Economics & Strategy | Asia ex-Japan

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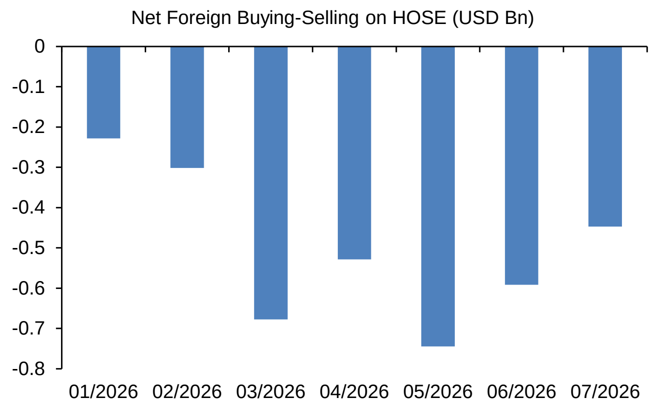
Vietnam: Frontier to Emerging: Medium-Term Boost, Not Near-Term Windfall

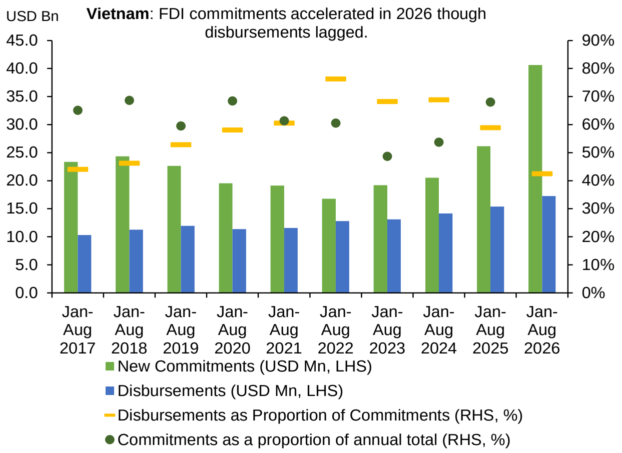
In a Nutshell:

- Vietnam's FTSE upgrade marks a significant structural milestone that should bolster the country's medium-term investment appeal, but expectations for an immediate market or FX windfall may be misplaced.
- The phased nature of FTSE GEIS inclusion, combined with foreign ownership headroom and persistent foreign equity outflows despite the earlier upgrade announcement, suggests that passive inflows are likely to be backloaded, uneven and potentially accompanied by bouts of volatility.
- While the VND has shown resilience in 2026, supported by FDI inflows, tourism receipts, rising FX reserves and favourable regional FX spillovers from KRW, JPY and CNH strength in recent months, these tailwinds appear largely cyclical rather than indicative of a sustained structural revision of equilibrium VND levels.
- As such, recent VND gains do not warrant outright bullish bets, particularly amid elevated inflation risks that could erode real returns and fuel credit growth concerns.
- Nonetheless, continued market reforms, infrastructure development, IFC related progress and deeper integration into global capital markets through the FTSE upgrade should gradually strengthen Vietnam's long-term investment and currency fundamentals.

FTSE Upgrade: Structural Gains, Gradual Payoff



Sources:CEIC; Mizuho

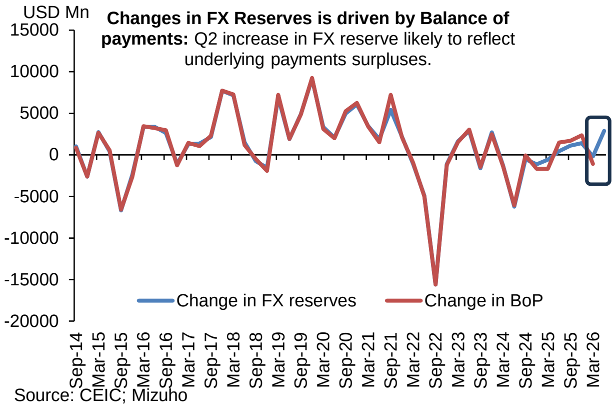


Source: CEIC; Mizuho

- Vietnam's FTSE upgrade is structurally positive but near-term market and FX benefits are likely to be **gradual, uneven** and potentially accompanied by volatility due to phased inclusion mechanics. Vietnam’s reclassification by the FTSE from Frontier to Secondary Emerging Markets will be from 21 September 2026.
- While the upgrade is a medium-term positive, particularly for the financial sector, immediate gains for Vietnamese assets and the VND are likely to be limited.
- There may be higher volatility from the onset as the removal from Frontier series will be implemented in a single tranche while inclusion into FTSE GEIS will be implemented in phased tranches.
- Furthermore, the **backloaded nature of the inclusion** (Sep 26: 10%; March 27; 20% June 27:35% Sep 2027:35%) implies that passive inflows will be spread over time rather than concentrated at the point of upgrade.
- The impact is also likely to be uneven across constituents. Although 27 securities are eligible for inclusion, foreign ownership limits could result in highly uneven inflow distribution across eligible names.
- Positive spillovers to the broader market are therefore likely to be driven primarily by a small group of large-cap stocks that collectively account for roughly one-third of index weight.
- Notably, foreign investors have remained net sellers of Vietnamese equities throughout 2026 despite confirmation of the FTSE inclusion in April, suggesting that the upgrade itself has yet to materially alter foreign investor positioning.

