# Summary

The Interaction of Interest Rates, Credit,

Inflation and Monetary Policy in Vietnam

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This dissertation aims to study the interaction of interest rates, banking credit, inflation and monetary policy for the case of Vietnam. Apart from the chapters of introduction, brief description of Vietnam economy relevant to the research, and conclusions, this dissertation consists of three main chapters.

Chapter 3, the first of the three main chapters, examines the predictive powers of monetary policy variable and financial variables including banking credit and interest rates for the future inflation and economic growth rates of Vietnam. This chapter applies dynamic model averaging (DMA), which can deal with structural changes in macroeconomic relationships and difficulties arisen from the data of developing countries like Vietnam. The forecasting model includes, among other variables, the growth rate of money supply M2, interest rate and banking credit. DMA found high predictive power of

money supply and banking credit, suggesting that monetary policy transmission through credit channel is more effective than through the interest rate channel.

Chapter 4, the second main chapter, tests the Expectation Hypothesis on the term structure of Vietnam interbank interest rates. This chapter applies the testing framework following Della Corte et al. (2008) which allows for the direct test on the validity of Expectation Hypothesis. The result shows that the Expectation Hypothesis is rejected on the very short-term interbank interest rates of Vietnam, which is similar to the results of previous studies on very short-term repo rates of US.

Chapter 5, the third main chapter, estimates the effectiveness of the credit channel in Vietnam using a novel Bayesian Vector Autoregression Model with stochastic volatility. It is shown that introducing stochastic volatility substantially improves the empirical model, and permits the estimation of time-varying volatilities and impulse responses. It is found that monetary policy transmission through the credit channel in Vietnam is effective for influencing the inflation rate, but not the economic growth rate.