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Effect of International Political Developments on the Vietnamese Stock Exchange

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Abstract

This article examines how international political events have affected the volatility of Vietnam's stock market from 2010 to 2023. Through a statistical comparison of the VN-Index's volatility rate over time after political events, the research results have revealed three main trends. First, the VN-Index to fluctuate more strongly in the short term as it moves further away from the time of the event. Second, the volatility index changes depends on the dependent relationship of the place where the event occurs with the Vietnamese market. Finally, as Vietnam's stock market matures and moves further away from its establishment in the 2000s, the volatility of the VN-Index has decreased

Keywords: *International Political Events, Stock Market, Stock Market, Market Volatility.*

1. Introduction

The effects of political events on markets and businesses have been widely studied by academics and the public alike. Research has revealed that political events can have a significant impact on market outcomes and business performance [1]. In the modern context of global economic integration, international political events can have a profound effect on economies in many different parts of the world [2-3]. This has only increased the interest in understanding the relationship between political events and economic activity

In February 2022, the beginning of a series of Russian military operations against Ukraine in the Donbas region led to an unexpected escalation of tensions, causing global stock markets to drop by 2-3%. US and European stock futures, S&P 500, Dow Jones, and Nasdaq all dropped by over 1%, while the VN-Index in Vietnam experienced a significant fall of 15 points in the morning session and 22 points in the afternoon, mainly due to the decrease of oil and gas and fertilizer stocks. This international political crisis had a visible effect on global economic activity and stock markets, showing the significance of even non-economic crises.

The impact of international political events on stock markets is well-documented. For example, in 2014 when Russia annexed Crimea, the stock market in the first 1-2 months was relatively unaffected, however, as sanctions against Russia and the crisis in crude oil prices began to take effect, the stock market in Vietnam experienced a decrease in the value of oil and gas stocks. One year later, the VN-Index had returned to its pre-crisis peak, showing an increase of 1.58%. Similarly, in 2001, the terrorist attacks of September 11 had an immediate impact on the VN-

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Index, resulting in a decrease of up to 7%. Similarly, in 2003, the Iraq war caused a 1.2% decrease in the VN-Index. However, the impact of international political events on different economies can vary; when assessing the influence of political events on the return of the KSE-100 index of the Pakistani stock market, it showed a downward trend in stock prices in the (-1,1) range around the event [7-8].

Vietnam's stock market is still young, so starting from the initial observation of the fluctuations in the VN-Index, the determination of the role of international political events in the impact relationship of the VN-Index is determined. Global factors such as economic activity and world financial markets to Vietnam's stock market are necessary not only for policy makers but also for domestic and foreign investors [9-10]. Through in-depth research and analysis, the role of international political events in the relationship between the VN-Index and global economic and financial markets has been determined. The VN-Index is influenced by global economic and financial conditions such as the US dollar exchange rate, international oil prices, and global stock markets. International political events, like changes in trade agreements or geopolitical tensions, can have a significant impact on these economic and financial markets, thus impacting the VN-Index. Furthermore, domestic political events, such as changes in government policy, can also have a significant effect on the VN-Index. Thus, it is essential to identify and analyze both international and domestic political events in order to accurately assess the impact of these events on the VN-Index.

2. Research data and methods

The present study analyzes the influence of twenty international political events on the volatility of the VN-Index over the period of 2001-2022. These events include the September 11 attacks in the US, US attacks on Afghanistan, Iraq War, Madrid terrorist attack, Hamas winning the elections in Palestine, the 17th Congress of the Communist Party of China, South Ossetian War, Barack Obama taking office as President of the United States, the Mumbai Attack, Libyan Civil War, Osama bin Laden's death, Explosion at the Boston Marathon, China lowering the rig HD981, the formal formation of the ASEAN Community, the announcement of the results of the Brexit vote, US launching Syrian missiles, the North Korean Crisis, the assassination of an Iranian Lieutenant General, protests in Thailand, and Russia attacking Ukraine. The statistical comparison method of the rate of change of the VN-Index is used to measure the influence of each event on the stock market in terms of both short-term (3 days and 10 days) and long-term (30 days) periods.

$$r\% = \frac{VNI_t - VNI_{t-1}}{VNI_{t-1}} \quad (1)$$

Where: $r\%$ is the rate of change

VNI_t is the number of VN-Index points after t days, from the date of the event

VNI_{t-1} is the ending point of the trading day $t-1$

3. Research results

Table 1 presents the comparison results of the VN-Index's volatility around 20 international political events, with day 0 being the event's date, and the other 3, 10, and 30 representing the 3-day, 10-day, and 30-day post-event frames

