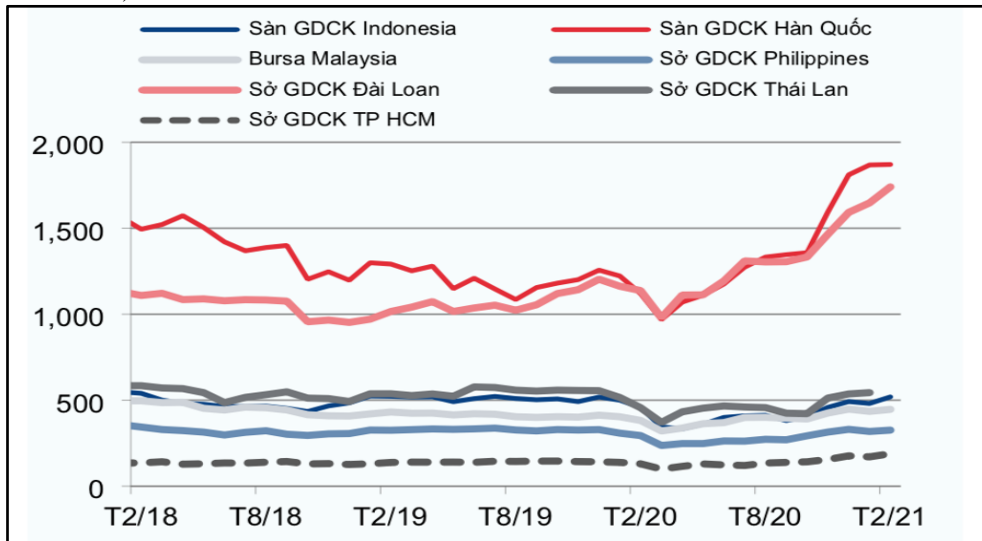


Source: CEIC, IMF, HSC

The second lowest market capitalization is the Philippines, which is also approximately double the market capitalization of Vietnam, other countries such as Thailand, Malaysia, Indonesia and Singapore have a market capitalization of 3 to 5 times in comparison with Vietnam

Figure 5: Stock market capitalization of ASEAN countries

(Unit: Billion dollars)

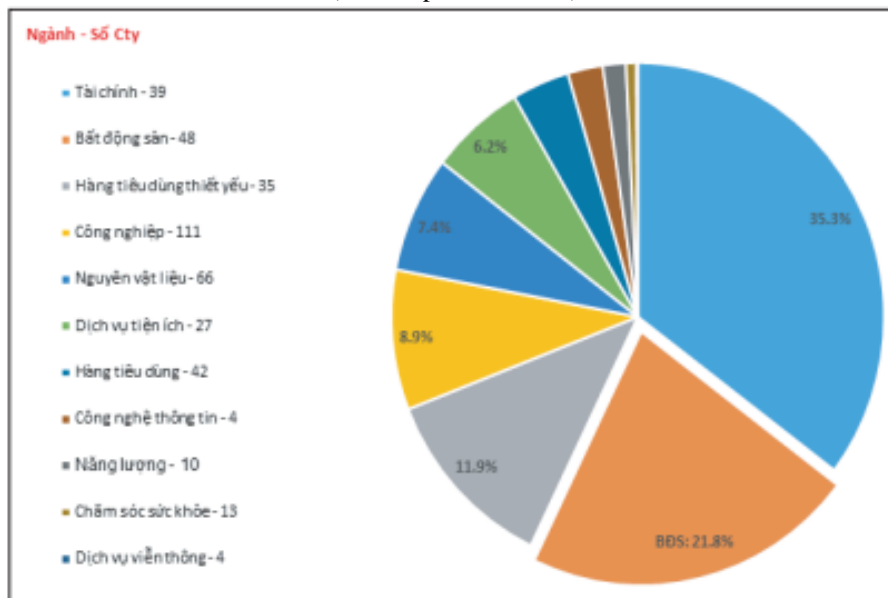


Source: CEIC, HSC

4.3. High spread capitalization for some industries and groups of stocks.

This difference is specifically reflected in 3 groups of financial industry, real estate and essential consumption. Particularly, the financial sector and real estate accounted for nearly 55% of the market capitalization value, if adding the essential consumer industry, this figure increased to more than 70%

Figure 6: Number of companies listed and capitalization by industry on the Ho Chi Minh City Stock Exchange (as of September 2022)



Source: Tran Cong Hoa (2022)

