The Role of Inflation Expectations in Explaining Inflation: An Empirical Analysis for Vietnam

Abstract

Inflation expectations are widely acknowledged as a significant factor driving inflation and are crucial in contemporary monetary policy approaches. Although a considerable amount of research has explored this topic in both developed and developing countries, empirical data specific to Vietnam is still limited. This study intends to investigate how inflation expectations influence actual inflation in Vietnam by employing a Structural Vector Autoregression (SVAR) model using macroeconomic time-series data. The findings are expected to shed light on whether inflation expectations operate as an effective stabilizing mechanism in a transitioning and increasingly open economy, thereby offering policy implications for the central bank in its pursuit of price stability while supporting high growth objectives.

1. Introduction

Inflation remains a significant concern for policymakers in both advanced and emerging economies. Ensuring stable inflation expectations is deemed crucial for preserving macroeconomic stability, facilitating the effective implementation of monetary policy, and fostering long-term sustainable economic growth (Moessner, 2021). In advanced economies, research consistently underscores the substantial impact of inflation expectations on actual inflation rates, with stable and strong expectations serving as a buffer against short-term variations and assisting central banks in meeting their inflation objectives (Beckmann et al., 2022). In contrast, the sustainability, consistency, and reliability of this relationship in developing and transitional economies are less frequently examined.

Vietnam is a particularly compelling case in this regard. The country's rapid economic transformation over the past three decades has been marked by consistently high growth rates, deep integration into global value chains, and ambitious development goals. The government's current objective of achieving a GDP growth rate of at least 8% by 2025 aims to create a strong basis for future double-digit GDP growth, highlighting Vietnam's goal of establishing itself as a

vibrant emerging economy. Vietnam is anticipated to maintain inflation within the target bracket of 4.5 to 5% by 2025; however, these ambitious growth goals often carry the risk of rising inflation. At the same time, survey-based indicators indicate that inflation expectations are highly responsive to short-term changes, raising concerns regarding how well expectations are anchored within the Vietnamese context.

The combination of high growth expectations and inflation volatility underscores the urgent need for a more thorough analysis of the relationship between expectations and inflation. Detailed data analysis reveals that while expectations generally align with actual inflation trends, the strength of the transmission differs across timeframes. Short-term expectations appear to react strongly to actual price movements, suggesting a more adaptive rather than a forward-looking mechanism. Conversely, medium-term expectations exhibit greater sustainability, but their effectiveness in actually anchoring actual inflation remains questionable. This divergence poses a challenge for monetary policymakers, suggesting that communication strategies and policy credibility need to be enhanced to effectively guide expectations toward the target inflation rate.

From a policy perspective, these patterns have significant implications. If expectations are weakly anchored, the risk of self-fulfilling inflationary dynamics increases, especially in an environment where fiscal expansion or external shocks can quickly destabilize macroeconomic conditions, thus complicating the task of stabilizing expectations for the State Bank of Vietnam (SBV). This underscores the need to understand whether inflation expectations in Vietnam are primarily adaptive, extrapolated, or rational, as their formation mechanisms will significantly influence the optimal combination of communication strategies, institutional reforms, and coordination with fiscal policy.

In this context, the main objective of this paper is to conduct a thorough analysis of the relationship between inflation expectations and actual inflation in Vietnam. This will be accomplished using econometric techniques adapted to Vietnam's unique institutional and macroeconomic context. By placing Vietnam's situation within the broader context of research literature and referencing both domestic survey data and international benchmarks, this analysis aims to clarify

whether inflation expectations can serve as a reliable anchor for monetary policy in a rapidly changing emerging market economy.

The remainder of this paper is organized as follows: Part 2 reviews relevant literature; Part 3 provides background information on inflation in Vietnam and the policy actions taken by the SBV over the years; Part 4 presents the theoretical framework; Part 5 outlines the data and methodology used in this paper; Part 6 presents the empirical evidence; Part 7 performs a robustness check; Part 8 discusses the policy implications; and Part 9 concludes.

2. Literature Review

The relationship between inflation expectations and inflation has long been at the center of macroeconomic theory and policy. Classical and Keynesian traditions initially paid little attention to expectations, focusing instead on observable variables such as money supply and output. However, the rise of the rational expectations revolution in the 1970s fundamentally altered the discourse, making expectations an integral part of modern macroeconomic models.

The Rational Expectations Hypothesis (Muth, 1961) and its incorporation into New Classical economics suggested that economic agents form expectations using all available information, and therefore, systematic monetary policy would not be able to influence real variables in the long run. In contrast, Adaptive Expectations models emphasized that agents revise expectations based on past errors, implying a slower adjustment process.

Empirical studies confirm the centrality of expectations. Barnett et al. (2010) investigated how inflation expectations change over time in the United Kingdom and found that shocks to these expectations had a significantly lesser effect on actual inflation during the inflation-targeting era than they did in the 1970s. They attribute this finding to the growing credibility of the monetary policy framework. Beckmann et al. (2022) demonstrated that in G7 countries, inflation expectations are a significant transmission channel of monetary policy, underscoring the importance of credibility and communication.
Research on emerging economies paints a more nuanced picture. He and Liu

(2011) found that in China, inflation expectations were among the primary drivers of price instability during the early 21st century.

Other notable studies include Mehra and Herrington (2008), who used a VAR framework to show that inflation expectations in the United States are primarily shaped by shocks to actual inflation, commodity prices, and the expectations themselves. This recursive nature of expectations suggests that credibility plays a pivotal role. Moessner (2021) reinforced these findings by showing that expectations directly affect realized inflation through wage-setting and price-setting behaviors.

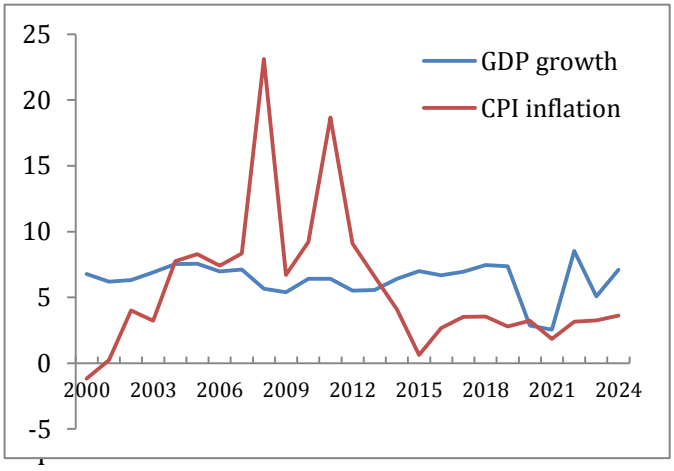
From a longer-run standpoint, Diegel and Nautz (2021) examine the significance of long-term inflation expectations in the context of the monetary transmission mechanism in the United States, and find that long-term inflation expectations significantly influence how monetary policy shocks affect the rate of inflation. Carvalho et al. (2023) develop a structural New Keynesian model where long-run expectations of inflation are endogenous. Their findings indicate that long-run inflation expectations become unanchored when persistent forecast errors arise, leading to self-reinforcing inflation dynamics that are highly dependent on the credibility of monetary policy.

In summary, the literature identifies three broad insights: (i) expectations are central to inflation outcomes, (ii) the anchoring of expectations depends on the credibility of monetary institutions, and (iii) the dynamics of expectations differ significantly between advanced and emerging economies. For Vietnam, where inflation has been historically volatile and institutions are still developing, these insights hold significant implications.

3. Background: Vietnam's Inflation Context

Moving into the 21st century, to achieve the ultimate goal of accelerating socialist-oriented industrialization and modernization to become an industrialized nation by 2020, Vietnam released the

Figure 1. VNM's GDP growth and CPI inflation (%)



Source: the World Bank

Socio-Economic Development Strategy for 2001-2010. This was further detailed in the Five-Year Socio-Economic Development Plans for 2001-2005 and 2006-2010. During the 2001-2005 period, Vietnam was still negatively affected by the 1997 regional financial crisis, and by 2008, the country was again strongly impacted by the global financial crisis and economic recession. Despite these challenges, including new epidemic diseases, natural disasters, and rising international political and security tensions, Vietnam achieved remarkable progress across various socio-economic areas. In terms of economic growth, Vietnam recorded an impressive annual GDP growth of 7.51% during 2001-2005 and an average of 7.01% during 2006-2010, resulting in an overall average of 7.26% over the 10-year span, close to the 7.56% rate of the 1991-2000 period. Compared to the previous decades, the economy expanded significantly both in size and growth rate.

