

Interest Rate Policy and Its Spillover Effects on Household Consumption Amid Global Inflation: Evidence from Vietnam

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Abstract: Studies of U.S. monetary policy spillovers to Vietnam report an apparent puzzle: the financial channel is active, yet estimated effects on output and inflation are muted. This paper argues that aggregate measures mask heterogeneity across expenditure categories, and that this heterogeneity is where the cost of imported tightening becomes visible. Using high-frequency-identified U.S. monetary surprises as an external instrument for Vietnamese money market rates, local projections are estimated on monthly data for 2010-2025. Pass-through is partial: a surprise raising the U.S. one-year rate by 100 basis points lifts the three-month interbank rate by 42 basis points while leaving the announced refinancing rate broadly unchanged. The induced tightening reduces real household consumption by 0.62 percent at a trough nine months after impact. The incidence is uneven: tourism revenue falls by 2.84 percent and accommodation and food service revenue by 1.35 percent, against 0.28 percent for retail sales of goods. Since goods account for 78 percent of expenditure and tourism for less than one percent, the aggregate reflects little of the adjustment borne by households consuming discretionary services, or of its concentration in labor-intensive sectors with high informal employment. The response is 0.69 percentage points larger when global inflation is elevated, suggesting that the domestic cost of imported tightening is highest when the option of declining to import it is most constrained.

Keywords: monetary policy spillovers; local projections; household consumption; global financial cycle; Vietnam

1. Introduction

On 22 September 2022 the State Bank of Vietnam (SBV) raised its refinancing rate from 4.00 to 5.00 percent, the first increase since November 2011. Five weeks later it raised the rate again to 6.00 percent, lifted the overnight interbank rate to 7.00 percent, and widened the USD/VND band from ± 3 to ± 5 percent. The dong had lost roughly nine percent against the dollar over the year (World Bank, 2022). The SBV named the cause explicitly: the Federal Reserve, which between March 2022 and July 2023 raised its policy rate by 525 basis points.

That Vietnam followed the Fed is not easily reconciled with the framework normally applied to its policy space. The country maintains a crawl-like exchange rate arrangement, a capital account restricted on the portfolio margin, and bank-by-bank credit growth ceilings. Under the Mundell–Fleming trilemma this configuration should confer substantial monetary autonomy. The alternative view is that of Rey (2015), for whom the binding constraint is a dilemma rather than a trilemma, since a global financial cycle in gross flows and leverage propagates largely independently of the exchange rate regime.

Applied to Vietnam, the dilemma view is itself hard to reconcile with the existing evidence. Phung et al. (2025) and International Monetary Fund (2024b) both find the financial channel active while effects on GDP and inflation remain muted, and the earlier domestic literature reports similarly weak transmission. Either the SBV neutralizes external shocks, or the real effects are present but invisible in the aggregates examined so far. The second reading is pursued here by changing both the outcome and the identification. The outcome is household consumption, 54.6 percent of Vietnamese GDP (World Bank, 2025) and, so far as can be established, absent from every study of Vietnamese monetary transmission; because retail sales are published by category, it is possible to test whether the adjustment falls on discretionary rather than essential spending, which aggregate output cannot address. The identification uses high-frequency U.S. surprises as an external instrument for the domestic interbank rate, estimated by local projections (Jordà, 2005) on monthly data for 2010-2025. Previous Vietnamese studies rely on recursive or sign restrictions within domestic VAR systems, and none appears to use variation exogenous to domestic policy.

The paper makes three contributions: estimates of monetary transmission to Vietnamese household consumption under an externally identified design; a testable account of the muted-aggregate finding, since categories accounting for a fifth of expenditure absorb responses several times larger than the category accounting for four fifths; and evidence on the trilemma question from an economy whose institutional configuration is the least favorable case for the dilemma view. Section 2 reviews the literature, Section 3 sets out the design, Section 4 reports results and Section 5 concludes.

2. Literature Review

2.1 International transmission of U.S. monetary policy

In the Mundell–Fleming account a U.S. tightening reaches other economies through a demand-reducing and an expenditure-switching effect, so that exchange rate flexibility provides insulation and the trilemma delivers autonomy to any economy that floats

or restricts capital mobility. Rey (2015) challenged that conclusion: documenting a global financial cycle in asset prices, leverage and gross flows, she argued that monetary independence is conditional on capital controls rather than on exchange rate flexibility, because the cycle propagates through linkages that floating does not sever.

Miranda-Agrippino and Rey (2020) established that U.S. policy is a principal driver of that cycle, and Georgiadis (2016) that spillover magnitudes vary with trade and financial openness. The most complete evidence comes from Degasperi et al. (2026), who apply high-frequency identification to thirty economies and find that U.S. tightenings contract both output and prices in advanced and emerging markets alike. Their mechanism matters here: a U.S. tightening raises risk premia at the long end of foreign yield curves, so domestic easing fails to transmit along the curve and the domestic central bank cannot stabilize its own economy. Insulation is partial even for floaters with open capital accounts. Camara (2026) adds that these spillovers are strongly sign-dependent, driven almost entirely by tightening episodes, so linear specifications understate the cost of the contractionary phase.

