Name: Measuring the interest rate pass-through process in Vietnam from 2005 to 2011

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Prize: Second prize at UEB level

The interest rate channel has long been considered to be one of the most important channels of the monetary transmission mechanism. This research is thus conducted to give some fundamental insights about this important channel in Vietnam. The study progressed with a review of both theoretical and empirical literature which formed the basis for the empirical analysis. In particular, five channels of monetary policy transmission mechanism, eleven determinants of interest rate pass-through, two approaches used and two econometric method often employed were reviewed. The paper also pointed out the most remarkable features of Vietnam's financial system in recent years. Next, in order to measure the interest rate pass-through process we estimated the ARDL and ECM model based on the long-run equilibrium relation between policy rates and bank retail rates and the VAR model based on the simultaneity among the interest rates series. The main findings of this paper were that interest rates are rigid in the short-run and the pass-through is incomplete even in the long-run with the pass-through coefficients from 50% to 70%. The mean adjustment lag ranged from 3 to 5 months, indicating the sluggish adjustment of retail interest rates to changes in policy rate. These findings were generally in line with the existing literature. From these findings, we drew outsome implications concerning the inflation stabilizing function of monetary policy and shocks to the borrowing needs of firms. Finally, recommendations were made to improve the efficiency of the interest channel in Vietnam.