However, along with impressive economic growth, Vietnam also had to face the increasing inflationary pressure, especially in the late 2000s, due to the side effects of expansionary fiscal and monetary policies as well as the rapid increase in global oil and commodity prices. In the beginning, Vietnam successfully maintained a relatively stable rate of price increases. Specifically, between 2000 and 2003, the average-year-on-year CPI growth remained below 4% (2000: -1.17%, 2001: 0.23%, 2002: 4.0%, 2003: 3.24%), contributing to the economic stability and development. However, in the following years, the ayoy CPI growth increased significantly, ranging between 7 and 8% (2004: 7.76%, 2005: 8.29%, 2006: 7.45%, 2007: 8.58%) before rocketing to a multi-year high of 23.06% in 2008. High inflation in the first 8 months of 2008 is the result of a combination of both demand-pull and cost-push factors arising from international and domestic market, as well as monetary factors[1], such as:

(i) Regarding the demand-pull aspect, the impressive GDP growth rate contributed to an increase in the per capita income. In addition, the raise in base salary applied to the public sector and regional minimum wage[2] along with the increase in remittances and the booming stock and real estate market increased

[1] https://vneconomy.vn/lam-phat-tu-bat-thuong-den-de-doan.htm

[2] On 11 December 2008, the Vietnamese government released Resolution 30/2008/ NQ-CP on urgent measures to deal with the economic recession, maintain economic growth and ensure social security. The Resolution focuses on boosting production and businesses; strengthening exports; stimulating investment and consumption; guaranteeing social security, and endeavouring to achieve an economic growth of 6.5% in 2009.

the buying power of the people which strongly stimulated domestic consumption. Besides, the improvements of business environment and the accession to WTO in 2007 led to a significant increase in investment demand in Vietnam, increasing the demand-pull inflationary pressure during this period.

(ii) Regarding the cost-push aspect, this period witnessed the rapid rise in price of oil as well as global commodities. The oil price increased significantly from 19,4 USD/barrel in December 2001 to the all-time high of 133.9 USD/barrel in June 2008[3] because of USD depreciation and growing global demand for crude oil from emerging markets like China and India, as well as tightening supply due to sluggish investment and supply disruption (Behr, 2009)[4]. The same pattern was observed in the global commodity price, illustrated by the commodity price index increasing from 63.1 in Q2/2003 to 189,1 in Q2/2008[5]. As a result, the global inflation growth rate increased significantly from 3.5% in 2003 to 8.9% in 2008[6]. Characterized by a highly open economy, Vietnam was instantly hit by the surge in the global oil and commodity prices, resulting in cost-push inflation. Adjusted in line with the global oil price, the fuel price in Vietnam increased from VND 7,550 in January 2005 to VND 19,000 per liter in July 2008 (equivalent to an increase of 151.7%), which negatively affected the overall price level. In addition, during this period, Vietnam suffered several continuous natural disasters and epidemic diseases, damaging the food supply. This led to a strike in the food price, especially rice, livestock, poultry…, which accounted for a large proportion of the basket of goods used to calculate CPI.

(iii) Another factor worth mentioning is the rapid increase in money supply and credit growth. In 2007, the money supply increased by more than 40% and the credit growth was over 50%. As the total net foreign currency inflows into the economy in 2007 increased significantly, in order to maintain the exchange rate stability, the SBV increased its foreign exchange reserves, thereby injecting a large amount of VND into the market[7].

[3] https://www.macrotrends.net/1369/crude-oil-price-history-chart
[4] https://gppi.net/assets/Behr_2009_The_2008_Oil.pdf
[5] https://fred.stlouisfed.org/series/PALLFNFINDEXQ
[6] https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?end=2011&start=2000
[7] https://www.tapchicongsan.org.vn/web/guest/nghien-cu/-/2018/439/chong-lam-phat-o-viet-nam--tim-dung-nguyen-nhan-moi-co-giai-phap-tich-cuc.aspx

Confronting high inflation, the SBV proactively implemented several monetary adjustments, such as increasing the compulsory reserve requirements for both VND and foreign currency deposits along with expanding the scope of deposits subject to compulsory reserves to all maturities, issuing mandatory Treasury bills, capping the interest rate applied to VND loan (based on the SBV's benchmark interest rate), setting a limit on loan growth… the SBV also adjusted the regulatory interest rates upwards (including the benchmark, refinancing, and discount interest rates) and proactively using open-market operations and other monetary tools to manage money in circulation. Thanks to the SBV's tight monetary policies and the government's inflation-curbing measures combined with the global financial crisis which caused a sharp fall in the prices of many commodities, inflation decreased significantly from September 2008 onwards. This significantly reduced the inflationary pressure so that the CPI growth of 2009 decreased remarkably to 6.97%.

In late 2008, Vietnam suffered external shocks from the global financial and economic crisis, resulting in a swift shift in policy responses of Vietnamese Government mid-way in the year. The Government announced economic stimulus packages in order to overcome economic difficulties and prevent economic downturn, including loosening fiscal and monetary policies (for example, credit package, interest rate subsidy, tax support, increasing public investment…). Apart from cost-push factor, this was perceived as one of the main factors resulting in inflation increase in 2011, hitting 2-figure peak of 18.64%. Facing the situation, the priority of policy management shifted from economic growth to inflation control and macroeconomic stability to restructure the economy towards sustainable development.

In order to achieve this, the SBV took a comprehensive set of measures on monetary tightening to combat high inflation. In 2010, when there was signal of rising inflation, the SBV quickly introduced various monetary measures to combat inflation, including increasing the regulatory interest rates several times (increasing the benchmark interest rate from 7 to 8-9%/year, increasing the refinancing interest rate from 7 to 8-9%/year, increasing the rediscount rate from 5 to 6-7%/year…) and setting the maximum deposit interest rate between 10.5 – 14%/year. In addition, the SBV also capped the USD deposit interest rate

in reduce the holding of USD and reduced the compulsory reserve requirements ratio applied to both VND and foreign currency deposits. In 2011, when Vietnam hit 2-digit CPI growth, the SBV took further drastic actions in form of regulatory interest rate increase, capping the interest rate on loans and deposits, proposing harsh penalties on violations of the maximum interest rate… In addition, the SBV took various measures in order to manage money supply, including using open-market operations, increasing the reserve requirements applied to foreign currency deposits, controlling credit growth; along with several policies to manage the gold and currency market.

Thanks to the effort of both the SBV and the Government, CPI growth reduced remarkably to single-digit figure, hitting the bottom of 0,63% in 2015. This enabled the fiscal and monetary policies to take effect, promoting socio-economic development. Since 2016, CPI growth of Vietnam has been maintained below 4%, meeting the target set by the Congress and the Government. In the first 8 months of 2025, Vietnam's CPI index rose by 3.26% average-year-on-year, while core inflation stood at 3.19%. However, in the upcoming period, inflationary pressure still remains, stemming from the ambitious economic growth target and rising global uncertainties. Recently, Vietnam revised the economic growth target, aiming for GDP growth of 8.3-8.5% this year to provide the foundation for double-digit expansion in the coming years. In order to reach this goal, Vietnam has laid out a comprehensive cross-sectorial agenda focused on public investment, private consumption, export expansion, credit growth and other economic drivers, which is likely to exert demand-pull inflationary pressure on the economy. Concurrently, Vietnam also faces potent cost-push factors from both domestic and international market. Domestically, prices of state-administered goods and services (such as electricity, healthcare services, education…) would be adjusted following the roadmap. In addition, natural disasters in the last few months of 2025 have become more severe, causing disruption in the domestic supply chain and putting pressure on the prices of various goods and services. Internationally, rising geopolitical tensions in some territories like Middle East has disrupted the global oil supply chain, making the oil price unpredictable. Besides, as trade uncertainties grows with the increasing protectionism and the likelihood of retaliation between nations, global

fragmentation appears to be a major concern to the governments around the world. The disruption of the global supply chain results in the volatility of goods and commodities price and Vietnam with a highly-open market, is likely to be affected, resulting in cost-push inflation. This requires Vietnamese Government to take serious effort in maintaining macroeconomic stability, controlling inflation, and at the same time, fostering economic growth and ensuring economic balances.

4. Theoretical framework

We build our theoretical framework on two key papers, including Diegel and Nautz (2021) and Carvalho et al. (2023), alongside the literature on New Keynesian economics. Our research focuses on the expectations-driven view of inflation dynamics. In this perspective, inflation expectations are treated as an independent state variable rather than a passive outcome of economic fundamentals. Consequently, shocks to inflation expectations are seen as structural disruptions to agents' beliefs about the inflation process, with the macroeconomic effects largely depending on how well those expectations are anchored.

4.1 The nature of inflation expectation shocks

In models with rational expectations, shocks to expected inflation are not well defined, as expectations are fully pinned down by fundamentals and policy rules. By contrast, when expectations are formed under imperfect information or adaptive learning, belief revisions may occur independently of contemporaneous movements in inflation or output. In this setting, a “shock to expected inflation” can be interpreted as an exogenous shift in agents’ beliefs about future inflation that is orthogonal to current macroeconomic conditions.

Diegel and Nautz (2021) examine this idea by identifying expectation shocks within a Structural Vector Autoregression (SVAR) framework. These shocks represent changes in long-term inflation expectations that do not relate to contemporaneous monetary policy, inflation, or real activity shocks. Importantly, while they impact current inflation expectations, they do not have an immediate effect on inflation or unemployment.

This identification strategy reflects a clear theoretical distinction. Accordingly, beliefs can adjust instantaneously when new information or narratives emerge, whereas price-setting decisions, wage adjustments, and policy reactions are subject to nominal rigidities and institutional delays. Accordingly, expectation shocks are informational or cognitive in nature, rather than direct structural shocks to inflation itself.