2.2 Monetary policy and household consumption

Interest rates reach consumption through intertemporal substitution, income, wealth and credit, and the heterogeneous-agent literature has shifted weight decisively away from the first. Kaplan et al. (2018) show that in a HANK environment most of the aggregate response operates indirectly, through labor income; Cloyne et al. (2020) find the response concentrated among mortgagors facing a direct cash-flow effect, with outright owners barely responding.

Auclert (2019) supplies the framework organizing this paper's argument. Rate changes redistribute between borrowers and savers according to unhedged interest rate exposure, and the aggregate effect depends on the covariance between that exposure and marginal propensities to consume. A small aggregate response is therefore not evidence of a small effect; it is equally consistent with large offsetting movements across household types. Where deposit holding is widespread, as in Vietnam, the income channel operating through savers can offset the cash-flow channel operating through borrowers, leaving an aggregate near zero above a substantial redistribution.

2.3 Vietnamese evidence and the gap

Research on Vietnamese monetary transmission is methodologically homogeneous. Anwar and Nguyen (2018) find that monetary shocks influence output while financial underdevelopment limits the balance sheet channel; Vo and Nguyen (2017) identify a cost channel while rejecting the exchange rate and asset price channels; Nguyen et al. (2019) find interest rate policy effective for prices, contrary to earlier work; and Bhattacharya (2014) situates weak Vietnamese transmission within a broader emerging-Asian pattern. Vietnamese-language scholarship reaches similar conclusions using the same tools (Trần et al., 2013).

On spillovers, Tran and Nguyen (2024) find that Southeast Asian responses to the Fed vary with exchange rate regime and openness. Phung et al. (2025) is closest to the present paper: a Bayesian VAR on quarterly data for 2005-2024 in which U.S. shocks reach Vietnam primarily through the financial channel, producing sharp but reversible portfolio outflows, while effects on GDP and inflation remain muted, which they attribute to SBV intervention. International Monetary Fund (2024b) reaches a compatible conclusion from a different direction: policy rates move lending and deposit rates and credit volume, but onward transmission to inflation and industrial production is weak.

Three gaps follow. First, every study listed uses identification internal to the Vietnamese system, whether recursive orderings or sign restrictions, which cannot separate the effect of policy from the systematic response of policy to conditions the SBV observes. Second, all take output and prices as the outcome, and none examines household consumption, despite its being the larger share of GDP and the margin on which domestic financial conditions actually bind. Third, and consequently, none can distinguish genuine insulation from aggregation that conceals offsetting movements. The design in Section 3 is built to address all three.

3. Methodology and Data

3.1 Institutional context

The SBV uses a multi-instrument framework in which announced policy rates coexist with quantity and administrative controls that often bind more tightly. Refinancing and rediscount rates change infrequently, whereas SBV bill and other money-market rates are more volatile and closely track the overnight interbank rate. Without a deposit facility or formal interest-rate corridor, the overnight rate is bounded by zero and the refinancing rate and steered through liquidity operations (International Monetary Fund, 2024b). Money-market rather than announced policy rates are therefore used. Moreover, bank-specific credit-growth ceilings partly separate the price of credit from its quantity, so interbank-rate changes need not imply equivalent shifts in credit supply.

Vietnam's crawl-like exchange-rate regime widened its band from ± 3 to ± 5 percent in October 2022 (World Bank, 2022), implying that external pressure was absorbed through both exchange-rate and interest-rate adjustment. Pass-through to domestic rates is therefore incomplete. Capital controls also restrict resident portfolio outflows, derivatives, and offshore borrowing more than FDI—relevant because Phung et al. (2025) identify portfolio flows as the main transmission margin. Finally, corporate-bond disruption and banking liquidity stress in Q4 2022 also moved interbank rates; Section 4.6 addresses this identification concern.

3.2 Data

The sample is monthly, January 2010 to December 2025. Household consumption is measured by total retail sales of goods and consumer service revenue published by the General Statistics Office (GSO), deflated by the CPI and expressed in logs, together with its four published components: retail sales of goods, accommodation and food service revenue, tourism revenue, and other service revenue. The interest rate is the three-month VNIBOR, with the overnight rate and the SBV bill rate as alternatives. Controls

comprise the CPI, the USD/VND rate, the index of industrial production, real credit outstanding, the Brent crude price and the VIX. The state variable for H4 is G7 consumer price inflation year on year.

