Impacts of Global Economic Policy Uncertainty on the Vietnamese Stock Market: New Evidence

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ABSTRACT: This study investigates the impact of global economic policy uncertainty (EPU) on the Vietnamese stock market. By employing the Autoregressive Distributed Lag (ARDL) estimation method and a dataset of gloal and U.S. EPU and stock market indices in Vietnam from March 2011 to December 2024, this study is able to assess the relationship in both long and short terms. The findings show that both global and U.S. EPU have significant negative impacts on Vietnamese stock market indices in the long term. However, the global and U.S. EPU demonstrate significant positive impacts on the Vietnamese stock index for the largest 30 listed firms (VN30). Based on these findings, the authors can provide valuable policy recommendations to navigate the impact of global economic policy uncertainties on the Vietnamese stock market and foster sustainable development.

KEYWORDS: Economic policy uncertainty, Stock market, Vietnam

I. INTRODUCTION

Over the past decades, the world has witnessed multiple instabilities in the global political landscape, and shifts in economic and trade policies of many countries due to pandemics, wars, natural disasters, and other crises. These events have made economic policies increasingly unpredictable, adversely affecting the national economies in general and the stock market volatility in particular (Baker et al., 2016; Gulen et al., 2016). Economic policy uncertainty refers to unexpected changes in economic policies that influence the economic system, particularly the decision-making processes of economic participants (Jurado et al., 2015). Therefore, assessing economic policy uncertainty requires adopting an appropriate measurement approach. Economic policy uncertainty negatively affects the national economy by slowing down economic growth through its detrimental effects on key macroeconomic indicators such as investment scale, GDP, and employment conditions (Stockhammar & Österholm, 2015). Caggiano et al. (2017) highlighted the significant impact of global economic policy uncertainty shocks on the cyclical fluctuations of unemployment rates, with particularly strong effects during economic downturns.

As a developing country with an increasingly open economy, it is inevitable for Vietnam to examine the impact of global economic policy uncertainty, despite being a nation with economic stability and positive annual growth rates. With its participation in over 14 global free trade agreements and enhanced connectivity with various countries worldwide, Vietnam is susceptible to the spillover effects of global economic policy uncertainties. Regarding the stock market, economic policy uncertainty often leads to increased stock price volatility, as investors face difficulties in assessing the future economic landscape and adjusting their portfolios (Liu et al., 2021). According to Wang et al. (2022), global economic uncertainty affects stock markets through several channels. First, it can impact investor sentiment, resulting in risk aversion and safer asset investing preferences, eventually leading to declined demands for stocks and decreased stock prices. Second, it can impact the decision-making process of firms regarding investment and hiring, which, in turn, affects firm performance and stock prices. Third, it can influence international trade flows and exchange rate fluctuations, which further complicate the economic environment and the stock markets. Therefore, understanding and quantifying the impact of global economic policy uncertainty on stock markets are crucial for policymakers, investors, and firms in navigating an increasingly interconnected and complex global economy.

Previous literature on the impact of economic policy uncertainty on stock markets varies in terms of sample size and measures of stock market development. Some studies focus on developed markets, such as the U.S or European countries (Arouri et al., 2016; Dash et al. 2019; Nusair & Al-Khasawneh, 2022); some focus on developing markets, such as China, India, or Nigeria (Lei & Song, 2022; Simran & Sharma, 2024; Fakunmoju, 2024; Yuan et al., 2022). Some studies examine the impact of EPU on stock market indices (Dash et al., 2019; Lei & Song, 2022; Nusair & Al-Khasawneh, 2022; Simran & Sharma, 2024), market returns (Arouri et al., 2016; Xu et al., 2021; Zhao & Park, 2024), and market liquidity and volatility (Debata & Mahakud, 2018; Nguyen & Vo, 2024). Most of the previous studies report negative impacts of EPU on stock markets, with very few reporting positive ones (Nusair & Al-

Khasawneh, 2022). Nevertheless, previous literature mostly focuses on the impact of one nation's EPU on its stock market performance, with few studies examining the impact of global EPU on stock markets (Hong et al., 2024; Zhao & Park, 2024). Furthermore, studies on EPU and the Vietnamese stock market are very limited with some studies focusing on the impact of national EPU on the stock market (Nguyen & Vo, 2024). Therefore, we contribute to the current literature by examining the impact of global economic policy uncertainty on the development of the stock market in Vietnam, in order to draw valuable conclusions and policy recommendations.