Our empirical framework is grounded in the expectations-based view. Although the informational shock identification of Diegel and Nautz (2021) requires contemporaneous restrictions, the recursive identification strategy (Cholesky decomposition) is adopted in our baseline model to reflect the backward-looking nature of survey-based expectations in Vietnam. Specifically, inflation expectations are ordered last (after M2, inflation, and the policy interest rate).

Therefore, shocks to inflation expectations in the baseline SVAR should be viewed as changes in beliefs that are independent of current monetary, inflation, and policy shocks. This recursive framework illustrates an expectation-formation process that aligns with adaptive learning or backward-looking behavior, where agents first observe present macroeconomic indicators (inflation and policy actions) before modifying their beliefs. This interpretation is consistent with the assumption of weakly anchored inflation expectations in Vietnam and the idea of a low effective anchoring threshold presented in Carvalho et al. (2023).

To assess the robustness of this structural nature of the expectation shocks, we additionally employ a non-recursive identification strategy based on sign and zero restrictions, following Diegel and Nautz (2021). Comparing the impulse responses derived from the recursive and non-recursive strategies allows us to assess whether the core dynamic implications of the shock are preserved across different timing assumptions, which is crucial for determining whether the shock can be interpreted as an informational belief revision rather than an artifact solely driven by the recursive ordering.

4.2 Expectations anchoring threshold

While the SVAR framework identifies expectation shocks in a reduced-form manner, their economic interpretation depends on the degree of anchoring of

inflation expectations. This issue is central to the learning-based framework developed by Carvalho et al. (2023).

In their model, agents modify beliefs about the long-run inflation mean using a learning process that switches between a decreasing-gain and a constant-gain regime. The switching mechanism is governed by the threshold parameter θ, which measures the tolerance of agents to forecast errors. When inflation deviations remain below θ, agents perceive shocks as transitory and expectations remain anchored. When deviations exceed θ persistently, agents revise their beliefs more vigorously, resulting in unanchored expectations.

Within this framework, the impact of an expectation shock depends critically on θ. In economies with a high θ (strong anchoring), expectation shocks are largely absorbed by belief updating without generating persistent effects on inflation. In contrast, when θ is small, even modest expectation shocks may trigger substantial belief revisions, increasing the likelihood of feedback from expectations to realized inflation.

4.3 The role of other structural shocks

Within our SVAR framework, shocks to inflation expectations are not the only disturbances shaping belief dynamics. Other structural shocks, such as inflation shocks, monetary policy shocks, and aggregate demand shocks, play a crucial role in determining how expectations are formed, revised, and potentially anchored over time. Their relevance lies not only in their direct effects on macroeconomic variables, but also in how agents interpret these shocks when updating beliefs about future inflation.

Inflation shocks

Inflation shocks represent unexpected movements in realized inflation that are not attributable to monetary policy or demand conditions. In the framework of Diegel and Nautz (2021), such shocks provide an important benchmark against which the anchoring of expectations can be assessed. When expectations are well anchored, inflation shocks should have limited effects on long-term inflation expectations, as agents perceive deviations from the target as transitory.

In the context of our SVAR, we assume these inflationary shocks primarily originate from the supply side (cost-push shocks). Examples include the impact of exogenous events like the COVID-19 pandemic or natural disasters, which significantly affect labor supply and damage capital stock, leading to an increase in input costs for the production sector and a subsequent spillover effect on inflation.

Monetary policy shocks

Monetary policy shocks capture unexpected changes in the policy stance that are orthogonal to current inflation and economic activity. In the expectations framework of Diegel and Nautz (2021), monetary policy shocks are a key channel through which central banks influence expectations, particularly at longer horizons. Credible and systematic policy responses can help stabilize expectations by reinforcing the perceived commitment to price stability.

From the perspective of Carvalho et al. (2023), monetary policy affects expectations indirectly by shaping agents' beliefs about the long-run inflation mean. A credible policy regime effectively raises θ, making agents less sensitive to short-term inflation deviations and reducing the likelihood that belief revisions spill over into persistent inflation dynamics.

Monetary policy shocks enter our SVAR framework in the form of a policy shock where the central bank increases policy interest rates to curb inflation, which can influence credit institutions' decisions to adjust their lending rates accordingly.

Money supply shocks

Shocks to monetary aggregates or credit conditions reflect changes in liquidity and financial intermediation that are not directly driven by policy rate decisions. In emerging economies, such shocks may carry important informational content about future inflation, particularly in environments where financial markets are segmented and monetary transmission is imperfect.

In our baseline SVAR analysis using Cholesky order identification, money supply shocks are identified in the first position, representing an unexpected and external change in the supply of money. We assume that this shock results from an independent decision made by the central bank, such as an unanticipated

injection of liquidity. Importantly, this shock is not contemporaneously affected by other systemic variables like inflation, interest rates, or inflation expectations. From the perspective of expectation formation, such shocks may indirectly influence agents' beliefs if they interpret them as signals of future inflationary pressures.

Aggregate demand shocks

Aggregate demand shocks, which are identified as unanticipated fluctuations in output or alternative indicators of overall economic activity, reflect changes in spending and investment that cannot be linked to immediate monetary policy measures or supply-side disruptions. Within the New Keynesian framework, such shocks play an important role in shaping inflation dynamics. Increases in aggregate demand exert upward pressure on prices through their effect on the output gap, which monetary authorities counteract via policy adjustments (Woodford, 2003; Gali (2015), etc.).

From the perspective of expectation formation, these demand-driven shocks may also indirectly influence long-term inflation beliefs. Agents who perceive a persistent rise in aggregate demand as indicative of future policy accommodation or structural overheating may revise their long-term inflation expectations, illustrating a feedback loop between real economic developments and beliefs.

In our structural analysis, aggregate demand shocks encompass shifts in government growth targets, consumer confidence, investment demand, or fiscal policy measures, among other channels, reflecting the broader set of forces driving fluctuations in aggregate spending.

5. Data and methodologies

5.1 Inflation expectation measurements

5.1.1. Survey-based inflation expectation

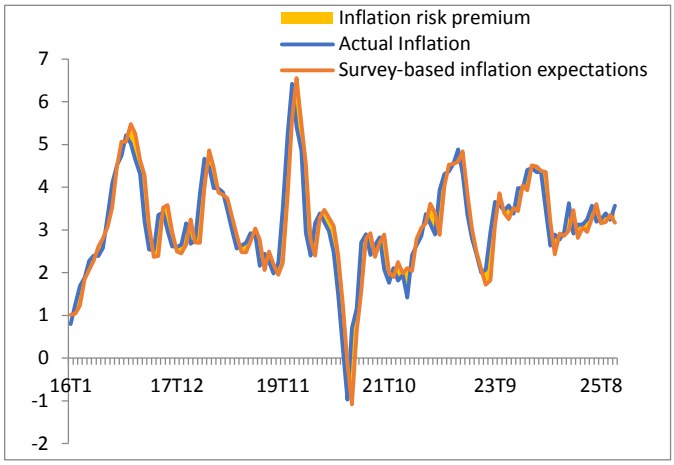
Currently, the SBV is the focal point for conducting 02 CPI inflation expectation surveys: (1) Inflation expectation survey for credit institutions and foreign bank branches. This is a monthly inflation expectation survey conducted for more than 100 credit institutions since the beginning of 2016; and (2) a Quarterly inflation

expectation survey for economic experts conducted quarterly for domestic and foreign experts, from the beginning of 2016.

The purpose of the survey is to measure inflation expectations to serve the analysis and forecast of inflation developments, as a basis for planning and operating monetary policy of the SBV. The surveys are conducted at a time before official information and data on CPI inflation as well as other macroeconomic variables are announced by the national statistics agency, ensuring the independence of the surveys. Information on the results of the surveys is posted on the official website of the SBV so that the general public and interested organizations can easily access it.