Table 1: Movement of VN-Index according to international political events after trading days

TT	Event	Event date	Day 0	Day 3	10th	30th
1	September 11 events in the US	Sep 11, 2001	-6.89%	-10.76%	-18.48%	-21.39%
2	US invades Afghanistan	Jul 10, 2001	6.88%	8.89%	14.95%	35.33%
3	Iraq War	Mar 20, 2003	-1.15%	-2.54%	-7.94%	-3.79%
4	Madrid terrorist attack	Nov 3, 2004	2.25%	3.54%	-4.93%	-2.95%
5	Hamas wins Palestinian elections	Jan 25, 2006	1.31%	1.79%	2.05%	21.72%
6	The 17th Congress of the Communist Party of China	Oct 21, 2007	-1.03%	-0.08%	-1.93%	-11.45%
7	South Ossetian War	Aug 7, 2008	0.32%	3.97%	16.14%	21.78%
8	Barack Obama takes office as US President	Apr 11, 2008	3.94%	5.25%	1.25%	-11.25%
9	Attack Mumbai	Nov 26, 2008	-2.68%	-1.75%	-6.45%	-4.95%
10	Libyan Civil War	Feb 15, 2011	0.74%	-1.97%	-9.16%	-8.81%
11	Osama bin Laden was killed	May 1, 2011	1.35%	-1.54%	0.64%	-9.25%
11	Bomb explosion at Marathon Boston	Apr 15, 2013	-0.41%	-1.42%	-0.72%	7.71%
13	China Lowering rig HD981	May 8, 2014	-5.87%	-8.81%	-10.54%	-3.67%
14	Formal Formation of the ASEAN Community	Dec 31, 2015	-0.07%	-0.87%	-9.94%	-5.90%
15	Announcement of the results of the Brexit vote	Jun 24, 2016	-1.82%	-1.74%	2.48%	2.69%
16	US launches Syrian missiles	Jul 7, 2017	0.65%	1.12%	-1.74%	2.45%
17	North Korea Crisis	Jul 28, 2017	0.72%	1.98%	2.71%	3.37%
18	Iranian Lieutenant General Assassinated	Mar 1, 2020	-0.16%	-1.13%	-0.09%	-3.99%
19	Protests in Thailand	Feb 26, 2020	-1.51%	-2.77%	-7.93%	-23.69%
20	Russia attacks Ukraine	Feb 24, 2020	-1.15%	-1.47%	-0.46%	-0.93%

The results from Table 1 show that the influence of different events, the size and timing of events will make the VN-Index fluctuate differently. These impacts can be divided into three trends of change including: volatility changes over time since the event occurred, volatility changes according to the geopolitical relationship of the place where the event occurs with market in Vietnam, and volatility changes according to the time of occurrence of the event compared with the establishment of the domestic stock market.