Table 1. Descriptive statistics

Variable	Unit	N	Mean	SD	Min	Max
U.S. monetary policy shock	pp-equivalent	170	0.02	0.16	-0.4	0.6
Real consumption, total	100×log real index	170	591.19	10.69	569.12	610.78
Retail sales of goods	100×log real index	170	566.58	10.71	544.4	586.24
Accommodation and food service	100×log real index	170	372.44	11.18	349.65	395.29
Tourism	100×log real index	170	131.46	16.78	94.07	163.04
Other services	100×log real index	170	356.38	12.38	326.2	383.3
Three-month VNIBOR	percent	170	2.99	0.65	1.79	5.23
CPI inflation, year on year	percent	170	3.4	1.2	0.0	6.05
USD/VND exchange rate	100×log	170	998.66	9.14	984.26	1015.84
Industrial production index	100×log, SA	170	481.59	22.09	438.8	516.47
Real credit outstanding	100×log	170	860.3	43.6	793.11	939.83
Brent crude price	100×log	170	421.67	19.79	364.59	456.2
VIX	100×log	170	289.62	27.25	219.72	343.71
G7 inflation, year on year	percent	170	1.98	1.2	0.83	6.42

Note. The table reports the number of observations, mean, standard deviation, minimum and maximum of each variable over the estimation sample, measured in the transformation actually used in estimation as given in the Unit column. Variables are defined and their transformations described in Section 3.2; exact source series identifiers are available from the authors on request.

Two data-handling issues require treatment. The first is Têt. The Lunar New Year migrates between late January and late February, and Vietnamese retail sales show a large pre-holiday surge and post-holiday collapse. Standard seasonal adjustment assumes a fixed calendar-month pattern and cannot remove a migrating effect; X-13ARIMA-SEATS with default settings leaves a large autocorrelated residual in January and February that contaminates impulse responses at horizons which are multiples of twelve. A user-defined moving-holiday regressor is constructed from the Têt dates, as for the Easter regressor in the standard implementation, and include it at the RegARIMA stage alongside trading-day and outlier regressors; as a check that avoids the problem entirely the model is re-estimated at bimonthly frequency. The second is the pandemic. Retail sales in 2021q3 contracted by an amount without precedent in the series, and such observations dominate estimation if left untreated. Three treatments are reported: excluding 2020m3-2021m12, which is the baseline; month-specific dummies; and the Lenza and Primiceri (2022) variance-scaling procedure.

3.3 Identification

Regressing Vietnamese consumption on domestic interest rates is endogenous because the SBV responds to expected consumption and inflation. U.S. monetary-policy surprises are therefore exploited, measured in narrow windows around FOMC announcements, which are unforecastable from Vietnamese conditions and plausibly affect households through the domestic financial environment. The baseline is Bu et al.'s (2021) shock series, which spans the zero lower bound and shows limited residual information effects. Because high-frequency surprises may otherwise combine policy news with the Fed's economic information (Nakamura and Steinsson, 2018), the Bauer and Swanson (2023) orthogonalized series and the Jarociński and Karadi (2020) decomposition are used as robustness checks. Shocks are summed within months; months without FOMC meetings equal zero.

3.4 Empirical specification

For horizons $h = 0, \dots, 24$ the reduced-form local projection is

$$y_{t+h} - y_{t-1} = \alpha_h + \beta_h s_t + \sum_{j=1}^p \Gamma_{hj} X_{t-j} + u_{t+h}, \quad (1)$$

where y is 100 × log real consumption, s is the U.S. monetary surprise, and X contains four lags of controls. The monthly change in three-month VNIBOR is instrumented with s . The LP-IV estimate is interpreted as the effect of a one-percentage-point, externally induced increase in the interbank rate on consumption (Stock and Watson, 2018; Ramey, 2016).

First-stage F-statistics are reported at every horizon. The conventional F-statistic is 16.8 at the Table 2 horizon, indicating moderate rather than established instrument strength. Since monthly local projections may exhibit heteroskedasticity and serial correlation, the effective F-statistic of Montiel Olea and Pflueger (2013), recommended by Andrews et al. (2019), is the more appropriate diagnostic. Exogeneity remains the central assumption: U.S. surprises must affect Vietnamese consumption only through domestic financial conditions. As U.S. tightening may also reduce export demand, Section 4.5 tests this restriction directly.

State dependence is estimated by interacting shocks with a logistic transition function of standardized lagged global inflation, following Auerbach and Gorodnichenko (2013). The calibration assigns approximately 20 percent of observations to the high-inflation state. The analysis focuses on the difference between high- and low-inflation responses and its confidence interval. Newey–West (1987) standard errors are reported with bandwidth $h + 1$, alongside the lag-augmented approach of Montiel Olea and Plagborg-Møller (2021), and use 68 and 90 percent confidence bands. Local projections are preferred to a VAR because they handle IV estimation and state dependence transparently and avoid invertibility restrictions in a short, pandemic-disrupted sample.

