August 28, 2025

1 Day Reminder: Morningstar Indexes Equity Annual Market Classification Review

Changes under consideration

As part of Morningstar Indexes' annual equity market classification review, three countries have been flagged as potential candidates for a change in market classification status. If adopted, these changes would impact the eligible universe for the Morningstar Global Markets and Target Market Exposure Index families.

We are soliciting feedback on these potential changes. Further details are included in this consultation.

Markets under review

- **Egypt** – Potential reclassification to Unclassified from Emerging Market. This would result in the removal of Egypt from the Morningstar equity investable universe.
- **South Korea** – Potential reclassification to Developed Market from Emerging Market.
- **Vietnam** – Potential reclassification to Emerging Market from Unclassified.

Submit your responses and questions

Responses to the Morningstar Indexes Equity Annual Market Classification Review can be submitted here.
General questions about the consultation may also be sent to indexes@morningstar.com.

Key dates

- **Consultation**: The consultation will be open for response from June 3, 2025, to August 29, 2025.
- **Decision announcement**: Final decisions will be announced by September 30, 2025.
- **Implementation**: Changes would be implemented after the close of June 19, 2026, corresponding to the June 2026 reconstitution.

Egypt

Morningstar Indexes has classified Egypt as an emerging market since December 2014. However, in 2023, limited foreign exchange liquidity created difficulty repatriating capital from Egypt. This led to special treatment of Egyptian securities in Morningstar Indexes, where index shares for Egyptian stocks were frozen in Morningstar indexes from September 2023 through June 2024. While conditions in the Egyptian FX market have improved, risks remain.

Issues

Accessibility of the Egyptian equity market has deteriorated in recent years. Challenges include:

- **English Disclosure Gaps:** Market and corporate disclosures are often unavailable in English, limiting transparency.
- **FX Constraints:** Persistent forex shortages, strict capital controls, and high devaluation risk impact investor confidence.
- **High Transaction Costs**: Regulatory and market inefficiencies lead to elevated transaction costs.

- **Sovereign Risk:** Egypt holds a below investment-grade credit rating, indicating high macroeconomic and capital market risk.

Improvements

- **IMF-Backed Reforms:** Egypt advanced its $8B IMF program, completing its fourth review in March 2025 with increased foreign asset reserves.
- **Capital Market Reform:** Over 300 reforms were implemented in 2024 to improve the investment climate, boosting M&A activity.
- **Economic Freedom Score:** Egypt's score rose to 50.9 in 2025 from 49.7 in 2024., reflecting modest progress in economic policy reforms.

South Korea

Morningstar Indexes has classified South Korea as an emerging market since December 2014. However, in recent years, South Korea has made significant improvements related to currency trading hours, accessibility, information availability and corporate reforms.

Issues

Accessibility of the South Korean equity market has improved significantly in recent years. However, there are few challenges that persist which include:

- **Information Disclosure:** Company disclosures and regulatory updates in English are often delayed or unavailable, despite recent improvements.
- **Trading Restrictions:** Foreign investors are restricted from accessing over the counter (OTC) and alternative trading platforms, limiting available execution channels for large block trades.

Improvements

Some of the significant improvements in South Korea over the past year include:

- **English Disclosures:** Large firms must provide disclosures in English. The Data Analysis, Retrieval, and Transfer (DART) system expanded in 2025 for real-time English access.
- **Offshore Omnibus account:** Global securities firms without a local branch can now open omnibus accounts for clients under a regulatory sandbox, allowing foreign investors to trade Korean stocks without establishing a local account.

Vietnam

Vietnam currently receives an unclassified market status, but it is a candidate for reclassification as an emerging market. Vietnam's development over the past 30 years has been remarkable. Economic and political reforms have spurred rapid economic growth, transforming what was one of the world's poorest nations into a lower middle-income country. This country has two stock exchanges: Ho Chi Minh stock exchange and Hanoi stock exchange with the former as a major stock market exchange. It had an aggregate market capitalization of around USD $288 billion at the end of December 2024.

Issues

- **English Disclosure Gaps:** Information is still not readily available in English across all companies.
- **Forex Restrictions**: The Vietnamese Dong is not freely convertible; forex trading and long-term offshore loans require approval from State Bank of Vietnam.

- **Limited Brokerage Services:** Algorithmic trading, dark pools, and other advanced services are not available.
- **High Transaction Costs:** Transaction costs are higher than emerging peers, like Thailand, due to wider bid-ask spreads and market inefficiencies.
- **Short Selling Ban:** Short selling is banned in Vietnam's cash market, permitted only via index futures. Although draft rules and a new trading platform are in place to support secured short selling, no formal implementation has yet occurred.
- **Foreign Ownership Limitations:** Foreign Ownership Limits (FOL) in Vietnam typically cap foreign holdings at 49%, with stricter limits in sectors like banking (30%). Major firms like Vietcombank, BIDV, and Vinamilk are subject to these caps, restricting full foreign investor access and often leading to secondary trades at premium prices once limits are reached.

Improvements

Some of the significant improvements in Vietnam over the past year include:

- **Trading System Upgrade:** The KRX system in Vietnam was launched in May 2025 with T+0 trading, and T+1 settlement. Central clearing is planned for 2026.
- **Regulatory Engagement:** In response to feedback from foreign investors, amendments have been proposed to simplify account opening and allow omnibus accounts.
- **Ownership Limit Clarity**: The 2024 Law on Credit Institutions provided clearer sector-specific foreign ownership rules.
- **Pre-Funding Relaxation:** Pre-funding requirements for foreign investors were scrapped from November 2024.
- **English Disclosures:** In September 2024, Vietnam enforced bilingual disclosures and stricter transparency rules under Circular 68/2024. Compliance rose from 50% to 60%, with large firms like GELEX, Vinamilk, Vingroup, and Vietjet improving their reporting in both Vietnamese and English.