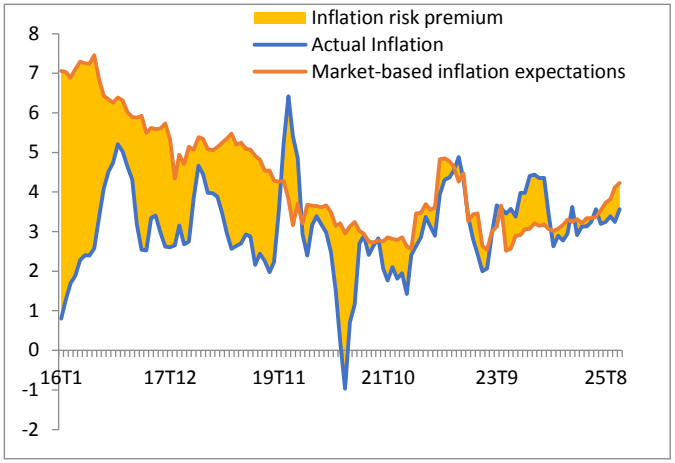
However, the SBV's inflation expectation surveys also exhibit certain limitations. Firstly, the two surveys are conducted at different frequencies. The survey of credit institutions is administered monthly, whereas the survey of experts is conducted on a quarterly basis. Consequently, it is challenging to aggregate or synthesize the

Figure 2. Survey-based inflation expectations



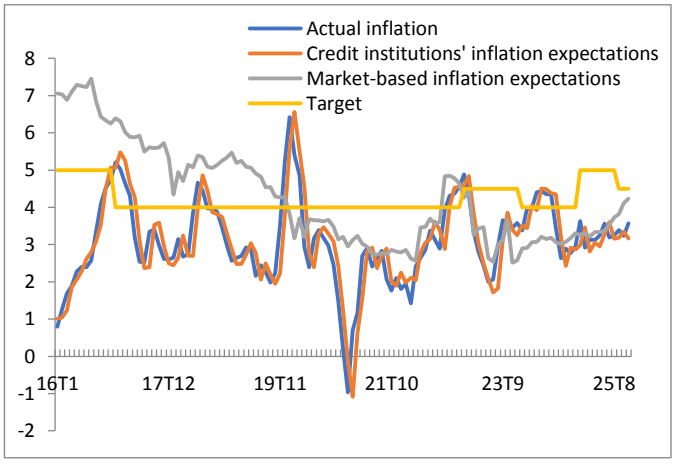
Source: Author's calculation

Figure 3. Market-based inflation expectations



Source: Author's calculation

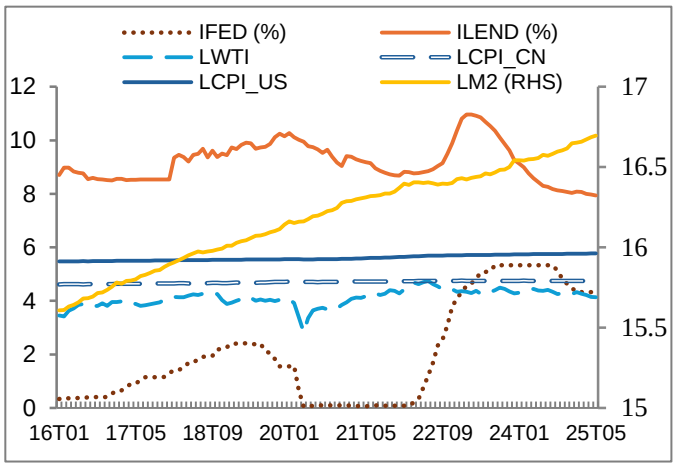
Figure 4. Measurement comparisons



Source: Author's calculation

expectations of these respondent groups given short data series. Secondly, the surveys do not encompass participants such as households and enterprises, which are crucial components in capturing a more comprehensive and representative measure of inflation expectations.

Figure 5. Other variables



Source: Author's calculation

5.1.2. Market-based inflation expectation

In addition to the survey-based measure of inflation expectations, we employ a complementary market-based approach to assess Vietnam's inflation expectations for comparison purposes. This approach is based on the 5-year/5-year (5y5y) inflation-linked swap rate, which is inferred from the interest rate differential between 10-year and 5-year Vietnamese government bonds.[8] According to Alcidi, Gros, and Shamsfakhr (2022), under certain theoretical conditions, the spread between these two maturities approximates the expected inflation rate over the subsequent five-year horizon. Accordingly, we treat the 5y5y implied rate as a proxy for inflation expectations. This method allows us to decompose inflation compensation into market-based inflation expectations and the associated inflation risk premium, thereby offering a broader perspective alongside the survey-based measure.

[8] In this paper, we follow the methodology employed by the Federal Reserve Bank of St. Louis to construct the 5-year/5-year (5y5y) inflation-linked swap rate. Specifically, the rate is defined as follows:

$$\left[\frac{\left(1+\frac{BC_{10\,YEAR}-TC_{10\,YEAR}}{100}\right)^{10}}{\left(1+\frac{BC_{5\,YEAR}-TC_{5\,YEAR}}{100}\right)^{5}}\right]^{\frac{1}{5}} x100$$

where $BC_{10\,YEAR}$ and $TC_{10\,YEAR}$ denote the nominal and inflation-adjusted yields on 10-year U.S. Treasury securities, respectively, and $BC_{5\,YEAR}$ and $TC_{5\,YEAR}$ represent the corresponding 5-year yields.
In Vietnam, inflation-indexed government bond yields are not available. To overcome this limitation, we use the estimated neutral interest rate for emerging markets and developing economies (EMDEs), as indicated by Ruch (2021), and Beyer and Milivojevic (2020), as a proxy for Vietnam's inflation-adjusted government bond yields.

5.2. Data

5.2.1. Sets of variables

We analyze two samples for inflation expectations. The first sample uses inflation expectations from credit institutions as a proxy, covering the period from January 2016 to November 2025. The second sample employs the 5-year, 5-year inflation-linked swap rate as a proxy for market inflation expectations, also covering the same period for consistency, even though the data used to derive this series has been available since August 2007. For the first set of variables, the time frame covers the period from 2016 to 2025 is survey-based inflation expectation is utilized, as the data from surveys is only available since 2016. For, the second set of variables, the period covered is from 2007 to 2025 due to data availability, reflecting both structural reforms and recent shocks. This periodization allows our examination of how expectations behaved during episodes of stability and volatility. Apart from different proxies of inflation expectations, the two samples share the same other variables.

Variables used in this paper are chosen based on the traditional transmission channels and the data availability, and collected on a monthly basis. The list of variables is as follows:

Credit institutions' inflation expectations data is collected from the SBV's inflation expectations surveys.

5y5y inflation-linked swap rate is our calculation based on data of Vietnam's 10-year and 5-year government bonds yields collected from Reuters and Investing.

Data on money supply and lending rates are collected from the SBV. These variables represent monetary tools of the central bank (lending rates), and monetary target set by the National Assembly (money supply).

WTI oil price, Fed fund rates, the US CPI and China's CPI data is collected from Fed St. Louis. These variables represent important commodity prices and global demand, which may affect Vietnam's prices and expectations.

In a SVAR setting, our endogenous variables include (1) Lending interest rates; (2) CPI inflation; and Money supply; and exogenous variables include (1) WTI oil price; (2) Fed fund rates; and (3) US CPI inflation.[9]

5.2.2. Data description

Overall, both measures of inflation expectations generally move in the same direction as actual inflation, but market-based inflation expectations remain less sensitive to actual inflation volatility, suggesting a degree of anchoring. During the period of 2016M1-2025M5, actual inflation (yoy) fluctuated moderately around -1.09 to 6.6 percent. Survey-based inflation expectations in Vietnam closely track actual CPI inflation, for the whole research period, while market-based inflation expectations' trend closely moved with that of actual CPI inflation during episodes of volatility such as 2022, 2023, and 2024. Using survey-based measurement, expectations seem less well-anchored compared to market-based measurement, especially after Covid-19 (Figures 2 – 4).

5.3. Methodology

5.3.1 Identification Strategy

We start with a VAR model:

$$z_t = A_1 z_{t-1} + A_2 z_{t-2} + \cdots + A_p z_{t-p} + u_t$$

where z_t is a (nx1) matrix; each A_i is a (nxn) matrix of parameters; and ∑ is a variance-covariance matrix. Each of the n variables in z_t contains lags of itself and also other variables within the system. The system captured in the above equation is the reduced form, or VAR (p).

The structural form of VAR(p) (or SVAR) can be expressed as:

$$B^{-1} z_t = \varphi_1 z_{t-1} + \varphi_2 z_{t-2} + \cdots + \varphi_p z_{t-p} + \varepsilon_t$$

Where $\varepsilon_t = B^{-1} u_t$ is a vector of structural disturbance. B is a square matrix that reflects the contemporaneous effects of structural disturbances on variables in the system.

[9] Although the PCE is generally regarded as a more favorable indicator of U.S. inflation, we use the US's CPI for greater consistency with the use of Vietnam's CPI.

5.3.2 Order of variables

We base our selection of the order of endogenous variables on literature and the performance of indicators in practice.

Following Diegel and Nautz (2021), inflation expectations are placed after actual inflation and interest rates. We preserve this order in our vector of endogenous variables as it is relevant to our variables' performance, in the sense that expectations are formed based on institutions and markets' observations of previous periods of actual inflation and how monetary policy is executed.

In addition, money supply is placed first in the vector, in the context that in Vietnam, the target of credit growth, hence money supply is set at the beginning of each year by the Vietnam National Assembly, so it might not be heavily affected by other variables in the system. Therefore, our initial vector or endogenous variables with Cholesky order is as follows:

$$y = (m_2, \pi, i, \pi^e)$$

where m_2 denotes money supply; π and π^e denote actual inflation and inflation expectations, respectively; and i stands for market lending rates.

The set of exogenous variables include the WTI oil prices, Fed fund rates, and the US's CPI inflation. Those are chosen for their potential impacts on Vietnam's macroeconomics in general, and inflation in particular.

Before estimation, unit root tests (ADF, PP) and Granger-causality tests are conducted to examine variables' stationarity and causality. Lag length is chosen using information criteria (AIC, SC, HQ). Impulse response functions (IRFs) will illustrate the dynamic effects of shocks to inflation expectations, while forecast error variance decomposition (FEVD) will quantify their contribution to inflation variability.