VND: Modest Confluence of Tailwinds

- Despite these outflows, **VND has maintained a middle of the pack position** throughout the year with a marginal appreciation on a YTD basis largely on account of gains in Q3.



Source: CEIC; Mizuho

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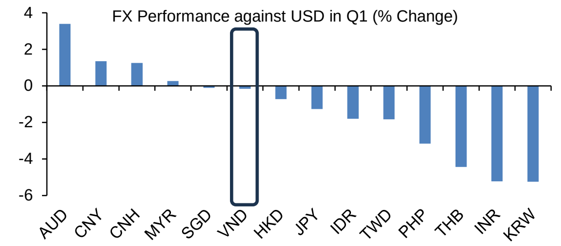
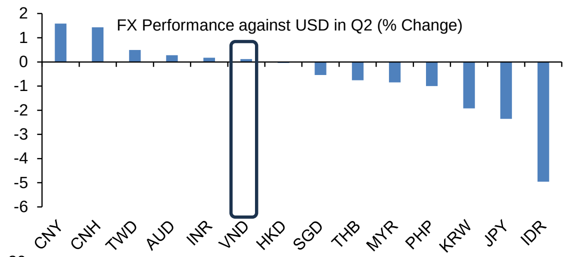
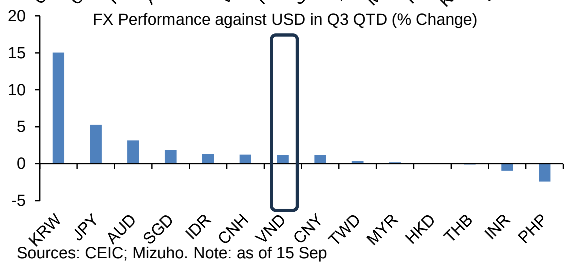
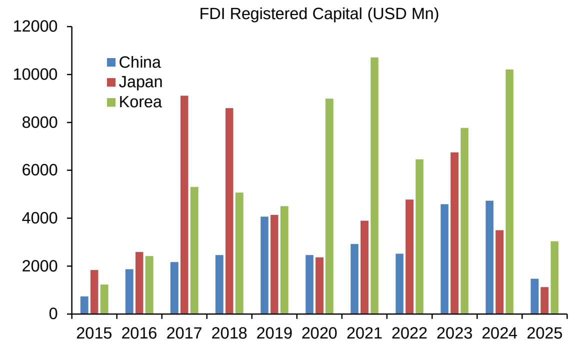
- Given the persistent trade deficit, recent gains likely reflect support from FDI-related and services-sector inflows.
- Rising FX reserves also point to an improving balance-of-payments position and suggest that services receipts, investment inflows and other non-trade sources have remained sufficiently robust to offset external pressures.
- While exact BoP data has yet to be released, FDI indicators and tourist arrivals provide indicative signals.
- FDI disbursements recorded US$2.1bn/month over July and August, moderating from an average of US$2.5bn per month in Q2.
- Visitor arrivals stepped up in August with nearly 2m visitors, a 18.4% YoY increase, supporting tourism receipts and associated demand for VND. Tourism related revenues could have reached up **to US$3.7bn in August** alone (based on per visitor expenditure in 2025).
- Aside from investments and tourism, a glance at **VND's relative performance** across 2026 reveals a more moderate picture with **positive spillovers from several key trading partners providing tailwinds**.
- Specifically, sharp appreciation of KRW and JPY in Q3 aided VND gains in Q3 on top of the usual modest CNH appreciation which backstops the VND. Given **the intensity of trade and FDI linkages**, strength in KRW and JPY provides opportune moments for VND demand to facilitate capital and operational needs
- All in, the **recent appreciation in the VND appears to reflect a confluence of cyclical tailwinds rather than the start of a sustained structural reversion of near-term equilibrium VND.**
- Elevated inflation remains a key risk signalling both potential credit growth risks and limiting real returns.
- Nevertheless, structural reforms, continued FDI inflows and Vietnam's successful transition into the FTSE Secondary Emerging Market universe alongside various IFC development should gradually strengthen long term foundations for the VND.







Sources: CEIC; Mizuho. Note: as of 15 Sep



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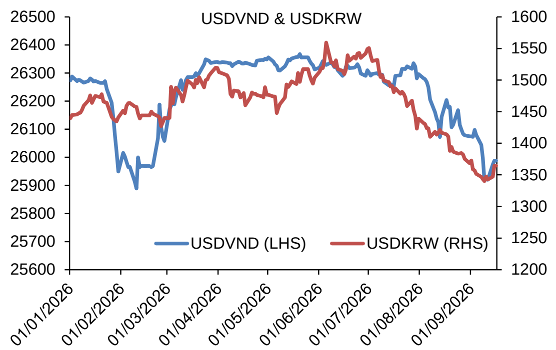

Sources: Bloomberg, Mizuho

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