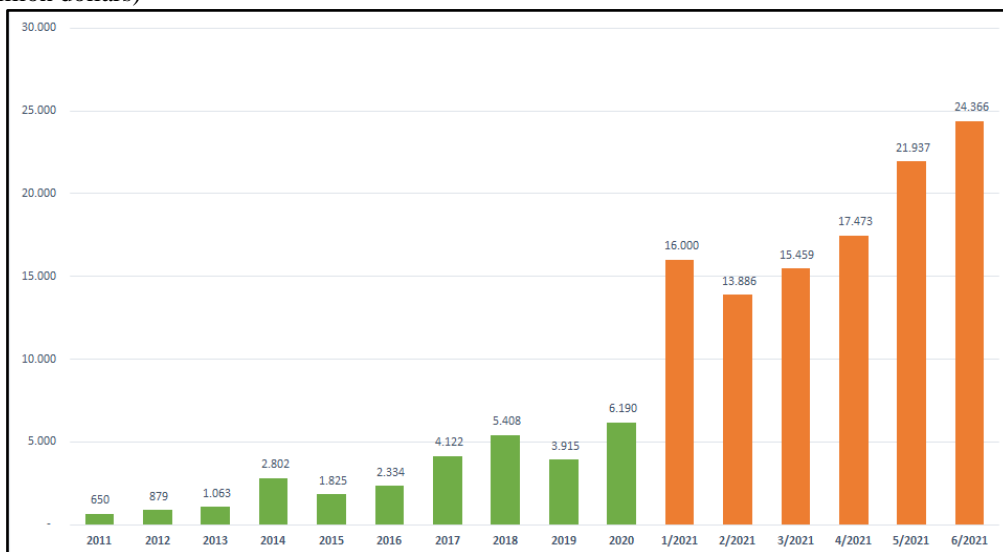
The major sectors in the structure of the actual economy will significantly influence the sector structure of the stock market. The high capitalization rate of the above industries comes from the development of Vietnam's real economic activities. In the specific structure of Vietnam's economy in particular and developing countries in Asia in general, the banking system plays a lifeline role in providing both short- and long-term capital for businesses. As a result, banks often play a very important role in the structure of the financial system. Construction and infrastructure development activities in developing countries are also a very large industry, which is understandable when the real estate sector accounts for a high capitalization rate. Besides, in countries

with a high population density and high population growth like Vietnam, the essential consumer sector represents the consumption growth trend and therefore also accounts for a high proportion.

4.4. Limited liquidity of stocks being traded in the market.

Before the Covid-19 epidemic (from 2019 and earlier), the average liquidity on the Vietnamese stock market was relatively low. In 2019, out of more than 380 stocks listed on the Ho Chi Minh City Stock Exchange, there are nearly 200 companies with trading volume below 100,000 shares/day, many of which are almost non-liquid, the number of shares with liquidity over 1,000,000 shares/day is only 37 shares.

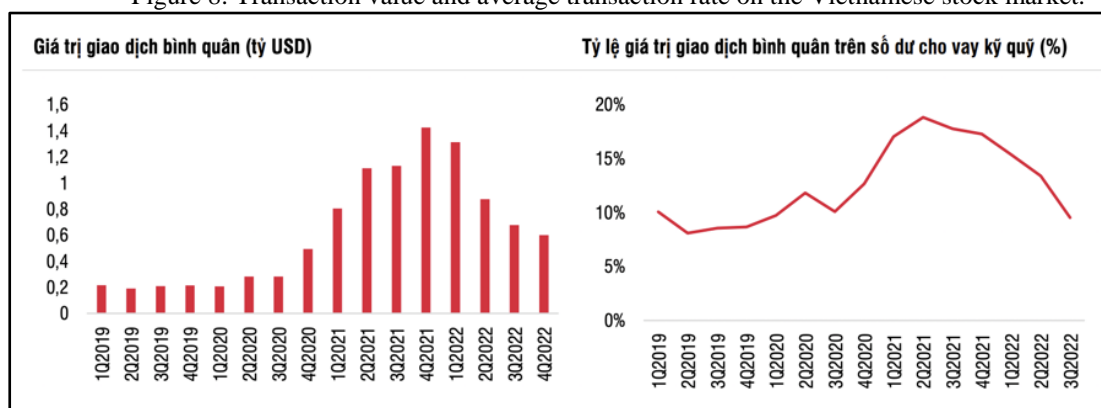
Figure 7: Average liquidity on the Ho Chi Minh Stock Exchange over the years. (Data as of June 24, 2021) (Unit: Billion dollars)



Source: General data from Ho Chi Minh City Stock Exchange

However, from 2020, the market witnessed a rapid increase in the level of liquidity, on the Ho Chi Minh City Stock Exchange, the trading volume increased significantly in 2021, especially in the fourth quarter of this year. In 2021, in January 2021 alone, the liquidity was nearly 3 times higher than the liquidity of the whole year of 2020 and tends to increase in the following months.

Figure 8: Transaction value and average transaction rate on the Vietnamese stock market.