6. Empirical evidence

6.1 Initial tests

6.1.1. Granger Causality

The Granger causality test results reveal important insights into the dynamic relationship between inflation expectations and key macroeconomic variables

such as actual inflation, lending rates, and money supply. Under the market-based measurement, inflation expectations fail to Granger-cause actual inflation across all lags, suggesting that expectations alone do not significantly predict future inflation in this dataset, while under survey-based measures, inflation expectations tend to affect actual inflation in longer lags. Notably, neither method indicates that expectations Granger-cause lending rates at all. The results also reveal a mixed but significant relationship between inflation expectations and the money supply. Survey-based expectations Granger-cause changes in the money supply at shorter lags of 3 and 6 periods, while market-based expectations show significance only at lag 6. These findings suggest that inflation expectations can have some predictive influence on actual inflation, but they raise questions about their direct impact on actual inflation and the money supply.

Table 1. Granger-causality test results

Lags	Null hypothesis	p-value	
		Market-based measurement of inflation expectation	Survey-based measurement of inflation expectation
3	Inflation expectation does not Granger cause actual inflation	0.529	0.996
	Inflation expectation does not Granger cause lending rates	0.562	0.845
	Inflation expectation does not Granger cause money supply	0.586	0.018
6	Inflation expectation does not Granger cause actual inflation	0.593	0.996
	Inflation expectation does not Granger cause lending rates	0.133	0.952
	Inflation expectation does not Granger cause money supply	0.084	0.038
12	Inflation expectation does not Granger cause actual inflation	0.956	0.000
	Inflation expectation does not Granger cause lending rates	0.123	0.883
	Inflation expectation does not Granger cause money supply	0.176	0.182

Source: Authors' calculations

6.1.2 Lag length criteria

Data are collected from both the SBV and external sources and are seasonally adjusted prior to their inclusion in the model. Lag length selection is determined

using standard information criteria. For the survey-based specification, the AIC, SC, and HQ criteria suggest an optimal lag length of 1 or 12. For the market-based specification, all these criteria indicate that lag 1 is optimum. Given the relatively short sample period, we adopt a lag length of 1 to retain sufficient past information while avoiding excessive loss of degrees of freedom and ensuring model stability. All variables, except Fed Fund rates, Vietnam's interest rates, and the 5y5y inflation-linked swap rate, are transformed into natural logarithms.

Table 2. Lag length criteria

Lag	Survey-based measurement			Market-based measurement		
	AIC	SC	HQ	AIC	SC	HQ
0	9.119866	9.637711	9.329504	10.64859	11.16644	10.85823
1	3.790404	4.722526*	4.167754	3.578587*	4.510709*	3.955937*
2	3.76564	5.112039	4.310701	3.633687	4.980085	4.178747
3	3.659371	5.420046	4.372143	3.696596	5.457271	4.409368
4	3.783303	5.958255	4.663786	3.739195	5.914147	4.619678
5	3.939462	6.52869	4.987656	3.844094	6.433322	4.892288
6	4.140272	7.143776	5.356177	3.992804	6.996309	5.20871
7	4.312133	7.729914	5.695749	4.095174	7.512955	5.47879
8	4.310195	8.142253	5.861522	4.129917	7.961974	5.681244
9	4.358087	8.604421	6.077125	4.240073	8.486408	5.959111
10	3.980025	8.640636	5.866774	4.240593	8.901204	6.127343
11	3.155575	8.230462	5.210035	4.190554	9.265441	6.245014
12	1.741662*	7.230826	3.963834*	4.04613	9.535294	6.268302

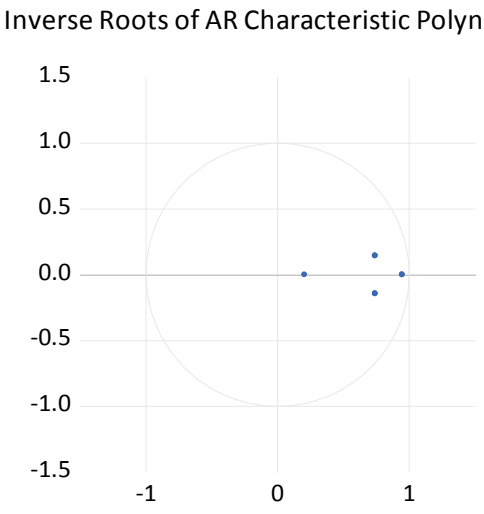
Source: Authors' calculations

Unit root tests are then conducted to examine the stationarity properties of each series. Except for interest rates and the swap rate, all other series are incorporated into the model as year-on-year (yoy) to ensure the stationarity of

the system and maintain consistency across various measures of inflation expectations.[10]

Figure 6. VAR Stability Condition Check

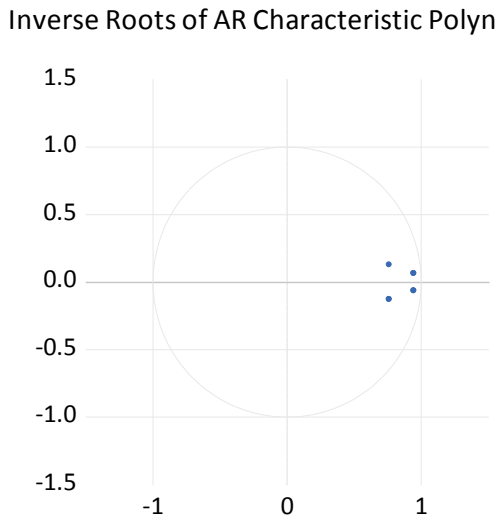
Survey-based measurement



No root lies outside the unit circle.

VAR satisfies the stability condition.

Market-based measurement



No root lies outside the unit circle.

VAR satisfies the stability condition.

6.2. Impulse responses

Response of actual inflation to a shock to credit institutions' inflation expectations: A positive shock to inflation expectations of credit institutions does not immediately affect actual inflation. Instead, it leads to a decrease in actual inflation in the short term, particularly up to the second month, before stabilizing at a more consistent level in the longer term, after the tenth month. This pattern may reflect the central bank's efforts to stabilize prices in response to heightened inflation expectations. However, the overall impact is insignificant across the entire horizon of twelve months.

[10] In an SVAR framework, we can use data at levels in the model instead of differencing variables, as even if variables individually are non-stationary, they can contain valuable information and the whole system's stationarity is still preserved (Sims et al., 1990; Fujiwara, 2003; Van Anh Pham, 2019). To ensure consistency in the two inflation expectations measurements, we apply year-over-year (yoy) forms of the variables across the same periods. Additionally, we also conduct alternative regressions using different time periods to retain information from long series. Most variables are expressed in natural logarithm form, except for interest rates and the swap rate. The results from these alternative regressions generally align with the trends observed in our baseline SVAR model.

***Response of credit institutions' inflation expectations to a shock to actual inflation*:** In contrast to how inflation responds to shocks in the expectations of credit institutions, a cost-push shock leads to an immediate and significant positive effect on those institutions' inflation forecasts. This effect amplifies during the initial two months, exceeding 0.35 ppt, and eventually diminishes by the twelfth month. Importantly, this response is only significant in the short term, lasting up to the fourth month.

Figure 7.a. IRF of inflation to survey-based expectation shocks

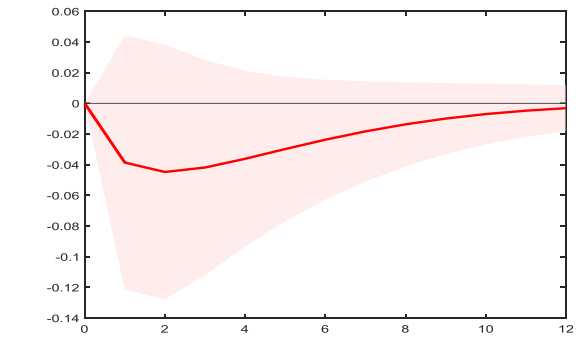


Figure 7.c. IRF of survey-based expectations to cost-push shocks

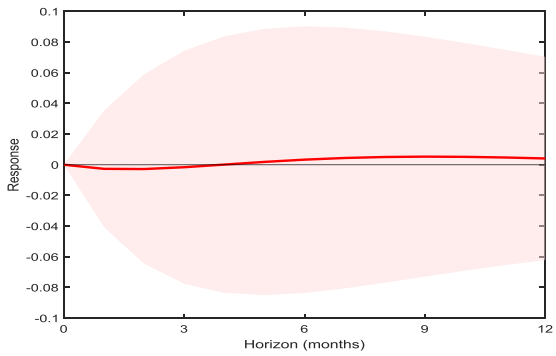


Figure 7.b. IRF of inflation to market-based expectation shocks

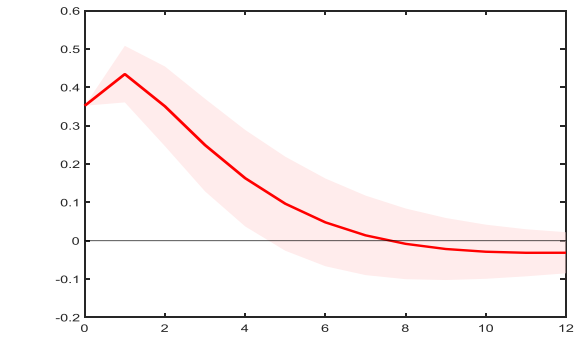
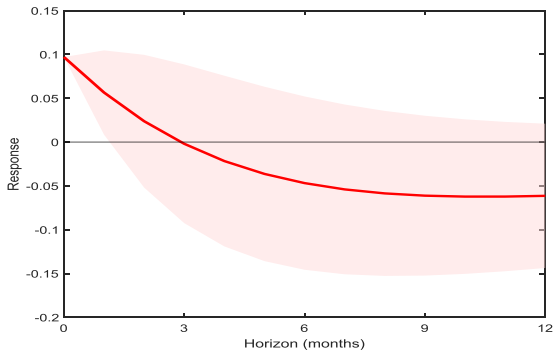