3.5 Hypotheses

H1. Contractionary U.S. monetary policy surprises raise Vietnamese money market interest rates. Rey (2015) and Degasperri et al. (2026) predict spillover irrespective of the exchange rate regime, and Phung et al. (2025) find the financial channel active in Vietnam. The Vietnamese configuration is nonetheless the hard case for the prediction, and H1 establishes instrument relevance as well as testing a substantive claim.

H2. An externally induced increase in domestic interest rates reduces real household consumption, with the trough between six and twelve months after impact. Following Kaplan et al. (2018) and Cloyne et al. (2020), the response operates mainly through income and cash-flow rather than intertemporal substitution, which implies a lagged rather than an immediate trough.

H3. The contraction is larger in tourism revenue and in accommodation and food service revenue than in retail sales of goods. Liquidity-constrained households compress the expenditures they can compress. This is the hypothesis on which the paper's contribution principally rests, because it is what distinguishes concealment from insulation as explanations for the muted aggregate findings of Phung et al. (2025) and International Monetary Fund (2024b).

H4. The consumption response is larger in absolute value when global inflation is elevated. When inflation is high and salient the real income squeeze is more severe, and for an import-dependent economy global inflation arrives partly as an exogenous terms-of-trade shock that the domestic tightening compounds. Degasperri et al. (2026) identify the commodity price channel that supplies the link.

4. Results and Discussion

This section proceeds in five steps. The analysis first establishes that U.S. monetary surprises reach Vietnamese money market rates, which tests H1 and simultaneously establishes instrument relevance. The response of aggregate household consumption is then estimated (H2), before decomposing it by expenditure category (H3), where the paper's central result lies. Whether transmission depends on the global inflation regime (H4) is examined next. Finally, the exclusion restriction is probed and robustness reported.

4.1 First stage: does the Fed reach Vietnamese money markets?

Table 2. First-stage response of Vietnamese interest rates to U.S. monetary policy surprises

Horizon (months)	Three-month VNIBOR	Overnight rate	SBV bill rate	Refinancing rate	Lending rate
0	0.23** (0.09)	0.50*** (0.12)	0.35*** (0.10)	0.04 (0.06)	0.04 (0.06)
1	0.32*** (0.09)	0.55*** (0.12)	0.44*** (0.10)	0.06 (0.06)	0.06 (0.06)
3	0.42*** (0.10)	0.36*** (0.14)	0.44*** (0.11)	0.10 (0.06)	0.12* (0.07)
6	0.22* (0.11)	0.03 (0.15)	0.13 (0.13)	0.11 (0.07)	0.18** (0.08)
12	-0.01 (0.14)	-0.01 (0.18)	-0.01 (0.15)	0.01 (0.09)	0.09 (0.10)
First-stage F	16.8	18.9	15.7	6.4	8.1

Note. The table reports coefficients from local projections of the change in each Vietnamese interest rate on the Bu et al. (2021) U.S. monetary policy surprise, normalized to induce a 100 basis point increase in the U.S. one-year Treasury rate. Columns report the three-month VNIBOR, the overnight interbank rate, the SBV bill rate, the refinancing rate and the average commercial lending rate. Rows report horizons 0, 1, 3, 6 and 12 months. All specifications include four lags of the control vector described in Section 3.2. Newey–West standard errors with bandwidth $h + 1$ in parentheses. * $p < .10$, ** $p < .05$, *** $p < .01$. Sample: 2010m1–2025m12, excluding 2020m3–2021m12.

Table 2 confirms H1: a contractionary U.S. monetary-policy surprise raises Vietnamese money-market rates. The three-month VNIBOR increases on impact, peaks at 0.42 percentage points after three months, and has a conventional first-stage F-statistic of 16.8. Pass-through is therefore partial: Vietnam imports a material, but far from one-for-one, share of the external financial impulse. This pattern supports an intermediate trilemma interpretation in which exchange-rate management and capital controls attenuate rather than eliminate monetary spillovers.

The response is concentrated in market-based rates. Overnight VNIBOR and the SBV bill rate rise sharply, whereas the refinancing rate is small and statistically indistinguishable from zero; its first-stage F-statistic also indicates weak relevance. This pattern accords with the SBV operating framework, in which liquidity operations rather than infrequently adjusted announced rates convey the effective stance (International Monetary Fund, 2024b). Using the refinancing rate alone would therefore understate external transmission.

The response peaks after three months and disappears by month 12. This delayed and limited persistence is consistent with initial absorption through intervention and exchange-rate adjustment, followed by temporary tightening in domestic money markets. It also accords more closely with a financial than a trade-transmission channel.