Consultation questions

Please answer the below questions and provide your feedback and reasoning:

1. Should Egypt be changed to Unclassified status from Emerging Market and removed from the eligible universe for Morningstar equity indexes?
    a. Yes
    b. No

2. What other considerations should Morningstar Indexes keep in mind regarding the potential reclassification of Egypt?

3. Should South Korea be reclassified as a Developed Market, or retained as an Emerging Market?
    a. Developed
    b. Emerging

4. What other considerations should Morningstar Indexes keep in mind regarding the potential reclassification of South Korea?

5. Should Vietnam be reclassified as an Emerging Market from Unclassified and added to the eligible investable universe for Morningstar equity indexes?
    a. Yes
    b. No

6. If Morningstar Indexes includes Vietnam as an Emerging Market, should local listings from the Ho Chi Minh stock exchange and Hanoi stock exchange be included or only ADRs trading on eligible US stock exchanges?
    a. Listings in Vietnam
    b. ADRs
    c. Both
    d. Other, please explain.

7. What other considerations should Morningstar Indexes keep in mind regarding the potential classification of Vietnam?

Appendix: Supporting Information

Appendix 1: Country Inclusion Framework

A country must maintain its passable status for two consecutive years before it is deemed eligible for the Morningstar Global Markets Index. The Morningstar Index Committee will review all potential changes to determine any final action. If a country is added or removed, notice of pending action is provided a minimum of three months in advance. This framework considers three main criteria:

- Degree of economic freedom
- A score of 50 or above from the Index of Economic Freedom
- Country Income
- A high- or middle-income country classification from the World Bank
- Depth of equity markets
- More than $5 billion in market capitalization
- Ratio of market capitalization/GDP must be among the top 80%

Index of Economic Freedom

The Index of Economic Freedom is a joint study by the Heritage Foundation and The Wall Street Journal that measures countries according to 10 factors of economic freedom:

- Business freedom
- Fiscal freedom
- Monetary freedom
- Financial freedom
- Freedom from corruption
- Trade freedom
- Government size
- Investment freedom
- Property rights
- Labor freedom

World Bank Country Classification

For operational and analytical purposes, the World Bank's main criterion for classifying economies is gross national income, or GNI, per capita. The bank's analytical income categories (low, middle, and high) are based on the bank's operational lending categories (civil works preferences, International Development Association eligibility, etc.). These operational guidelines were established three decades ago based on the view that since poorer countries deserve better conditions from the bank, comparative estimates of economic capacity needed to be established. GNI, a broad measure, was considered the best single indicator of economic capacity and progress; at the same time, it was recognized that GNI does not, by itself, constitute or measure welfare or success in development. GNI per capita is therefore the bank's main criterion for classifying countries.

Country Market Capitalization and Country Market Capitalization/GDP Ratio
The size of a country's equity markets should be material, or above $5 billion. The market should exhibit financial depth; that is, the ratio of the size of the country's equity markets to its gross domestic product should be high. Countries that fall into the bottom 20% are ineligible for the index.

Additional Country Inclusion Criteria
The following criteria are taken into account when determining country eligibility:

- The country's allowance of foreign investors to easily enter and exit the market, as well as to repatriate capital and dividends
- Accuracy and availability of real-time and historical market data
- The level of interest attracted by the market from international investors

Developed- and Emerging-Market Classification
Countries are classified as developed if they meet all the following criteria:

- Annual per capita GNI falls in the high-income category, as defined by the World Bank, for the most recent three years
- The country must not have any broad-based discriminatory controls against nondomiciled investors for the most recent three year
- The country's stock markets must exhibit these characteristics:
- Transparency
- Market regulation
- Operational efficiency
- Absence of broad-based investment restrictions

Countries that do not meet all the above criteria fall into the emerging-markets economic segment. For example, a country may be classified as high-income by the World Bank, but because of a lack of transparency within local markets, it falls into the emerging-markets economic segment.

Appendix 2: Market Classification Status (Current)

Developed Markets

Australia	Austria	Belgium	Canada
Denmark	Finland	France	Germany
Hong Kong	Ireland	Israel	Italy
Japan	Netherlands	New Zealand	Norway
Poland	Portugal	Singapore	Spain
Sweden	Switzerland	United Kingdom	United States

Emerging Markets

Brazil	Chile	China	Colombia
Czech Republic	Egypt	Greece	Hungary
India	Indonesia	Kuwait	Malaysia
Mexico	Peru	Philippines	Qatar
Saudi Arabia	South Africa	South Korea	Taiwan
Thailand	Turkey	United Arab Emirates	United Arab Emirates

About Morningstar Indexes

Morningstar Indexes has been designing modern solutions for 20 years, but what makes us truly unique has been more than three decades in development. Our rich history began in 1984, when Morningstar was founded on a promise to empower investors with data and research that is independent and objective. Over time, our collection of data has expanded considerably—and so has its application. Today, Morningstar Indexes draws on unique IP to unlock an extensive range of emerging opportunities for investors of every kind, while providing a robust institutional beta platform for core investing.

Contact Us

MorningstarIndexesAlerts@morningstar.com is a no-reply email address. For questions concerning this notification, please contact us at Indexes@morningstar.com.

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