Source: HSX, HNX, SSIR

4.5. The stock market's ability to raise capital is still modest.

In order to do business, enterprises need capital, the capital mobilization channels of enterprises include: issuing shares, corporate bonds, borrowing capital from credit institutions. Thus, the stock market plays an important role in raising capital for businesses, but the capital mobilization efficiency of the stock market has not been as expected. In terms of the actual amount of capital mobilized by enterprises, the amount of capital mobilized from the stock market is much lower than from borrowed capital

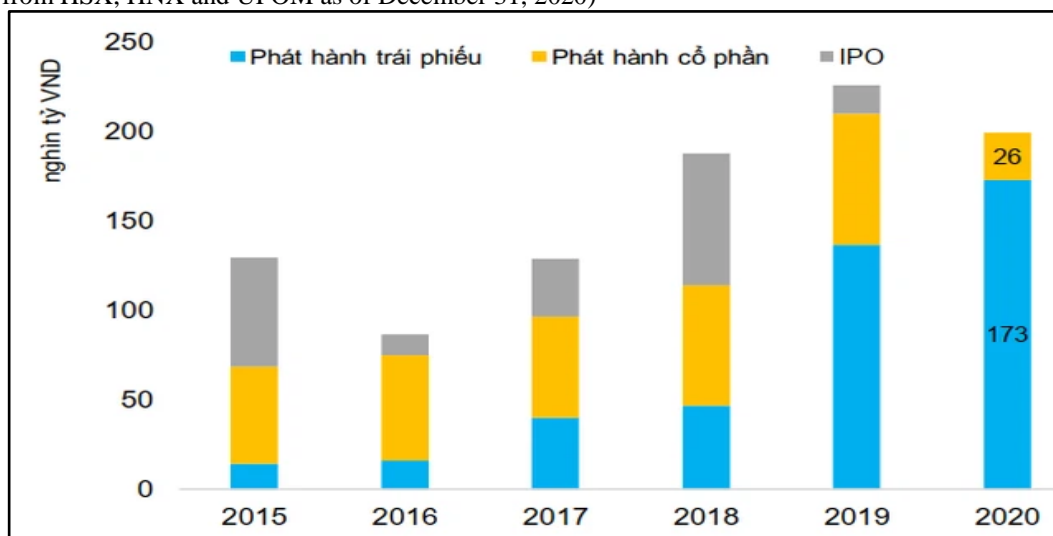
Figure 9: Capital increase structure of listed companies



Source: Bloomberg

Remarkably, the trend of raising capital from corporate bonds has shown signs of increasing in recent years. Specifically, in 2020, the value of bond issuance reached VND 173 trillion, up by 27% over the same period, this value was nearly 7 times higher than mobilized from the issuance of shares of VND 26 trillion.

Figure 10: Proportion of issuing shares and bonds of listed companies
 (Data from HSX, HNX and UPOM as of December 31, 2020)



Source: Fiin Ratings, Fiin Pro Platform

5. Discussion

Vietnam's stock market is still very young compared to the long-established stock market in some countries around the world, so there are still some distinctive features that Vietnam's stock market still cannot be synchronized like other international markets. Table 1 below presents some differences between the Vietnamese market and the international stock market.

Table 1: Some differences of Vietnam market and international stock market

Criteria	Vietnam stock market	International stock market
Capitalization value	About 190 billion USD	About 20 trillion USD
Short selling	Short selling is not allowed yet	Support short selling for most products such as stocks, bonds, commodities

Derivatives market	There are limited products as well as no clear legal regulations	Various derivative products such as futures, swaps, options, etc.
Price volatility	Regulations on price range limit: HOSE is 7%, HNX is 10% and UpCOM is 15%.	Unlimited price fluctuation range
Trading lot volume	Regulation of trading lot is 100 units	Unlimited number of trading lots
Leverage	The maximum regulated leverage ratio is 1:2	Leverage ratio 1:200 or higher
Registration procedure	The registration procedure is relatively complicated, direct registration, requires a live signature and many types of documents.	The registration procedure is simple, you can register online through the exchanges.
Transparency	The level of transparency is not high, prices may be manipulated due to the limited market size.	High level of transparency, difficult to manipulate prices due to large market size.

Source: Compiled by the author

These differences are intended to protect investors and Vietnam's fledgling stock market from large fluctuations, keeping a level of safety and stability for investors, which brings advantages as well as some limitations when investing in the Vietnamese stock market

In terms of advantages, due to the protection of Vietnamese law and regulations limiting prices, volume and leverage, it helps to limit some risks of instability to the market, limiting the possibility that organizations or exchanges dominate or have market manipulation activities that negatively affect investors and cause losses.

However, these restrictions also bring many constraints and limitations for investors. With a low leverage ratio, despite reducing risks, investors' profits are not high. On the other hand, the number of listed companies with high liquidity is still limited, and the level of transparency in accounting information is not high, thus making it difficult for investors to choose investment stocks. Besides, the products traded on the market are not diversified, short selling is not allowed, which also causes a lot of limitations for investors in hedging risks and building their own investment strategies.

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