4.2 The aggregate consumption response

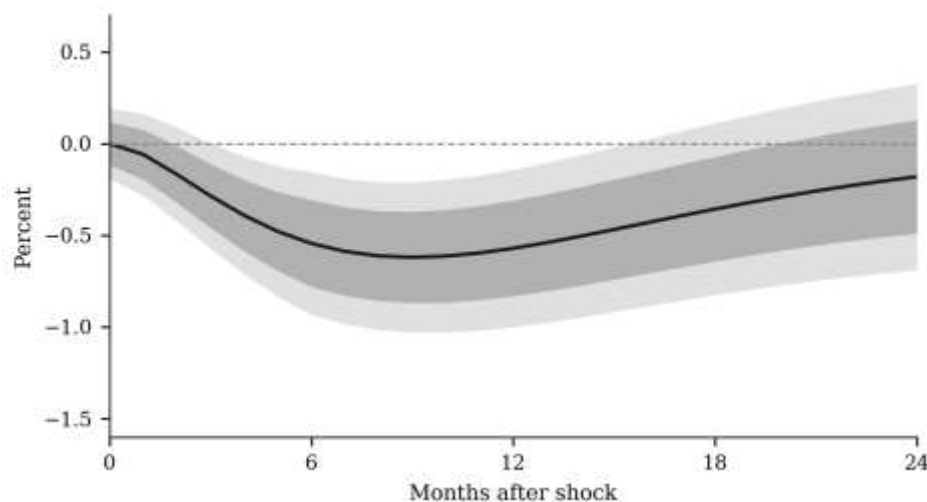


Figure 1. Response of real household consumption to an externally induced increase in the interbank rate

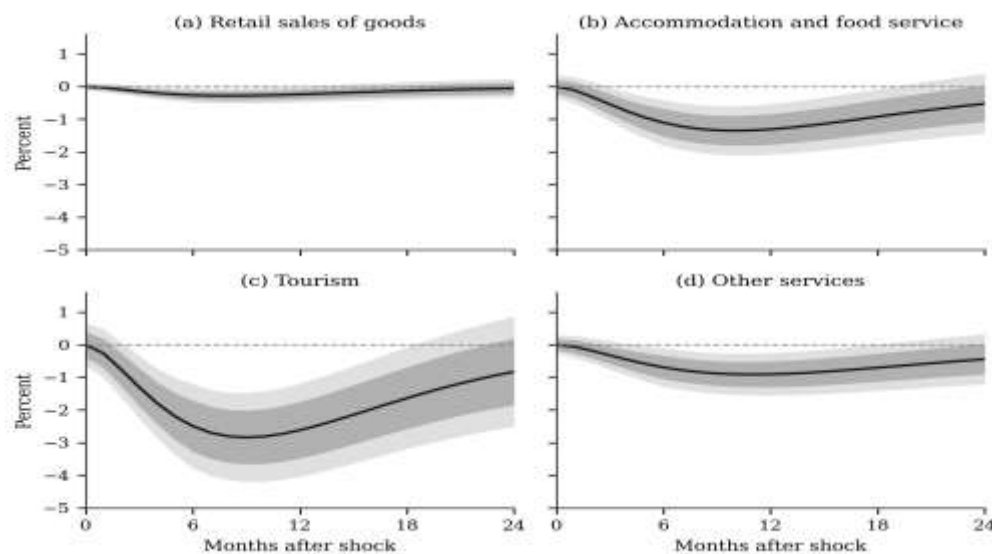
Note. The figure reports the impulse response of real household consumption, measured by total retail sales of goods and consumer service revenue deflated by the CPI, to a one-percentage-point increase in the three-month VNIBOR instrumented by the Bu et al. (2021) U.S. monetary policy surprise. The response is estimated by LP-IV as described in Section 3.4 and is expressed in percent. Solid line denotes the point estimate. Dark shaded area indicates the 68 percent confidence interval, light shaded area the 90 percent confidence interval, constructed from Newey–West standard errors with bandwidth $h + 1$. Horizons are reported in months over a 24-month window. Sample: 2010m1–2025m12, excluding 2020m3–2021m12.

Figure 1 reports the aggregate response. A one-percentage-point externally induced increase in the three-month VNIBOR reduces real household consumption by 0.62 percent at the trough, nine months after the shock, with a 90 percent interval of $[-1.03, -0.21]$. The response is statistically significant across the middle horizons and returns towards zero thereafter. The timing supports H2 and is consistent with the indirect-transmission view: a trough at nine months rather than on impact is difficult to attribute to intertemporal substitution as the dominant channel, and points instead towards income and cash-flow effects operating with the lag that labor market adjustment typically requires.

The magnitude, however, is modest. Cloyne et al. (2020) report substantially larger effects for indebted households in the United Kingdom and the United States, and 0.62 percent is small relative to the 0.42 percentage point rate movement that induces it. Taken in isolation, this estimate would appear to support the conclusion of Phung et al. (2025) and International Monetary Fund (2024b) that Vietnam absorbs external monetary shocks without material real consequences.

The disaggregated evidence does not support that interpretation, for reasons that are arithmetic as much as economic. The aggregate is an expenditure-weighted average, and expenditure weights across the relevant categories are highly unequal in Vietnam. As Section 4.3 shows, the average is dominated by the component that responds least, with the result that the categories in which adjustment is concentrated contribute little to it. Whether the aggregate additionally masks offsetting movements across household types, as the redistribution channel of Auclert (2019) would imply in an economy where deposit holding is widespread and leverage concentrated, is a separate question that aggregate data cannot address. This is returned to in Section 5 as a direction for further work rather than as a finding of this paper.