Figure 7.d. IRF of survey-based expectations to cost-push shock



Source: Authors' calculations

***Response of actual inflation to a shock to market-based expectations*:** A shock to market-based expectations reflected through the government's bond yields does not immediately affect actual inflation. Additionally, its impact remains close to zero for nearly all of the twelve-month period and is not statistically significant. This muted response suggests that fluctuations in market-based expectations are not automatically passed through to realized inflation in the

short run. In comparison to the effect of shocks to survey-based inflation expectations, the response of inflation to market-based expectations is both statistically and economically less significant.

***Response of market-based expectations to a shock to actual inflation*:** A cost-push inflation shock generates an immediate and positive response in market-based inflation expectations, with a magnitude of approximately 0.1 percentage points. This initial increase is short-lived and gradually reverses, turning negative at longer horizons. This reversal may reflect the expectation that inflationary shocks trigger a monetary policy response aimed at stabilizing inflation. Compared with survey-based inflation expectations, the response of market-based expectations to inflation shocks is both statistically and economically weaker and remains significant only over a much shorter horizon. This difference suggests that market-based expectations are relatively better anchored.

6.3 Variance decomposition

Under the survey-based measure, actual inflation is initially driven almost entirely by its own shocks, accounting for almost 86% in the first period, before gradually declining to approximately 62% by the twelfth period. In contrast, the contribution of money supply shocks to inflation increases over time, rising from 14.2% to almost 36% over the same period. Shocks originating from inflation expectations exert only a limited influence on actual inflation, remaining between 0% and below 1.4% throughout the twelve lags. On the expectations side, shocks to actual inflation have a strong impact on the expectations of credit institutions, accounting for around 40% to 61.6% over the twelve month-period. In contrast, the contribution of expectations' own shocks is gradually declining from 57.2% in the first period to about 15% after twelve months. This pattern suggests that credit institutions largely form their expectations by extrapolating from past price developments rather than forward-looking fundamentals, indicating that expectations are not yet firmly anchored.

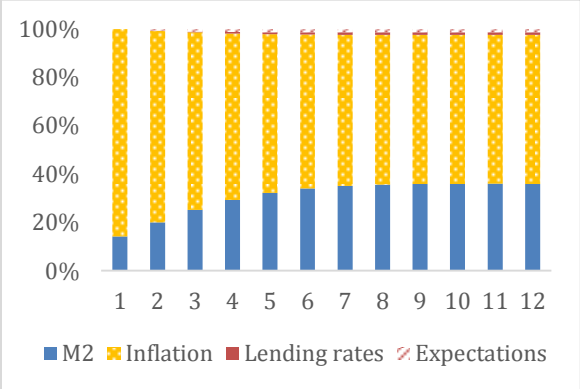
In the market-based measurement of inflation, actual inflation is primarily influenced by its own shocks throughout all observed periods, with the impact decreasing from 84.5% to 58.1% of its total variation. Conversely, the influence of expectation shocks on actual inflation increases over time, rising from 0% to 1.7%. Interestingly, the effect of actual inflation shocks on expectations grows

from 2.3% to 3.1% over the twelve-month period; however, this influence remains minimal in terms of its contribution to the overall variation in expectations. The majority of variations in expectations are primarily driven by their own shocks, which account for 93.7% in the first period and decrease to 81.1% after twelve periods. Additionally, the contributions of shocks from interest rates and money supply to the variability of expectations also increase, from 2% to 6.4% for interest rates, and from approximately 2% to 9.5% for money supply.

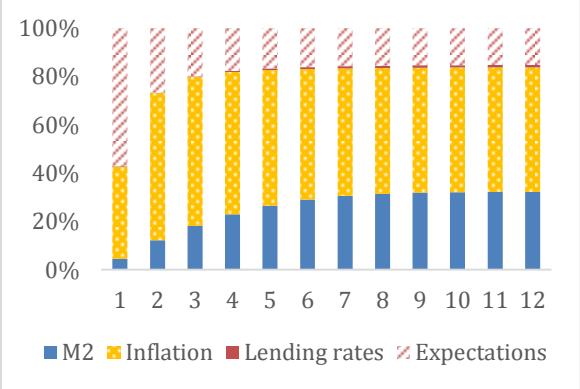
Figure 8. Variance decomposition

Survey-based measurement

Variance decomposition of inflation

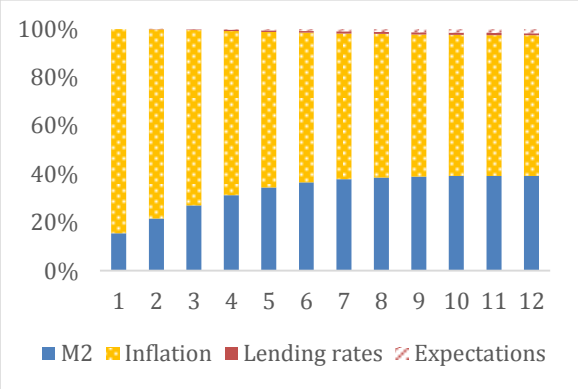


Variance decomposition of expectations

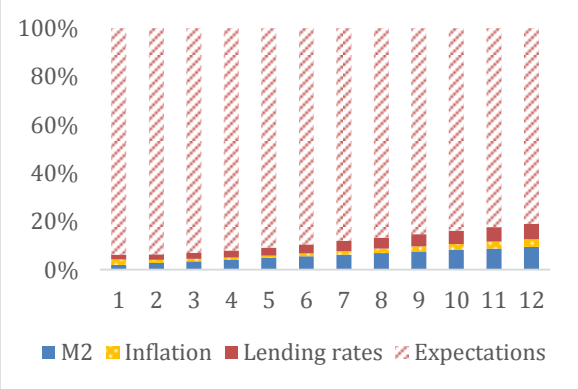


Market-based measurement

Variance decomposition of inflation



Variance decomposition of expectations



Source: Authors' calculations

Overall, market-based inflation expectations appear to be more firmly anchored compared to the expectations derived from surveys conducted with credit institutions.

7. Robustness Checks

7.1 Different periods

In order to enhance reliability, we conduct the estimation again using a different sample for both types of expectations measurements, spanning the period prior to COVID-19, which is up to December 2019 for each sample.

Table 9.a. IRF of inflation to survey-based expectation shocks (short sample)

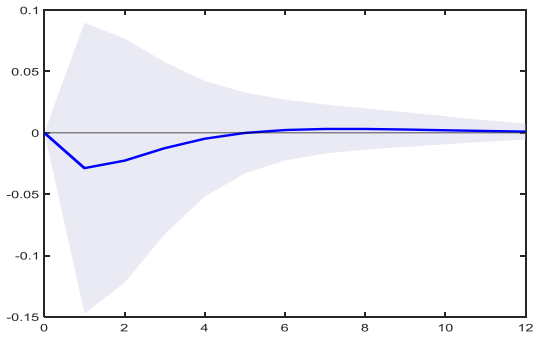


Table 9.b. IRF of survey-based expectations to cost-push shocks (short sample)

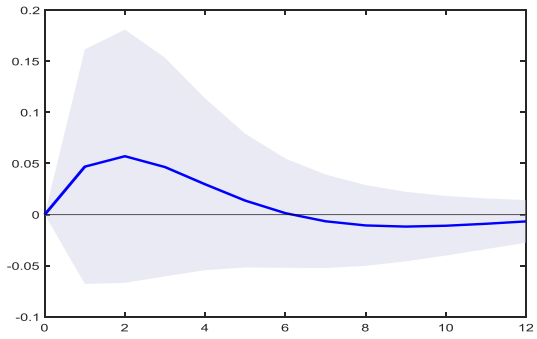


Table 9.c. IRF of inflation to market-based expectation shocks (short sample)