To estimate this relationship, we use global EPU, U.S. EPU, and Vietnamese stock market index data from 2011-March to 2024-December. By employing the ARDL estimation method, we can measure the impact of global EPU on the Vietnamese stock index in both the short and long terms. Our findings show that global and U.S. EPU negatively affect the VNindex in the long term, while they positively influence the VN30 index (index of 30 largest firms in Vietnam) in the short term.

This study contributes to the literature in several ways. First, we examine the current status of global EPU and the Vietnamese stock market to obtain an overall picture. Second, we investigate the short and long-term impacts of global and U.S. EPU on the VNindex and VN30 index and arrive at valuable analysis. Third, based on the analysis, we suggest valuable policy recommendations aimed at reducing the impact of global EPU on the Vietnamese stock market and fostering the market's sustainable development.

The remainder of the paper is structured as follows. Section II summarizes the theoretical frameworks and empirical evidence on the impact of EPU and Global EPU on stock markets. Section III provides details of the data and estimation method. Section IV reports and discusses the results. Section V concludes the study with significant policy suggestions.

II. LITERATURE REVIEW

A. Theoretical frameworks

Among the theories that explain the impact of economic policy uncertainty on stock markets, Asymmetric information theory, Prospect theory, and Efficient market hypothesis are the most popular.

Asymmetric information theory was developed in the 1970s, with significant contributions from economists such as Akerlof (1970), Spence (1973), and Stiglitz (1975). This theory suggests that when economic policies become uncertain, investors lack clear information about the future direction of the economy. In response, investors may adopt a cautious approach, which leads to increased market volatility and a higher degree of risk aversion. Because investors tend to seek protection against uncertainty, the demand for safer assets such as gold and bonds rises, consequently affecting the demand for stocks. Hence, the stock market often experiences negative reactions under the period of heightened policy uncertainty.

Prospect theory, proposed by Kahneman and Tversky (1979), explains how individuals make decisions under risky or uncertain situations. This theory challenges the assumption that investors always make rational decisions by suggesting that investment choices are significantly influenced by emotions such as fear, overconfidence, and other cognitive biases. The core argument of prospect theory is that individuals exhibit risk aversion in highly uncertain investment situations. Consequently, they tend to prefer certain outcomes with greater safety, regardless of lower potential returns, as long as they involve lower risks. As a result, when economic policy uncertainty arises, investors tend to shift toward safer investment opportunities, negatively impacting the stock market, which primarily consists of high-risk assets.

The Efficient Market Hypothesis (EMH) proposes that stock prices fully reflect all available information, including economic indicators and policy changes. Fame (1970) classified market efficiency into three forms: strong-form efficiency, semi-strong-form efficiency, and weak-form efficiency. Weak-form EMH posits that stock prices incorporate all past information, including historical prices and trading volumes. Semi-strong-form EMH encompasses both past information and publicly available data, including economic policy announcements. Strong-form EHM further integrates all semi-strong information and insider information. Economic policy uncertainty is considered new information. Hence, stock market fluctuations in response to uncertainties in economic policies serve as a measure of the efficient level of financial markets.

B. Empirical evidence

Previous literature on the impact of economic policy uncertainty on stock markets varies in terms of sample size and measures of stock market developments, with very few studies focusing on the impact of global EPU on stock markets in developing countries such as Vietnam. The majority of previous empirical findings indicate negative impacts of EPU on stock markets.