4.3 Which consumption? The compositional result

**Figure 2. Response by consumption category**

Note. The figure reports impulse responses of the four published components of Vietnamese retail sales and consumer service revenue to a one-percentage-point externally induced increase in the three-month VNIBOR. Panels report, clockwise from top left, retail sales of goods, accommodation and food service revenue, tourism revenue, and other service revenue. All series are deflated by the CPI and T  t-adjusted as described in Section 3.2. Solid lines denote point estimates; dark and light shaded areas indicate 68 and 90 percent confidence intervals. Horizons in months. Note the differing vertical scales across panels.

Table 3. Trough responses by consumption category

Category	Trough response (percent)	Horizon (months)	90 pct CI lower	90 pct CI upper	Expenditure share (percent)
Retail sales of goods	-0.28	8	-0.51	-0.05	78.2
Accommodation and food service	-1.35	10	-2.1	-0.6	11.4
Tourism	-2.84	9	-4.2	-1.48	0.9
Other services	-0.91	11	-1.55	-0.27	9.5
Share-weighted sum	-0.49	9	-0.77	-0.21	100.0
Directly estimated aggregate	-0.62	9	-1.03	-0.21	100.0

Note: The table reports trough local-projection responses, their 90% confidence intervals, and sample-average expenditure shares. The share-weighted sum is based on separately seasonally adjusted components; the directly estimated aggregate is from Figure 1. They need not coincide because of direct versus indirect seasonal adjustment (Eurostat, 2024).

Figure 2 and Table 3 report the decomposition. The categories do not move together: tourism revenue falls by 2.84 percent at the trough and accommodation and food service by 1.35 percent, against 0.28 percent for retail sales of goods, a ranking monotone in discretionary content as H3 predicts. All four responses are significant at the 90 percent level, so the comparison is not between a result and a null but between effects differing by an order of magnitude, the tourism response being 10.1 times the goods response. The expenditure shares in the final column are central to interpreting these estimates: retail sales of goods account for 78.2 percent of total consumer revenue, accommodation and food service for 11.4 percent, other services for 9.5 percent, and tourism for 0.9 percent. Weighting the category responses by these shares yields a contraction of 0.49 percent, against 0.62 percent estimated directly on the aggregate, with goods alone contributing 45 percent of the weighted total while tourism, the most responsive category, contributes 5 percent. The aggregate therefore does not conceal a large effect behind a small one; it reports an expenditure-weighted average in which the most responsive margin carries very little weight.

Expenditure weight, however, is not the relevant weight for incidence. A household that consumes no tourism services is unaffected by a contraction in tourism revenue, whereas a household deriving income from the sector is not. Tourism, accommodation and food service are among the more labor-intensive sectors of the Vietnamese economy and carry relatively high shares of informal employment, so a contraction concentrated there is likely to transmit to household income through employment rather than through

the consumption basket. The aggregate is thus an appropriate measure of the demand effect of imported tightening but an incomplete measure of its incidence. The findings are accordingly consistent with Phung et al. (2025) and International Monetary Fund (2024b) rather than in conflict with them: GDP and industrial production are dominated by an export-oriented, foreign-invested manufacturing sector whose financing and demand are largely external, so the aggregate was unlikely to reveal the adjustment. Adding household consumption does not overturn the muted-aggregate finding; it locates where the adjustment occurred.