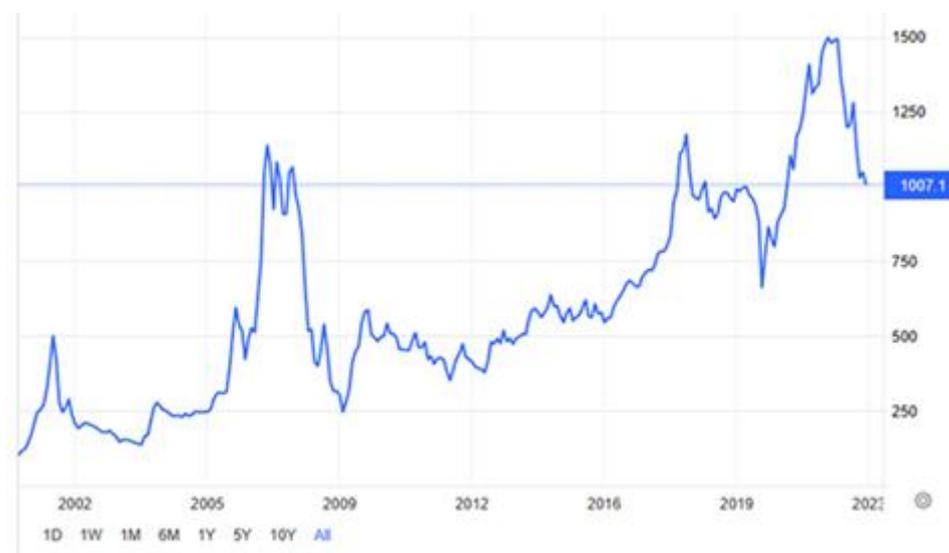


Figure 1: Vietnam stock market chart history

Table 2: Timeline of the history of the Vietnam stock market

Year	Events
2000	Ho Chi Minh City Stock Exchange Trading Centre was established. VN-Index commences at same time.
2005	The Hanoi Stock Exchange (HNX) was established.
2006	Vietnam stock market boom gains momentum, increased speculation and foreign capital inflows. Gains of circa 150% in 2006.
2007	On August 8 th , 2007, the Ho Chi Minh Stock Exchange was officially opened.
2008	VN-Index has a major stock market crash. From the peak in 2007 to lows in early 2009 fell more than 70%. Inflation surges.
2009	Unlisted Public Market (UPCoM) was set up. Hanoi Stock Exchange (HNX) handles bond trading.

Year	Events
2011	Vietnam devalues currency and inflation pressures persist.
2013	Fallout persists from distorted lending practice in previous years with SOEs, property market and banks still under pressure.
2014	Vietnam stock market stabilizes from 2010-2014. Proactive steps from government to tackle problems in the banking sector. Inflation slows dramatically. HOSE index and various sub-indices launched.
2015	Relaxation of foreign ownership caps on certain companies.
2018	Vietnam stock market hits a peak in early 2018 after almost doubling in the space of 2 years. Export and trade balance story shows great improvement. FDI picking up. Market suffers a correction later in the year.
2019	Launch of government bond futures contract.
2020	Strong bounce back in Vietnam stock market after covid crash, led by surge in domestic retail interest.
2021	Vietnam stock market boom since covid crash continues with continued low interest rates, despite Vietnam being hard hit from covid delta variant.

4. Discussion

a. The TVN-Index has been subject to fluctuations over time due to the impact of international political events.

In Table 1, it can be seen that the VN-Index fluctuates strongly in the short term after certain political events. Specifically, such fluctuations can occur on the same day the event takes place (Day 0) or 3-10 days later. For example, after the US attack on Afghanistan in 2001, the Vietnamese stock market experienced a significant drop of -6.89%. Likewise, the Iraq War and the Libyan Civil War resulted in a decrease of -7.94% and -9.16%, respectively, after around 10 days. Moreover, there are events that only affect Vietnam's stock market in the long term, such as the Palestinian Election (with an increase of 21.72%) or the 17th Congress of the Communist Party of China (with a decrease of -11.45%) after around 30 days. This can be seen in the Vietnam stock market chart history and timeline provided in Figure 1 and Table 2.

The statistics on the change of the VN-Index over time show a strong fluctuation of this index after the Thailand rally event in 2020. On Day 0, the VN-Index saw a serious decline of -1.51%,

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followed by -2.77% on Day 3, -7.93% on Day 10, and -23.69% on Day 30. While this event had a negative impact on the Vietnamese stock market, the war in South Ossetia produced increasing volatility over time, with respective percentages of 0.32%, 3.97%, 16.14%, and 21.78%. This level of crisis volatility is typically observed in events related to military warfare, as the war situation is constantly shifting and may include prolonged tension and complicated developments. However, the long-term year-on-year indicators would blur the impact of these events without a large-scale economic crisis.

The performance of the VN-Index is influenced by the geopolitical situation between the location of the event and the Vietnamese stock market.

The influence of political events in the world on the VN-Index also depends on the influence of the market where the event occurs on the Vietnamese stock market. Among the world events recorded since 2000, there are a number of events that have a strong impact on the VNIndex including the terrorist events of September 11, 2001 and the Iraq war of 2003. Of the two events. On this occasion, VN-Index witnessed a decrease of up to 7% and 1.2%, respectively, right at the time of the event. Both of these events are expected to cause volatility in the VN-Index due to fluctuations in US stock market performance. (DJIA) has a positive influence on the VNIndex, in which high liquidity stocks are affected the most. Therefore, when there is a crisis in the US market, the consequent volatility in the Vietnamese market is understandable.

In addition, events taking place in the Asia-Pacific region, or closer to Southeast Asia, have short-term effects on the Vietnamese stock market. Comparing the size and influence of the events of the Communist Party of China Congress (2007), the protests in Thailand (2020) on the world economy, these events have a smaller degree of influence compared to armed struggles and the military situation. However, these events still contributed to significant volatility for Vietnam's stock market in the 30-day period after the event, with volatility of -11.45% and -23.69% respectively. . Moreover, for the event that China lowered the rig HD981 and the official establishment of the ASEAN Community, the two events had a stronger impact on the Vietnamese stock market due to their direct association, causing volatility levels. The action immediately after the event 10 days was -10.54% and -9.94% respectively.