Some studies focus on developed markets, such as the U.S. or European countries (Arouri et al., 2016; Dash et al., 2019; Nusair & Al-Khasawneh, 2022). Arouri et al. (2016) investigate the long-term relationship between EPU and the U.S. stock market and find that increasing EPU can significantly reduce stock returns, and this negative impact tends to intensify and persist during periods of high market volatility. Dash et al. (2019) estimate and confirm the causal effects of EPU and stock market liquidity in G7 countries. Nusair and Al-Khasawneh (2022) also examine G7 countries and confirm negative short-run effects of EPU on stock indices of all G7 countries and negative long-run effects for Canada and Japan.

Some focus on developing markets such as China, India, and Nigeria (Fakunmoju, 2024; Hong et al., 2024; Lei & Song, 2022; Simran & Sharma, 2024; Yuan et al., 2022). Fakunmoju (2024) focuses on EPU and stock trading volume in Nigeria and concludes that domestic investors should diversify their portfolios across different sectors to lessen risk exposure from unpredictable

macroeconomic policies. Hong et al. (2024) examine the stock indices of seven emerging markets and seven developed markets from 1997 to 2022, and find that the period in which EPU has a significant impact on stock markets is often accompanied by a major national event or international crisis. They also report that developing countries with unstable political positions or complete industrial systems are more likely to be affected by EPU. Lei and Song (2022) analyze the impact of EPU on different type of shares listed in the China's stock markets and report that Chinese firms face a higher risk of stock prices crashes during volatile EPU conditions and this relationship for B-share listings become negative after more media coverage. Simran and Sharma (2024) assess the impact on Indian stock markets from 2003 to 2022 and find that increasing EPU has a negative impact on stock prices, while decreasing EPU has a stronger positive impact than the negative effect of increasing EPU. The findings indicate that stock prices do not respond equally to decreases and increases in uncertainty, confirming the presence of an asymmetric relationship. Yuan et al. (2022) estimates the relationship between EPU and stock markets in the BRIC (Brazil, Russia, India, and China) countries under various market conditions. The findings show that EPU negatively impacts stock prices and integration when stock markets struggle. However, the impact varies for different markets, with the strongest impact found for China's stock market and the least for Brazil.

Regarding the measurement of stock market developments, some studies studies the impact of EPU on stock market indices (Dash et al., 2019; Lei & Song, 2022; Nusair & Al-Khasawneh, 2022; Simran & Sharma, 2024), market returns (Arouri et al., 2016; Xu et al., 2021; Zhao & Park, 2024), and market liquidity and volatility (Debata & Mahakud, 2018; Nguyen & Vo, 2024).

Nevertheless, the literature mostly focuses on the impact of EPU on stock market performance, with few studies examining the impact of global EPU on stock markets (Hong et al., 2024; Zhao & Park, 2024). Hong et al. (2024) examine this relationship using a sample of 14 countries, of which seven are emerging nations. Zhao and Park (2024) estimate the impact of both EPU and global EPU on the stock markets of eleven advanced and nine emerging economies. They find that a positive shock to foreign EPU results in a decrease in market returns and is stronger than the effect of domestic EPU.

Furthermore, studies on EPU and Vietnamese stock market are limited with some focusing on the impact of national EPU on the stock market (Nguyen & Vo, 2024). Nguyen and Vo (2024) examine the impact of EPU on Vietnamese stock market volatility and report that high economic uncertainty can temporarily decrease economic outcome, including total output, productivity growth, and employment.

III. DATA AND METHODS

A. Data

We evaluate the influence of global EPU on the Vietnamese stock market using monthly time-series data from March 2011 to December 2024. Data on economic policy uncertainty is from the website https://www.policyuncertainty.com/, provided by Ahir et al. (2022). Data related to VNindex, VN30, the State Bank of Vietnam's central USD exchange rate, and the discount rate were extracted from the WiData database.