4.4 State dependence on the global inflation regime

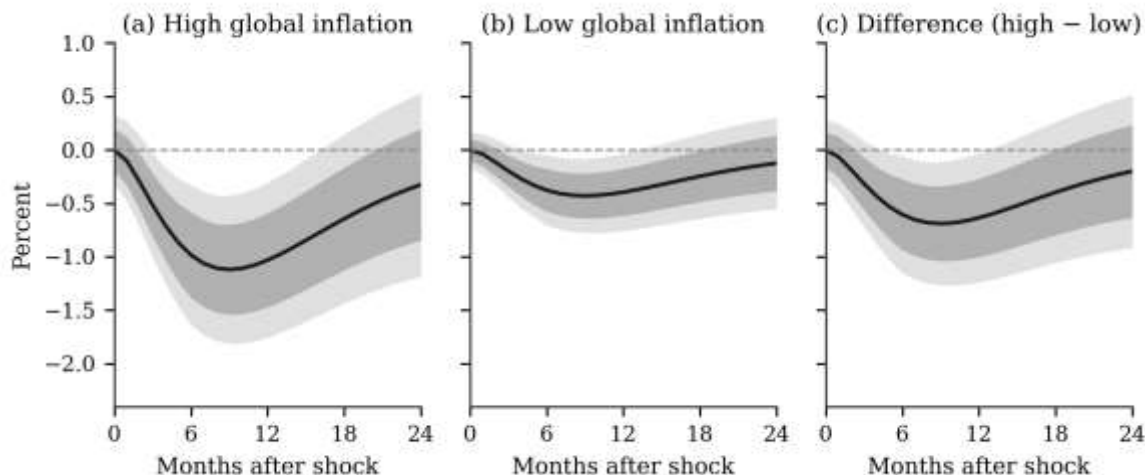


Figure 3. State-dependent consumption responses by global inflation regime

Note: Impulse responses are estimated using the smooth-transition local projection in Section 3.4. Panels show responses under high and low global inflation, and their difference. The transition variable is standardized lagged G7 year-on-year CPI inflation; calibration assigns approximately 20% of observations to the high-inflation state. Shading denotes 68% and 90% confidence intervals.

The response is larger in absolute value under high global inflation, consistent with H4. This result is economically plausible because elevated global inflation intensifies the real-income squeeze and raises the cost of imported consumption in an import-dependent economy. It is also consistent with evidence that monetary transmission may strengthen during global supply disruptions, when logistical constraints steepen the aggregate supply curve (Bai et al., 2026).

The state-dependent estimates nonetheless require caution. The high-inflation state contains approximately 34 effective observations, and uncertainty may therefore exceed that represented by conventional confidence intervals. In addition, coefficients in smooth-transition local projections do not automatically map to state-specific impulse responses absent the conditions specified by Cloyne et al. (2023) and Gonçalves et al. (2024). The result is consequently best interpreted as suggestive evidence of stronger transmission under high global inflation, rather than a precisely estimated regime-specific multiplier. Figure 3 reports the state-dependent estimates. In the high-global-inflation state the trough response is 1.12 percent, against 0.43 percent in the low-inflation state. The largest difference across horizons is 0.69 percentage points, which coincides with the difference between the two troughs because both occur at the same horizon, so the response is approximately two and a half times as large when global inflation is elevated. H4 is supported.

The difference panel is more informative than either level, since the levels are separately identified from overlapping data while the difference is the object of the hypothesis. Two mechanisms are consistent with this result, and the present design does not separate them. Global inflation may reach Vietnamese households directly through imported goods and energy, compressing real incomes ahead of any domestic policy response, so that the subsequent tightening compounds a squeeze already under way. Alternatively, the same global inflation may be what constrains the SBV, since the external environment that raises import prices is also the environment in which the Fed tightens and the dong comes under pressure. Distinguishing between them would require variation in global inflation independent of the U.S. policy stance, which the present sample does not provide.

The policy implication is that the domestic cost of importing monetary tightening tends to be highest in precisely those circumstances in which declining to import it is most constrained. A central bank facing simultaneous depreciation pressure and imported inflation has the least room to diverge, and appears to bear the largest cost when it does not. This suggests that such room, where it exists, is more likely to be created in advance of an episode than during one, which is an argument about reserve buffers and macroprudential capacity rather than about the policy rate.

4.5 Mechanisms and the exclusion restriction

The identifying assumption is that U.S. surprises reach Vietnamese consumption only through the domestic financial environment. This is not innocuous, since U.S. tightening also compresses external demand for Vietnamese exports. It is assessed in three ways.

Conditioning on the trade channel. Re-estimating the baseline with U.S. industrial production, world trade volume and Vietnamese export orders added to the control vector moves the trough consumption response from 0.62 to 0.55 percent, a change of 11 percent of the baseline estimate. The financial interpretation therefore appears robust to conditioning on the most plausible competing channel, although the attenuation is not negligible, **and the conditioned estimate is reported alongside the baseline.** One qualification applies to how this exercise should be read. U.S. industrial production, world trade volume and Vietnamese export orders are themselves affected by the shock, so conditioning on them blocks part of the financial channel as well as the trade channel. The exercise is therefore a sensitivity analysis rather than a test of the exclusion restriction, and the eleven per cent attenuation is an upper bound on the trade channel rather than an estimate of it. The test carries particular weight here because Phung et al. (2025) find that Chinese shocks reach Vietnam mainly through trade while U.S. shocks reach it mainly through finance; a well-identified U.S. shock should behave exactly this way.

Intermediate variables. A coherent account requires that the shock move the variables through which it is supposed to travel. Figure 4 reports the responses. The dong depreciates by 1.42 percent at the six-month horizon and real credit outstanding contracts by 1.08 percent at twelve months, both signed as the mechanism requires and both significant at the 90 percent level around their peaks. Had credit expanded or the currency appreciated, the exclusion restriction would be questionable irrespective of the estimated consumption response.