On the other hand, although the tension in Russia and Ukraine is quite far from Vietnam and the correlation is quite low, the psychological impact is still significant for investors. According to statistical results, the escalating tension between Russia and Ukraine still causes the VN-Index to decrease steadily with a rate of about 1% in the short term. However, according to KB Securities Vietnam Company (KBSV), the decline of the VN-Index in the context of such a global stock market is still quite positive, only decreasing by about 1% in the past year. Meanwhile, global stocks recorded a decrease of 2-3%.

However, not every major world political event has a strong influence on the operation of Vietnam's stock market. When the preliminary results of the referendum in the UK in the event of Brexit tilted in favor of leaving the EU, VN-Index sometimes dropped 34 points. However, the VN-Index only dropped 11.5 points at the close. If you only look at the movements of one session, it can be seen that the market has reacted strongly to Brexit. The decrease of 34 points is equivalent to the decrease of May 8, 2014, when China placed the HD981 rig. However, if the VN-Index on May 8, 2014 dropped 34 points at the close, the VN-Index on June 24, 2016 only dropped 11.5 points. The different results of the market in these two sessions can come from investors who think that the influence from the UK on Vietnam is still far away and the magnitude is not large. In addition, the market platform is in good condition, VNIndex continuously moved sideways at the highest level in the previous 10 months. Thanks to that,

the demand for bottom-fishing was strong, helping the liquidity to increase again, VN-Index recovered more than 2/3 of the lost points within the day.

b. VN-Index fluctuates according to the time of the event

The results from Table 1 show the difference in the volatility of the VN-Index in the early days of the market's establishment, compared with recent years. With recent events, the influence on VN-Index tends to decrease slightly. In contrast, with events taking place at the beginning of Vietnam's stock market (July 11, 1998 and July 28, 2000), the influence on VN-Index tends to be stronger. , typically include the terrorist events of September 11, 2001 and the Iraq war of 2003. These two events fluctuate in two different directions, but both reflect high volatility, with a ratio of more than 6 % on the day of the event and more than 20% after 30 days from the event. Subsequent events also reflect significant changes, with high rates of change, or short-term stable and consistent ups and downs.

When looking at the recent 5-year milestone with major events, the maximum decrease of VN-Index in the studied time frames is only about 3.5%. In particular, analyzing the escalating tension between Russia and Ukraine with complicated developments, causing many impacts on other economic activities, the world in general, and Vietnam in particular, the index VN-Index of the market still did not fluctuate too much, only decreased by less than 2% and has now recovered and surpassed the threshold before the event.

The cause of this difference in influence levels can come from many factors. Compared with the early days of establishment, the number of stocks and the current market is more and more crowded, diversified in economic sectors. Therefore, an event taking place in the recent context will be less likely to affect the majority of stocks listed on the market, thereby creating a balance between stocks, reducing volatility of the overall market index. Besides, the self-correction ability of Vietnam's stock market has improved much better in the past 20 years. The current market is still young, but less affected by external factors, investors in the current market themselves have been less affected by the sell-off or "panic" is no longer spreading spread longer than before.

5. Conclusion

The article analyzes the volatility of the Vietnamese stock market before major political events in the world in the period from January 2001 to December 2022. Using the statistical comparison method of the rate of volatility of the VN-Index over time after political events took place in the short and long term, the study has shown certain changes in VNIndex before political crises, military and armed conflicts in the world followed three main trends. Specifically, the VN-Index fluctuates more strongly in the short term as it moves further away from the time of the event. Geopolitical events tend to affect the stock market in the short term, the stock market always tends to bottom and bounce back after each such event. Long-term investors may consider disbursing in strong market declines. The volatility index changes depending on the geopolitical relationship of the place where the event occurs with the Vietnamese market. Finally, the volatility of the index gradually decreased as Vietnam's stock market grew stronger and farther away from the market's establishment in the 2000s. The influence of major geopolitical events tended to decrease-Index within the last 5 years

This study provides a useful insight into the volatility of the Vietnamese stock market before major political events in the world. It is worth noting that the analysis was conducted over a long period of time, which allows for a more accurate assessment of the impact of political events on the stock market. Additionally, the article provides useful information on how investors can respond to major political events in order to maximize their returns. Finally, the

article provides evidence that geopolitical events do have an impact on the stock market, and that this impact is likely to decrease as the Vietnamese stock market matures.

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