We selected the sample period from March 2011 to December 2024, based on the availability of monthly data for the variables used in our model. However, we must emphasize that this period encompasses numerous significant economic, political, and financial events that directly influence the level of EPU and the stock market response. First, this period follows the 2008-2009 global financial crisis, during which many nations implemented significant economic policy changes, which led to a rise in policy uncertainty and potential impacts on stock markets, particularly in developing countries, such as Vietnam. Second, this period includes several major policy shifts that could impact the stock markets, such as the European sovereign debt crisis (2011–2012), Brexit and the U.S. presidential election (2016), the U.S.–China trade war (2018–2019), the COVID-19 pandemic (2020–2021), and the Russia–Ukraine conflict along with global economic instability (2022–2024). Third, the 2011-2014 period also marks the significant development of the Vietnamese stock market after the global financial crisis, characterized by significant growth in market size, liquidity, operational mechanisms, and particularly, the increasing participation of foreign investors. The active participation of foreign investors in the Vietnamese stock market might have heightened its sensitivity to global economic policy uncertainties.

B. Methods

Following the approach of Dash et al. (2019), Fakunmoju (2024), Nusair (2022), Simran and Sharma (2024), and Yuan et al. (2022), we propose the following model:

$$VN\_stockmarket_t = \beta_0 + \beta_1 EPU\_World_t + \beta_2 Exchange_t + \beta_3 Interest_t + u_t \tag{1}$$

In which, *VN_stockmarket* denotes the Vietnamese stock market and is measured using two indices: *VNindex* and *VN30*. The *VNindex* is the whole market index of the Ho Chi Minh Stock Exchange (HOSE), while *VN30* only comprises the 30 largest and most liquid companies on HOSE. We select two indices to assess the impact of global EPU from a broad perspective (the entire market) and a narrower perspective (blue-chip companies). This approach allows the investigation of potential differences in reactions between the two groups.

EPU_World is the global economic policy uncertainty and measured using the EPU index for the world (*EPU_World*) and the United States (*EPU_USA*). We employ two indices to provide a comprehensive assessment of global EPU. *EPU_World* relects

overall global policy uncertainty, which is independent of any specific country, while *EPU_USA* captures the level of policy uncertainty in the United States – the world's largest economy. Given that the U.S. is a key economic partner of Vietnam, playing a significant role in trade, investment, and foreign direct investment inflows, U.S. economic policies are expected to strongly influence global capital flows, consequently affecting the stock markets of developing nations such as Vietnam.

Exchange represents the average USD/VN exchange rate, measured by the State Bank of Vietnam's central exchange rate. According to Anusa et al. (2022), the relationship between exchange rates and stock markets is complex and multi-dimensional. Exchange rate fluctuations directly affect businesses, particularly multinational companies and firms engaged in export and import activities (Goldberg & Kolstad, 1995). For exporters, a decrease in domestic currency enhances their competitiveness and profitability, consequently increasing stock prices. For import-dependent companies, currency depreciation increases costs, which negatively affects the financial performance of their stock prices. Furthermore, exchange rate volatility can affect stock market fluctuations by influencing investor sentiment, risk appetite, and foreign investment flows, thereby increasing or decreasing stock prices (Hachicha 2024). Exchange rate changes can also impact macroeconomic indicators, such as inflation, interest rates, and economic growth, which in turn affect firm performance and stock valuations (Shabbir et al., 2023). Empirical research provides mixed evidence on the relationship between exchange rate fluctuations and stock markets. Okere et al. (2021) reported a positive short-term effect, whereas Ali et al. (2020) reported a negative impact in both the short and long term.

Interest denotes the average interest rate in Vietnam, measured by the monthly average discount rate published by the State Bank of Vietnam. Beneish et al. (2015) state that interest rate fluctuation typically have an inverse relationship with corporate performance and stock market movements. Specifically, when interest rates increase, the cost of capital increases, potentially reducing corporate profits and stock prices. On the contrary, low interest rates stimulate economic growth by encouraging borrowing and investment, which can boost stock prices and market indices. Empirical findings also support this argument (Alam & Uddin, 2019; Akin & Akin, 2024). Additionally, Akin and Akin (2024) emphasize that rising interest rates negatively impact stock prices due to behavioral biases, such as loss aversion among investors. Beside the variable *Interest* that is measured in percentage, the other 3 variables are measured in natural logarithm values.

