

Strategic Insight

Final destination of the journey?

Market upgrade outlook

Vietnam's stock market, currently classified as a Frontier Market, is under review for an upgrade to Secondary Emerging Market status by FTSE Russell. Since joining the Watch List in 2018, Vietnam has introduced major reforms and by mid-2025 met all nine mandatory criteria for reclassification. Recent measures, including Circular 68/2024/TT-BTC, Circular 18/2025/TT-BTC, Circular 14/2025/TT-BTC, and the KRX system, resolved past restrictions on settlement cycle and trade costs. With these improvements, Vietnam is now positioned for an official upgrade, expected to be announced on Oct 7, 2025.

Benefits of Vietnam's market upgrade

Vietnam's potential upgrade to Secondary Emerging Market status is expected to deliver major benefits. Foreign capital inflows could reach USD362mn-1.2bn as ETFs allocate to Vietnam in 2026, enhancing liquidity and boosting trading values on local exchanges. Large-cap firms will gain easier access to global capital, supporting successful equity and bond offerings at lower costs. In addition, stronger participation of international investors will elevate corporate governance, disclosure standards, and transparency, helping Vietnam's market become more sustainable and attractive for long-term growth.

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I. Market upgrade outlook

Vietnam's stock market is currently classified as a "Frontier Market" and is under review for an upgrade to Secondary Emerging Market status by FTSE Russell. Vietnam has been on FTSE's Watch List since Sep 2018. In recent years, Vietnam implemented significant reforms to meet the upgrade criteria. By mid-2025, the Ministry of Finance announced that Vietnam had met all nine mandatory requirements under FTSE Russell's market classification framework.

According to FTSE Russell's rules, a country must satisfy nine mandatory criteria to be upgraded from Frontier Market to Secondary Emerging Market. These criteria are assessed based on the actual experience and feedback of foreign investors. After the Apr 2025 review, Vietnam remained constrained on several key criteria. Specifically, FTSE Russell rated Vietnam as "Restricted" in two areas: "Settlement Cycle (DvP)" and "Settlement – costs associated with failed trades."

However, thanks to recent measures, these two bottlenecks showed positive progress and no longer posed major barriers. In particular, the introduction of Circular 68/2024/TT-BTC, effective from Nov 2024, partly addressed the criterion of "Settlement – costs associated with failed trades." This circular introduced a Non-Prefunding mechanism for foreign investors, allowing them to avoid prefunding the entire amount when placing buy orders.

In addition, government initiatives such as the issuance of Circular 18/2025/TT-BTC, Circular 14/2025/TT-BTC, and the rollout of the KRX system further helped Vietnam move closer to full compliance with these two criteria.

At this point, Vietnam's stock market has effectively met all nine requirements for an upgrade to Secondary Emerging Market status. We believe that in the Sep 2025 review, Vietnam's stock market will officially be upgraded to Secondary Emerging Market by FTSE Russell, and Vietnamese stocks will be formally included in the indices starting from Mar 2026. The official announcement is scheduled for Oct 7, 2025 (U.S. time), corresponding to the morning of Oct 8 in Vietnam.

Table 1. FTSE quality of markets criteria (Watch List) as at March 2025

CRITERIA	SEC EW	FW	Vietnam (FM)
Market and Regulatory Environment			
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	x	x	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	x	x	Pass
Equity Market			
Brokerage - Sufficient competition to ensure high quality broker services	x		Pass
Transaction costs - implicit and explicit costs to be reasonable and competitive	x		Pass
Transparency - market depth information / visibility and timely trade reporting process	x	x	Pass
Clearing, Settlement and Custody			
Settlement - costs associated with failed trades	x	x	Restricted
Settlement Cycle (DvP)	x	x	Restricted
Central Securities Depository	x		Pass
Custody - Sufficient competition to ensure high quality custodian services	x		Pass

Source: FTSE Russel, KIS

Notes: SEC EW: Secondary Emerging Watch, and FW: Frontier Watch

Green cell: Pass, Yellow cell: Restricted

II. Benefits of Vietnam's market upgrade

1. Attracting foreign investment inflows

The most significant impact of being upgraded to the emerging market group is the increase in foreign capital inflows. Immediately after FTSE Russell announces the upgrade to Secondary Emerging Market, Vietnam will automatically be included in global indices such as the FTSE Emerging Markets Index. Passive funds (ETFs) tracking these indices will be required to purchase Vietnamese equities to rebalance their portfolios.

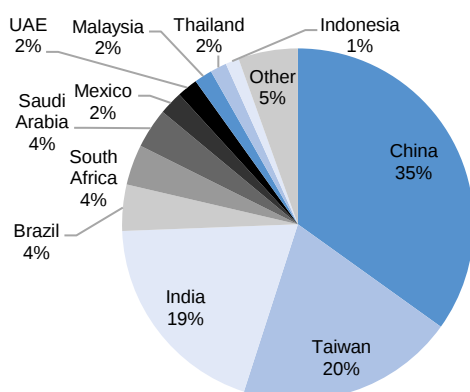
According to Bloomberg data, there are currently about 14 ETFs investing in the FTSE Emerging Markets Indexes with total assets under management (AUM) of USD120.9bn. Of this, the majority of capital is concentrated in the Vanguard FTSE Emerging Markets ETF, which dominates with 83.7%, equivalent to USD101.2bn.