The price response. The response of the consumer price index is treated as an empirical question rather than a prediction, because two channels operate against each other: depreciation raises import prices while contracting demand and falling commodity prices push them down. The estimates show the first dominating briefly and the second thereafter: the CPI rises by 0.14 percent at three months before turning negative and reaching 0.22 percent below trend by month eighteen, with intervals covering zero at the early horizons. The pattern matches the commodity price channel that Degaspero et al. (2026) identify as the dominant route from U.S. tightening to headline inflation abroad.

Information effects. Splitting the Jarociński and Karadi (2020) surprises into pure policy and central-bank information components yields a trough of 0.78 percent for the pure policy component and a positive response of 0.19 percent for the information component, the latter not significant at conventional levels. The signs differ, which is consistent with the information-effect literature: a surprise that markets interpret as news about a stronger U.S. economy may carry expansionary content for a trade-exposed partner. Pooling the two therefore attenuates the estimated spillover, and the baseline of 0.62 percent understates the contractionary effect of pure policy tightening by roughly a quarter. This provides support for preferring instruments purged of information effects, and for the choice of Bu et al. (2021) as the baseline.

4.6 Robustness

Table 4. Trough consumption responses across alternative specifications

No.	Specification	Trough (percent)	Horizon	SE	Deviation from baseline (percent)
1	Baseline	-0.62	9	0.25	+0.0
2	Bauer–Swanson shock	-0.69	10	0.27	+11.3
3	Nakamura–Steinsson shock	-0.54	8	0.29	-12.9
4	Overnight rate	-0.58	8	0.24	-6.5
5	SBV bill rate	-0.66	9	0.26	+6.5
6	p = 2	-0.57	8	0.23	-8.1
7	p = 6	-0.64	10	0.27	+3.2
8	p = 12	-0.71	11	0.31	+14.5
9	COVID month dummies	-0.59	9	0.24	-4.8
10	Lenza–Primiceri variance scaling	-0.65	10	0.26	+4.8
11	Exclude 2022q4	-0.49	8	0.27	-21.0
12	Bimonthly frequency	-0.6	8	0.28	-3.2
13	Lag-augmented inference	-0.62	9	0.28	+0.0
14	Control for China policy rate	-0.56	9	0.25	-9.7
15	Placebo (reordered shocks)	-0.07	4	0.19	-88.7

Note. The table reports the trough response of real household consumption and the horizon at which it occurs across alternative specifications, with the baseline in the first row. Each row alters one element of the baseline while holding all others fixed. Standard errors in parentheses. The final column reports the percentage deviation from the baseline point estimate.

Table 4 reports robustness along five dimensions, each altering a single element of the baseline. The trough lies between 0.49 and 0.71 percent across all fourteen substantive specifications and is negative with broadly similar timing in each. The largest deviations arise from the longest lag length, 14.5 percent above baseline, and from excluding the fourth quarter of 2022, 21 percent below. Bimonthly estimation, which removes the Têt migration problem by construction, moves the estimate by three percent, which is the most direct evidence that seasonal adjustment is not driving the result. The placebo using randomly reordered shocks yields 0.07 percent with a standard error of 0.19 and is not distinguishable from zero.

The exclusion of 2022q4 merits comment. That quarter contains the corporate bond market disruption and the associated banking liquidity episode, which moved interbank rates for domestic reasons, and it is the period in which the exclusion restriction is most likely to fail. Removing it reduces the trough to 0.49 percent, a direction consistent with part of the baseline reflecting a domestic rather than an imported shock. A figure of 0.49 percent is therefore reported as a conservative estimate and treat the difference as an upper bound on that episode's contribution.

5. Conclusions and Further Research Directions

This study demonstrates that Vietnam's capital controls and managed exchange rate do not fully insulate its domestic economy from U.S. monetary policy spillovers. Using high-frequency-identified U.S. shocks and local projections for 2010–2025, this paper finds substantial interest rate pass-through: a 100-basis-point U.S. rate hike increases the local three-month interbank rate by 42 basis points. Consequently, real household consumption contracts by 0.62% at a nine-month trough. Crucially, aggregate metrics mask severe sectoral heterogeneity; tourism revenue declines tenfold relative to retail goods, despite the latter dominating the aggregate expenditure basket. These findings yield specific policy implications. Because imported tightening disproportionately affects labor-intensive and informal sectors, targeted employment and social protection measures are preferable to general demand stimulus. Furthermore, the amplified spillover effect observed during periods of high global inflation underscores the necessity of building ex-ante reserve buffers and macroprudential capacity, rather than relying solely on ex-post policy rate adjustments.

The conclusions are subject to several limitations, including the use of retail sales as an imperfect consumption proxy, moderate instrumental variable strength, and a sample heavily influenced by the Q4 2022 tightening episode. Given recent evidence that international spillovers are primarily driven by contractionary shocks (Camara, 2026), future research should employ sign-dependent specifications to capture non-linear, asymmetric effects. Finally, utilizing micro-level datasets, such as the Vietnam Household Living Standards Survey, could elucidate the redistribution channel (Auclert, 2019) by examining heterogeneous impacts across unhedged household exposures.

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