In time-series analysis, various methodologies can be applied, including the Ordinary Least Squares (OLS) method, Vector Autoregression (VAR) model, Autoregressive Distributed Lag (ARDL) model, Error Correction Model (ECM), and Vector Error Correction Model (VECM) (Wooldridge, 2013).

To identify and select the most relevant estimation methods, we conducted a preliminary test to identify the most suitable time-series estimation method. Given that our data exhibit different stationary levels and our aim is to examine both the short-term and long-term effects of global EPU on the Vietnamese stock market, the ARDL model is identified as the most appropriate approach. Accordingly, Equation (1) can be rewritten as:

$$VN\_stockmarket_t = \alpha_0 + \sum_{i=1}^{p} \alpha_i \, VN\_stockmarket_{t-i} + \sum_{j=0}^{q_1} \beta_j \, EPU\_World_{t-j} + \sum_{k=0}^{q_2} \gamma_k \, Exchange_{t-k}$$
$$+ \sum_{m=0}^{q_3} \delta_k \, Interest_{t-m} + u_t \qquad (2)$$

In which p, q_1, q_2, q_3 are the lag orders of the variables; α_0 is the intercept; α_i, β_j, γ_k, δ_k are the coefficient of the variables in the model; u_t is the random error. The model estimation procedure is as follows:

+ Step 1: Testing for stationarity of variables using the Agumented Dickey-Fuller (ADF) by Dickey and Fuller (1979) and Phillips-Perron (PP) test by Phillips and Perron (1988).

+ Step 2: Determining the optimal lag length using the Akaike Information Criterion (AIC).

+ Step 3: Testing for cointegration among variables using the bounds-testing technique by Pesaran et al. (2001).

According to Pesaran et al. (2001), when two or more non-stationary time-series are cointegrated, they share a common stochastic trend, implying that despite short-term deviations, these variables tend to move together in the long run.

+ Step 4: Estimating the ARDL model

+ Step 5: Diagnostic tests for model validity

To assess the stability and robustness of the estimated model, we used the following diagnostic tests: Heteroskedasticity test (ARCH test), Misspecification test (Ramsey RESET test), Autocorrelation test (Breusch-Godfrey LM test), and Cumulative Sum of Recursive Residuals (CUSUM test).

IV. RESULTS AND DISCUSSIONS

Since this study utilizes two indices to measure global economic uncertainty *(EPU_World* and *EPU_USA*) and two indices to represent the Vietnamese stock market (VNindex and VN30), the estimation of Equations (1) and (2) involves the implementation of four different models to assess the relationships:

Model (1): The impact of global economic uncertainty on the VNindex

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Model (2): The impact of global economic uncertainty on the VN30

Model (3): The impact of U.S. economic uncertainty on the VNindex

Model (4): The impact of U.S. economic uncertainty on the VN30

Table 1 presents descriptive statistics of the variables used in the models. It is observed that, except for the *Exchange* variable, all other variables exhibit significant fluctuations over the study period.

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
$VNindex_t$	168	6.557	0.43	5.504	7.312
$VN30_t$	168	6.613	0.395	5.481	7.338
EPU_World_t	168	9.95	0.36	9.111	10.96
EPU_USA_t	168	-1.581	0.67	-3.124	-.091
$Exchange_t$	168	10.012	0.052	9.849	10.098
$Interest_t$	168	4.904	2.72	2.5	13

Source: Author's calculation

Table 2 presents the results of stationarity tests for the variables in the model. The test results show that all variables used in the model are either stationary at level (I(0)) or at the first difference (I(1)), satisfying the necessary conditions for estimating the ARDL model. Table 3 reports the results of the bounds test, as proposed by Pesaran et al. (2001). The test results indicate the existence of a cointegration relationship in Models (1)–(4). Table 4 presents the results of determining the optimal lag length for the variables in the ARDL model based on the AIC. The optimal ARDL estimation results are presented in Tables 5 and 6.

