STOCK MARKET LIBERALIZATION AND MARKET EFFICIENCY
EVIDENCE FROM VIETNAM STOCK MARKET

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Introduction
This paper is the first study examines impact of liberalization policies on informational efficiency in Vietnam stock market. Vietnam had experienced both the boom period in 2006-2007 and the crisis period in 2008 before the country started increasing foreign ownership limitation the first time in June 2009. This study revisits empirical literature about stock market liberalization process that took place in emerging economies in the 1980s - 1990s, and the analysis focuses on the evolution of weak-form market efficiency overtime by using time-varying parameter model and the Hurst exponent. The results first show that liberalization is a boosting factor but not a trigger, that causes market efficiency. There are empirical evidences prove that the efficiency degree improved significantly after the first liberalization, however the weak-form efficiency had been established before the first liberalization started. Secondly, the results indicate similar conclusion to previous studies that the efficiency improvement disappears after foreign ownership exceeds a certain threshold level. When the Government increased the limitation of foreign ownership the second time, to 100% in September 2015, the predictability of return did not change significantly as it had done during the first liberalization. Lastly, the time-varying parameter model shows that the crisis period would be a necessary condition for that Vietnam stock market has gradually reach the weak-form efficiency in the following recovery periods.

STOCK MARKET LIBERALIZATION AND INFORMATIONAL EFFICIENCY

Literature Review
Theoretically, the effect of liberalization on market efficiency could be explained by two main reasons. Firstly, information is more available, transparent and less costly to access as the requirement of international accounting regulations and standards. Secondly, the appearance of foreign investors increases the number of participants and competition become more intensive in domestic market. Any mispriced equity will be exploited to gain profit quickly, making market price be adjusted instantly to intrinsic value. As a result, liberalization is expected to boost stock price respond to all available information and improve the efficiency of market (Hirotsuki and Matthew, 1999; Ghassan, 2002; Aymen and Adel, 2013; Navaz, 2014).

DATA AND METHODOLOGY

DATA
This research uses daily closing price of VN-index and HNX-index as proxies for Vietnam stock market performance. The period under examination is from 14/07/2005 to 28/09/2017, including 6002 observations of both VN-index and HNX-index. The data is provided from EMON database. The analysis is carried using the series of returns as: 
$$r_t = \ln \left( \frac{P_{t+1}}{P_t} \right) \times 100$$

In addition, this research will collect data from Thailand, Malaysia and Singapore stock market and compare their degree of informational efficiency to the one of Vietnam.

METHODOLOGY

- State-space model for time-varying predictability

- Long-range dependence

EMPIRICAL RESULTS

- The evolution of Market Efficiency

- Hurst exponents before and after liberalization

DISCUSSION

- This research found no evidence that liberalization causes the informational efficiency because Vietnam stock market had been weak-form efficient before the Government removed barriers to foreign investors. After Vietnam stock market experience the boom period from 2006-2007 as stock price increased each day without any specific reasons, the market sharply in 2008 and this crash pushed market stock price approach the real intrinsic value. Even though this crisis caused a great loss for Vietnam stock market, its consequence makes the stock market reflects more exactly the real information of economy.
- The second liberalization took place in September 2015 when the market become more stable, the advantage of long-positions was eroded. Therefore, there was no significant motivation from foreign investors to participate more in Vietnam stock market although the Government lifted the cap on foreign ownership limitation by this time.
- The weak-form efficiency could be estimated quantitative and this value evolves overtime.
- Market competition is the main source of efficiency and the informational is sensitive to the change of market conditions. Policymakers could implement governance policies to interfere or maintain the long-run informational efficiency of stock market.
- Liberalization is a boosting factor, but not a trigger that causes efficiency.
- Even though the crisis period causes a huge loss for whole market, it is a necessary condition for that Vietnam stock market has gradually reach the weak-form efficiency in the following recovery periods.

FURTHER INFORMATION

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