Table 2. ETFs invested according to FTSE Emerging Markets indices

No.	Fund Name	Fund Assets (USD mn)
1	Vanguard FTSE Emerging Markets ETF	101,294.9
2	Schwab Emerging Markets Equity ETF	11,245.2
3	Vanguard FTSE Emerging Markets UCITS ETF	4,301.6
4	Vanguard FTSE Emerging Markets All Cap Index ETF	2,155.5
5	Vanguard FTSE Emerging Markets ETF/Australia	969.8
6	JPMorgan Diversified Return Emerging Markets Equity ETF	351.3
7	HSBC Emerging Market Screened Equity UCITS ETF	249.3
8	Invesco FTSE Emerging Markets High Dividend Low Volatility UCITS ETF	183.9
9	Smart Emerging Markets ETF	121.8
10	Vanguard ESG Emerging Market All Cap UCITS ETF	68.8
11	RBC Emerging Markets Equity Index ETF Fund/ETF	19.0
12	Franklin FTSE Emerging Markets UCITS ETF	11.8
13	Cathay Fkse Emerging Markets Etf	5.5
14	Franklin FTSE Emerging ex China UCITS ETF	2.8

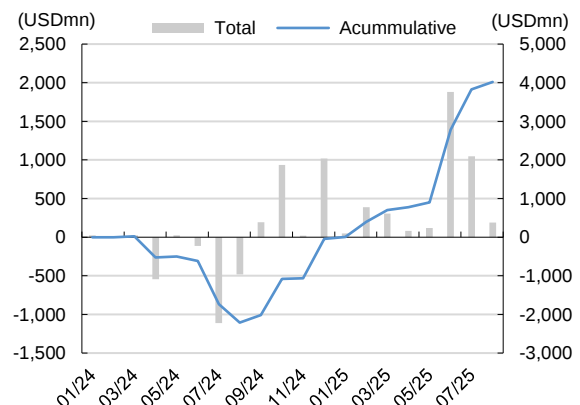
Source: Bloomberg, KIS Research

Figure 2. Weight of the FTSE Emerging Markets Index by country



Source: Bloomberg, KIS Research
Note: start of 01/25 = 100

Figure 3. Net cash flow into funds tracking the FTSE Emerging Markets Index



Source: Bloomberg, KIS Research
Note: start of 01/25 = 100

If Vietnam is upgraded to a Secondary Emerging Market under FTSE classification, we estimate that Vietnam's weighting in the FTSE Emerging Markets Index could range from 0.3% to 1%. Based on this weighting, foreign inflows into the Vietnamese market could be estimated at USD362mn to USD1.2bn. In addition, active funds are also expected to be established and allocate capital into Vietnam.

Table 3. Potential inflow from FTSE EMs after Vietnam is upgraded

Total AUM of fund (USDbn)	120.9	120.9	120.9	120.9	120.9	120.9	120.9	120.9
Vietnam's Weight in FTSE EM (%)	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
Estimated Capital Inflow (USDmn)*	362.94	483.92	604.91	725.89	846.87	967.85	1088.83	1,209.81

Source: FTSE Russel, Bloomberg, KIS Research

Note: *All 14 ETFs tracking the FTSE EMs indexes

2. Expanding capital mobilization and elevating enterprises

Once classified as an emerging market, Vietnam's position on the global financial investment map will be elevated. Vietnamese companies, particularly large-cap firms, will gain easier access to international capital. Many large global funds (previously restricted to investing only in emerging markets and above) will start to consider Vietnam as an attractive destination. This translates into higher chances of success for international equity and bond offerings by Vietnamese companies, with lower fundraising costs supported by an expanded investor base and improved valuations. In fact, during the watchlist period, many large Vietnamese enterprises have already moved closer to international standards of governance and transparency, with some even adopting Environmental, Social, and Governance (ESG) frameworks to attract major foreign funds. This trend is expected to strengthen further after the upgrade, as businesses recognize opportunities to attract strategic foreign shareholders and long-term capital.

3. Enhancing liquidity and transparency

New capital inflows and the participation of foreign financial institutions will expand market liquidity, with average trading values on the HOSE and HNX exchanges set to rise significantly. Improved liquidity will make stock trading more seamless, reducing the risk of "liquidity traps" in large-cap stocks. At the same time, the presence of international institutional investors will create positive pressure, pushing the market toward greater transparency and higher standards. The quality of disclosures, corporate governance, and audits of listed companies will improve, as foreign investors typically demand higher standards in these areas. On the regulatory side, increased foreign monitoring of the market will also encourage stricter supervision and policy transparency. Altogether, these factors will contribute to building a more sustainable and transparent market after the upgrade.

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