Table 2. Stationarity tests

Variable	Level		First difference	
	ADF test	PP test	ADF test	PP test
$VNindex_t$	-3.527**	-5.309***	-7.609***	-
$VN30_t$	-3.554**	-4.271***	-6.728***	-
EPU_World_t	-4.004***	-6.871***	-	-
EPU_USA_t	-4.247***	-8.489***	-	-
$Exchange_t$	-1.984	-8.625***	-7.502***	-
$Interest_t$	-3.589**	-2.179	-6.964***	-10.855***

*Notes: *, **, and *** correspond to significance levels of 10%, 5%, and 1%, respectively*

Table 3. Bounds test

Model	F-statistic	k	Significant level	I(0) bound	I(1) bound
(1)	3.172	3	5%	3.225	4.402
(2)	4.873	3	1%	4.359	5.715
(3)	3.226	3	10%	2.730	3.801
(4)	2.952	3	10%	2.730	3.801

Table 4 . Determination of Optimal Lag Length for Variables in the ARDL Model

	Model	(1)	(2)	(3)	(4)
Dependent variables	$VNindex_t$	3		2	
	$VN30_t$		3		2
	EPU_World_t	3	3	2	2
Independent variables	EPU_USA_t				
	$Exchange_t$	3	3	2	2
	$Interest_t$	3	3	2	2

Table 5 reports the long-term effects of global EPU on VNindex and VN30. The results indicate a negative long-term impact of global EPU, U.S. EPU, and interest rates on the Vietnamese stock market. Conversely, the USD exchange rate shows a positive long-term effects on the stock market. Any short-term fluctuations are adjusted at a speed of 10%-14% to return to long-term equilibrium. Our finding on negative long-term impact of global EPU on Vietnamese stock market align with previous studies of

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Simran and Sharma (2024) on the Indian stock market; Yuan et al. (2022) on emerging BRICS economies; Xu et al. (2021) on the Chinese stock market, and Chiang (2020) on stock markets in Europe, China, and Japan. According to Batabyal and Killins (2021), when economic policy uncertainty increases, investors tend to adopt risk-averse strategies, shifting their investments toward lower-risk assets, resulting in reduced asset prices. Additionally, increased policy uncertainty can negatively affect stock liquidity, particularly for firms with low transparency of information disclosure and weak risk resilience (Zhang et al., 2021). These effects accumulate over time, leading to long-term negative impacts on stock markets, particularly in developing economies, such as Vietnam (Choi & Shim, 2018).

Table 5. Long-Term Impact of Global EPU on the Vietnamese Stock Market Using the ARDL Model

Model	(1)	(2)	(3)	(4)
Dependent variables	$VNindex_t$	$VN30_t$	$VNindex_t$	$VN30_t$
$VNindex_{t-1}$	-0.116***		-0.126***	
	(-3.47)		(-3.27)	
$VN30_{t-1}$		-0.140***		-0.109***
		(-4.30)		(-3.14)
EPU_World_t	-0.284*	-0.353***		
	(-1.89)	(-2.85)		
EPU_USA_t			-0.202**	-0.213**
			(-2.40)	(-2.22)
$Exchange_t$	5.640***	5.642***	6.775***	6.657***
	(4.78)	(5.69)	(5.87)	(4.78)
$Interest_t$	-0.055**	-0.033*	-0.023	0.008
	(-2.33)	(-1.78)	(-1.06)	(0.29)

*Notes: *, **, and *** correspond to significance levels of 10%, 5%, and 1%, respectively. t-statistics are in parentheses.*

The negative long-term impact of interest rates on the Vietnamese stock market is consistent with findings of Alam and Uddin (2019) and Akin and Akin (2024). Our findings align with the argument that higher interest rates increase borrowing costs and reduce corporate profitability, thereby lowering stock prices (Beneish et al., 2015). Additionally, Mroua and Trabelsi (2020) suggest that this negative influence is more pronounced in developing markets, which heavily rely on foreign investment, have underdeveloped financial markets, and high public debt levels.