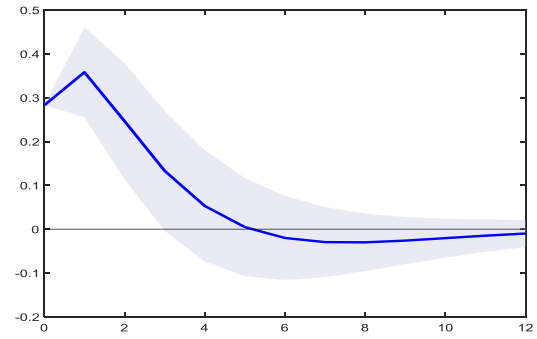
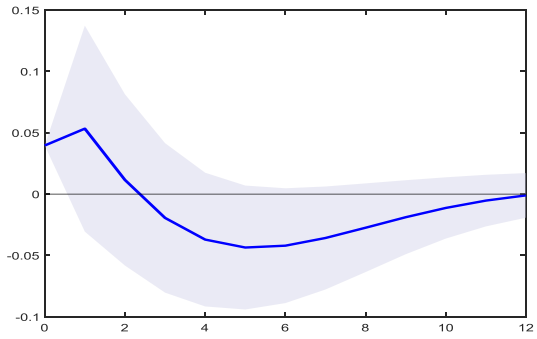


Table 9.d. IRF of market-based expectations to cost-push shocks (short sample)



Source: Authors' calculations

Overall, the truncated models exhibit a pattern similar to that of our primary models, suggesting that the findings remain relatively stable over various time spans. The only exception is observed in the impulse response of inflation expectations to cost-push shocks, where the decreasing effects reverse after the sixth month in both survey-based and market-based methods, differing from the full-sample models.

This consistency provides additional confidence that the observed dynamics between inflation expectations and realized inflation are not merely artifacts of a particular time frame, but instead reflect more fundamental relationships within the Vietnamese economy.

Nevertheless, a divergence emerges when examining the impulse response of credit institutions' inflation expectations to shocks in actual inflation. Specifically, the truncated models reveal that the duration over which the response remains statistically significant is shorter than that observed in the main model.

7.2 Sign restrictions

We also perform a practice of sign restrictions within the SVAR model (SR-VAR) for robustness checking (Table 3).

Table 3. Proposed Sign Restrictions (Impact to 1–3 Months)

Shock Type	Inflation (π)	Expected Inflation (π^e)	Interest Rate (i)	Money Supply (M2)	Economic Meaning
Monetary tightening	−	−/0	+	−	Policy shock: SBV raises rates to curb inflation
Aggregate demand	+	+	+	+	Demand-driven expansion of prices and activity
Cost-push (supply)	+	+	+/?	?	Supply-side pressures raising costs and prices
Expectations shock	+/?	+	+	−/0	Confidence or credibility-driven price expectations

Under the imposed sign restrictions, we rule out the possibility of an irrational response of monetary policy to shocks in inflation and inflation expectations. In the case of a monetary tightening shock, we assume that the money supply decreases accordingly. Inflation expectations are left unrestricted, allowing the model to capture empirically observed dynamics.

The second identified shock represents an expansion of aggregate demand, motivated by the recent high-growth targets. This shock is expected to elicit positive responses across all endogenous variables.

A shock to actual inflation, arising from supply-side pressures that increase costs and prices, generally tends to raise inflation expectations. The response of interest rates to such a shock is ambiguous. Accordingly, the central bank may increase rates to control inflation, but it may also refrain from tightening if supporting growth is prioritized. Consequently, the impulse response of interest rates remains uncertain, and a similar ambiguity applies to money supply.

Finally, we consider a shock to inflation expectations, reflecting changes in confidence or credibility perceived by credit institutions and market participants. When expectations regarding inflation are heightened, it can prompt intervention by the central bank, resulting in an uptick in interest rates. The response of money supply is indeterminate, as targets for credit expansion and monetary growth are set exogenously by the Assembly and the Government at the start of each year. Therefore, we allow money supply to respond flexibly. Additionally, we impose no restrictions on actual inflation behaviors to objectively assess their responses and determine the extent to which shocks to expectations can influence actual inflation behaviors.

Under the market-based measurement, the impulse response results indicate that the effects of structural shocks on the system are generally modest and short-lived. Across most variables, the initial responses to the shock are small in magnitude and exhibit only mild positive or negative deviations during the first two to three periods. In the medium term, several variables display a slight transient overshooting, either peaking or troughing around the third and fifth periods, before gradually returning toward their steady-state levels. The confidence intervals, however, remain relatively wide throughout the horizon, suggesting limited statistical precision in the estimated responses. Over the

longer horizon, nearly all variables converge back to zero, implying that the shocks do not generate persistent effects and that the system exhibits a strong tendency to revert to equilibrium.

We focus on analyzing how actual inflation responds to shocks in expected inflation and vice versa. Initially, actual inflation shows a contemporaneous response to shocks in expectations, with a negative response of approximately -0.2 percentage points. However, starting around the second month, this response gradually increases and moves into positive territory, ultimately approaching zero and remaining relatively stable in subsequent time periods.

Figure 10.a. IRF of inflation to survey-based expectation shocks

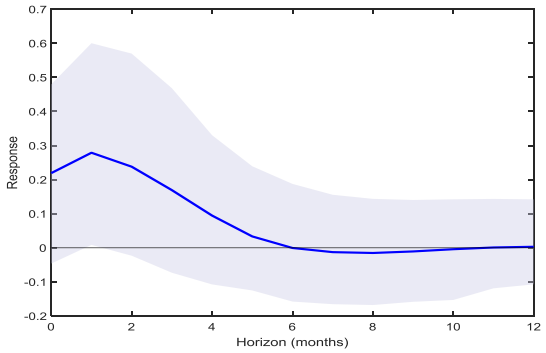


Figure 10.b. IRF of survey-based expectations to cost-push shock

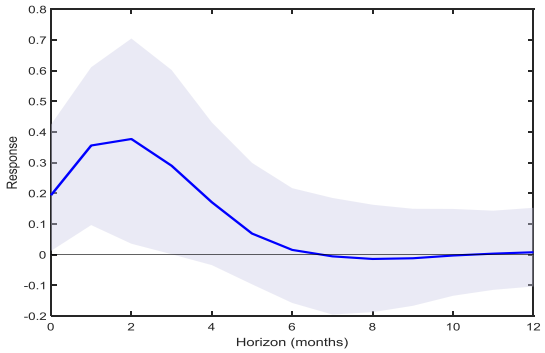


Figure 10.c. IRF of inflation to market-based expectation shocks

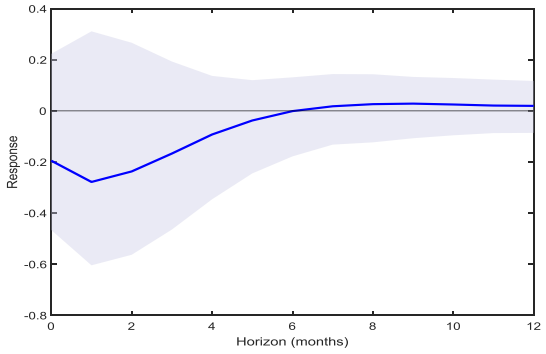
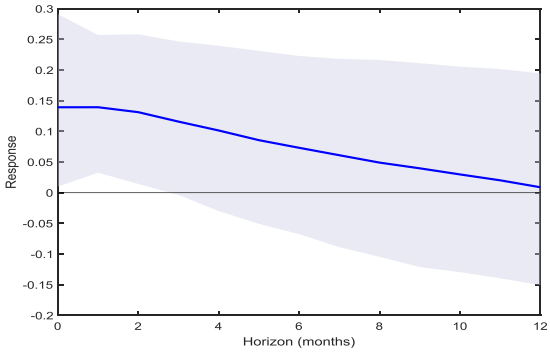


Figure 10.d. IRF of market-based expectations to cost-push shock



Source: Author's calculations

The confidence interval is quite wide in the early stages, indicating significant short-term uncertainty. As time progresses, this band narrows, suggesting that the effects of the shock are temporary. In the long run, responses of actual inflation return to their equilibrium level without showing a persistent deviation.

Furthermore, the confidence interval includes zero, indicating that the responses are not statistically significant.

In contrast, inflation expectations exhibit an immediate and statistically significant response to shocks in actual inflation, with the effect persisting for approximately three months before dissipating at longer horizons. Although the response becomes statistically insignificant beyond the third period, it remains positive throughout the 12-month horizon.

In terms of survey-based measurements, it is noted that actual inflation reacts immediately to expectation shocks, showing a magnitude of about 0.22 percentage points, which rises to just under 0.3 percentage points before eventually tapering off to a long-term equilibrium close to zero after the sixth period. However, similar to the findings with market-based measurements, these effects are largely insignificant. On the other hand, the impact of cost-push shocks on expectations exhibits a persistent characteristic akin to previous instances, demonstrating significant short-term responses. Consequently, expectations exhibit a positive contemporaneous response to inflation shocks, initially at 0.2 percentage points, which increases to roughly 0.4 percentage points before diminishing after the seventh period. These effects remain statistically significant for up to three months.