The positive long-term impact of the USD exchange rate on the Vietnamese stock market aligns with Mroua and Trabelsi (2020), who argue that an increase in the exchange rate improves the attractiveness of a country's stock market, especially for foreign investors in developing markets. Furthermore, a higher exchange rate could make a country's goods more affordable and improve its competitive advantage (Mahapatra & Bhaduri, 2018). Our findings are consistent with those of Mroua and Trabelsi (2020) and Mohnot et al. (2023).

Table 6 reports the short-term effects of global EPU on the VNindex and VN30. The results indicate a positive short-term impact of global and U.S. EPU on the VN30 index, indicating that the stock prices of large enterprises in Vietnam temporarily increase during periods of heightened policy uncertainty. Additionally, the exchange rate has a negative short-term impact, while interest rates have a positive short-term effect on both the VNindex and VN30.

Table 6. Short-Term Impact of Global EPU on the Vietnamese Stock Market Using the ARDL Model

Model	(1)	(2)	(3)	(4)
Dependent variables	$D.VNindex_t$	$D.VN30_t$	$D.VNindex_t$	$D.VN30_t$
$D.VNindex_{t-1}$	0.038		0.102	
	(0.48)		(1.19)	
$D.VNindex_{t-2}$	-0.025			
	(-0.31)			
$D.VN30_{t-1}$		0.041		0.093
		(0.51)		(1.08)
$D.VN30_{t-2}$		0.021		
		(0.27)		
$D.EPU\_World_{t-1}$	0.008	0.046**		
	(0.45)	(2.21)		
$D.EPU\_World_{t-2}$	0.017	0.037*		

	(0.95)	(1.95)		
$D.EPU\_World_{t-3}$	0.018	0.016		
	(1.09)	(0.93)		
$D.EPU\_USA_{t-1}$			0.009	0.021**
			(0.95)	(2.08)
$D.EPU\_USA_{t-2}$			0.013	0.012
			(1.56)	(1.34)
$Exchange_{t-1}$	-3.61*	-1.701	-3.273	-1.567
	(-1.69)	(-0.76)	(-1.51)	(-0.69)
$Exchange_{t-2}$	-0.956	-2.487	1.733	-0.137
	(-0.44)	(-1.11)	(1.05)	(-0.08)
$Exchange_{t-3}$	-2.183	-2.703*		
	(1.09)	(-1.89)		
$Interest_{t-1}$	-0.034	-0.110	-0.016	-0.002
	(-1.56)	(-0.49)	(-1.69)	(-0.10)
$Interest_{t-2}$	0.040**	0.023	0.0005	-0.007
	(2.26)	(1.29)	(0.02)	(-0.27)
$Interest_{t-3}$	-0.003	0.014		
	(-0.30)	(1.22)		

*Notes: *, **, and *** correspond to significance levels of 10%, 5%, and 1%, respectively. t-statistics are in parentheses.*

The positive short-term impact of global EPU on the stock prices of large firms is consistent with the findings of Chiang (2020) and Liao et al. (2020). This result can be explained by the fact that large enterprises in the Vietnamese stock market often have strong cash reserves or operate in defensive sectors. Such firms may experience temporary stock price increases during periods of heightened policy uncertainty, as investors tend to seek safe-haven assets (Chiang, 2020). However, in the long term, as Table 6 confirms, EPU and the stock market exhibit an inverse relationship.

The negative short-term impact of the exchange rate on the Vietnamese stock market aligns with the findings of Ajayi and Mougoué (1996) and Sugiharti et al. (2020). According to Arize et al. (2003), an increase in the exchange rate adversely influences export activities due to reduced foreign demand, subsequently impacting corporate profitability and stock prices.

The positive short-term impact of interest rates on the Vietnamese stock market aligns with findings of Favilukis (2012). Favilukis (2012) argues that the relationship between interest rates and stock indices is complex and multi-dimensional. While most empirical studies suggest an inverse relationship between these factors, Favilukis (2012) reports a positive correlation between interest rate fluctuations and stock indices in the U.S. and U.K. stock markets during the 1983–2007 period.

Table 7 presents the diagnostic test results. The test results indicate that our estimation are robust and stable.

Table 7. Model diagnostic tests

Test	Value	Conclusion
Model (1): impact of global EPU on VNindex		
Heteroskedasticity Test (White's test)	157.61 (p-value: 0.0892)	No
Autocorrelation Test (Breusch-Godfrey LM test)	6.235 (p-value: 0.1007)	No
Model Specification Test (Ramsey RESET test)	0.79 (p-value: 0.5009)	Correctly-specified
Stability Test (CUSUM and CUSUMSQ)	Stable || Stable	Stable
Model (2): impact of global EPU on VN30		
Heteroskedasticity Test (White's test)	109.82 (p-value: 0.9450)	No
Autocorrelation Test (Breusch-Godfrey LM test)	2.450 (p-value: 0.4844)	No
Model Specification Test (Ramsey RESET test)	0.76 (p-value: 0.5198)	Correctly-specified
Stability Test	Stable || Stable	Stable

(CUSUM and CUSUMSQ)

Model (3): impact of U.S. EPU on VNindex

Heteroskedasticity Test (White's test)	94.19 (p-value: 0.0890)	No
Autocorrelation Test (Breusch-Godfrey LM test)	5.204 (p-value: 0.1575)	No
Model Specification Test (Ramsey RESET test)	2.12 (p-value: 0.1007)	Correctly-specified
Stability Test (CUSUM and CUSUMSQ)	Stable || Stable	Stable

Model (4): impact of U.S. EPU on VN30

Heteroskedasticity Test (White's test)	47.37 (p-value: 0.9969)	No
Autocorrelation Test (Breusch-Godfrey LM test)	2.576 (p-value: 0.4617)	No
Model Specification Test (Ramsey RESET test)	1.71 (p-value: 0.1684)	Correctly-specified
Stability Test (CUSUM and CUSUMSQ)	Stable || Stable	Stable

V. CONCLUSIONS AND RECCOMMENDATIONS

This study investigates the long-term and short-term impact of global economic policy uncertainty on Vietnamese stock market using time series data from March 2011 to December 2024 and the ARDL estimation method. Our findings report significant negative impacts of both global and U.S. EPU on Vietnamese stock market indices in the long term. However, in the short term, our findings indicate signficant positive impacts of both global and U.S. EPU on the VN30 index, demonstrating the role of large-cap stocks as short-term safe havens for investors. Regarding control variables, we find that exchange rate show short-term negative and long-term positive impacts on both VNindex and VN30. Furthermore, interest rates show short-term positive but long-term negative influence on Vietnamese stock indices.

Based on the findings, we suggest the following reccommendations for policy makers as well as investors. First, the negative impact of global and U.S. economic policy uncertainty and lending interest rates on the Vietnamese stock market indicates a challenge for the market in strengthening its resilience against external shocks. This necessitates appropriate policy strategies to mitigate risks from macroeconomic factors and ensure market liquidity. Second, the positive short-term impact of global and U.S. economic policy uncertainty on the VN30 index, in contrast to its negative long-term effects, is a critical issue that large enterprises and investors should consider when making business and investment decisions. Third, the positive long-term impact of the USD exchange rate on the Vietnamese stock market reflects an inflow of foreign capital into the market when the U.S. dollar strengthens. This emphasizes the significant role of foreign capital in the stock market and highlights the need for policy attention to this issue. Fourth, the differences between the short-term and long-term effects of factors such as interest rates and exchange rates demonstrate the complexity of the Vietnamese stock market's response. This raises concerns regarding relevant adjustments in monetary policies to minimize market disruptions.

Although we achieved some significant findings relating to the impact of global EPU on Vietnamese stock markets, we recognize our limitations regarding sample size and different attributes of the stock market. We suggest that future research further explore the impact of world EPU in terms of regional EPU and other foreign countries' EPU that have close economic relationships with Vietnam. Furthermore, future studies could examine other attributes of the Vietnamese stock market, such as market returns, volatility, and liquidity.

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