Overall, the responses of actual inflation and inflation expectations to shocks originating from one another are broadly consistent with earlier findings. While a contemporaneous response of actual inflation to expectation shocks is detected in the initial periods, this reaction does not materially alter the interpretation of the expectation shock's impact on actual inflation, as the estimated effect is not statistically significant. This further suggests that inflation expectations may not be well anchored in the context of Vietnam.

8. Policy Implications

Our empirical findings reveal a significant imbalance in the interaction between inflation expectations and actual inflation in Vietnam. While inflation expectations have a minimal impact on real inflation trends, characterized by weak and statistically negligible responses of inflation to expectation shocks, actual inflation shocks result in strong and immediate

changes in inflation expectations. Notably, survey-based expectations respond more strongly than market-based ones. This pattern suggests that the feedback loop from beliefs to inflation is constrained by institutional and policy factors, whereas the reverse channel from inflation to expectations is highly active.

The strong responsiveness of expectations to inflation shocks indicates that individuals significantly weigh their recent experiences with inflation when predicting future price trends. This behavior aligns with adaptive, backward-looking expectation formation and suggests a relatively low effective anchoring threshold θ. Consequently, inflation shocks are crucial in shaping expectations, revealing that inflation persistence is primarily driven by backward-looking belief updating rather than by forward-looking expectation anchoring.

These results carry significant ramifications for Vietnam's monetary policy. Firstly, they underscore the necessity for the SBV to improve transparency and communication as essential components of its policy structure. Clearly expressing policy objectives, intermediate targets, and the motivations of monetary decisions can help shift expectations from being backward-looking to a more forward-looking perspective, thereby improving policy credibility and effectiveness.

However, successfully anchoring inflation expectations cannot depend solely on communication. It must be supported by consistent policy measures that closely align with targets. The credibility of the SBV is heavily reliant on how committed it is perceived to be in supporting these goals. When policy implementation aligns with announced objectives, expectations tend to stabilize, and adaptive behavior diminishes. On the other hand, policy inconsistencies or unexplained deviations from set targets could weaken credibility and complicate inflation control.

In environments where inflation expectations remain weakly anchored despite improvements in communication and policy signaling, deeper institutional reforms may be required. Strengthening the operational effectiveness and autonomy of the SBV's policy instruments would enhance its capacity to prioritize long-term price stability over short-term political or fiscal considerations. International experience suggests that greater central

bank independence improves the effectiveness of monetary policy transmission and reduces vulnerability to credibility shocks..

Moreover, the anchoring of inflation expectations is unlikely to succeed if it is isolated from fiscal policy. Without a strong coordination between fiscal and monetary policies, expansionary fiscal policies may counteract monetary tightening actions, generate mixed policy signals, and reinforce doubts about the authorities' commitment to price stability. Thus, a well-coordinated policy framework is essential in reducing inflationary dynamics driven by expectations.

Finally, the development of domestic financial markets represents an important complementary measure. The introduction of inflation-adjusted instruments and the deepening of government securities markets would provide better indicators of inflation expectations. This would offer the SBV timely and forward-looking information beyond what surveys can provide. Such advancements would improve the monitoring of expectations and enable monetary policy to respond more proactively to changes in belief formation.

9. Conclusion

This study contributes to the literature by providing SVAR-based evidence on the role of inflation expectations in a transitional emerging economy. By jointly analyzing survey-based and market-based measures, it documents a pronounced asymmetry in the inflation–expectation nexus in Vietnam. In particular, inflation shocks strongly shape expectations, while expectation shocks exert only limited effects on realized inflation. Interpreted through a learning-based framework, these findings point to weak expectation anchoring driven by backward-looking belief formation, alongside gradual improvements in market-based expectations as financial markets develop. More broadly, the results highlight how expectation anchoring evolves during monetary policy transitions and underscore the importance of credibility and institutional factors in shaping inflation dynamics.

Consistent with these insights, the empirical analysis shows that while inflation expectations contain some short-term predictive information for inflation, they are not the main factor influencing inflation dynamics. Survey-based

expectations of credit institutions exhibit high sensitivity to realized inflation, while market-based expectations display more muted and short-lived responses to inflation shocks. This divergence suggests heterogeneity in expectation formation across information environments.

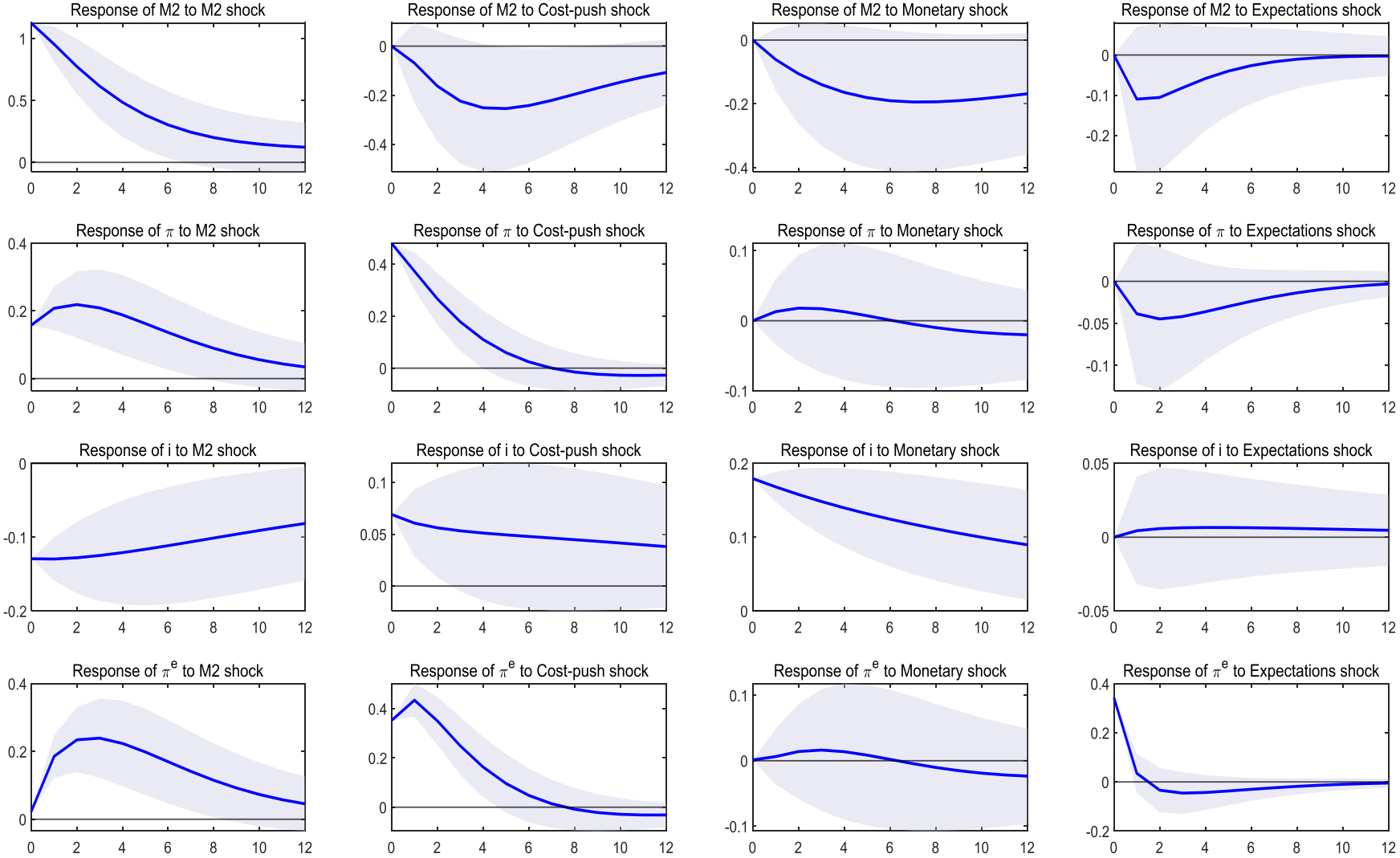
The findings underscore that Vietnam's inflation–expectation nexus remains in a transition phase. Although the SBV has strengthened its monetary policy toolkit and improved transparency in recent years, policy credibility and communication remain crucial for fostering forward-looking expectations. The relatively weak anchoring observed suggests that monetary policy shocks are often interpreted through a short-term lens, amplifying the influence of temporary disturbances on domestic inflation dynamics.

From a broader perspective, Vietnam's experience demonstrates that expectation management is as much an institutional and credibility challenge as it is a technical one. Building a firmly anchored expectation environment will require consistent policy actions aligned with announced targets, stronger central bank independence, and closer coordination between monetary and fiscal policies. Developing more reliable indicators of expectations will further enhance the SBV's ability to anticipate and respond to inflation pressures proactively.

In sum, inflation expectations in Vietnam matter, but their influence is asymmetric and contingent on the policy and institutional environment. Strengthening the anchoring of expectations will be essential not only for maintaining price stability but also for enabling Vietnam to sustain high growth without rekindling inflationary volatility. As the economy continues to integrate globally and evolve toward a more market-oriented system, credible, transparent, and coordinated policy frameworks will be indispensable to ensuring that inflation expectations become a stabilizing force in Vietnam's macroeconomic landscape.

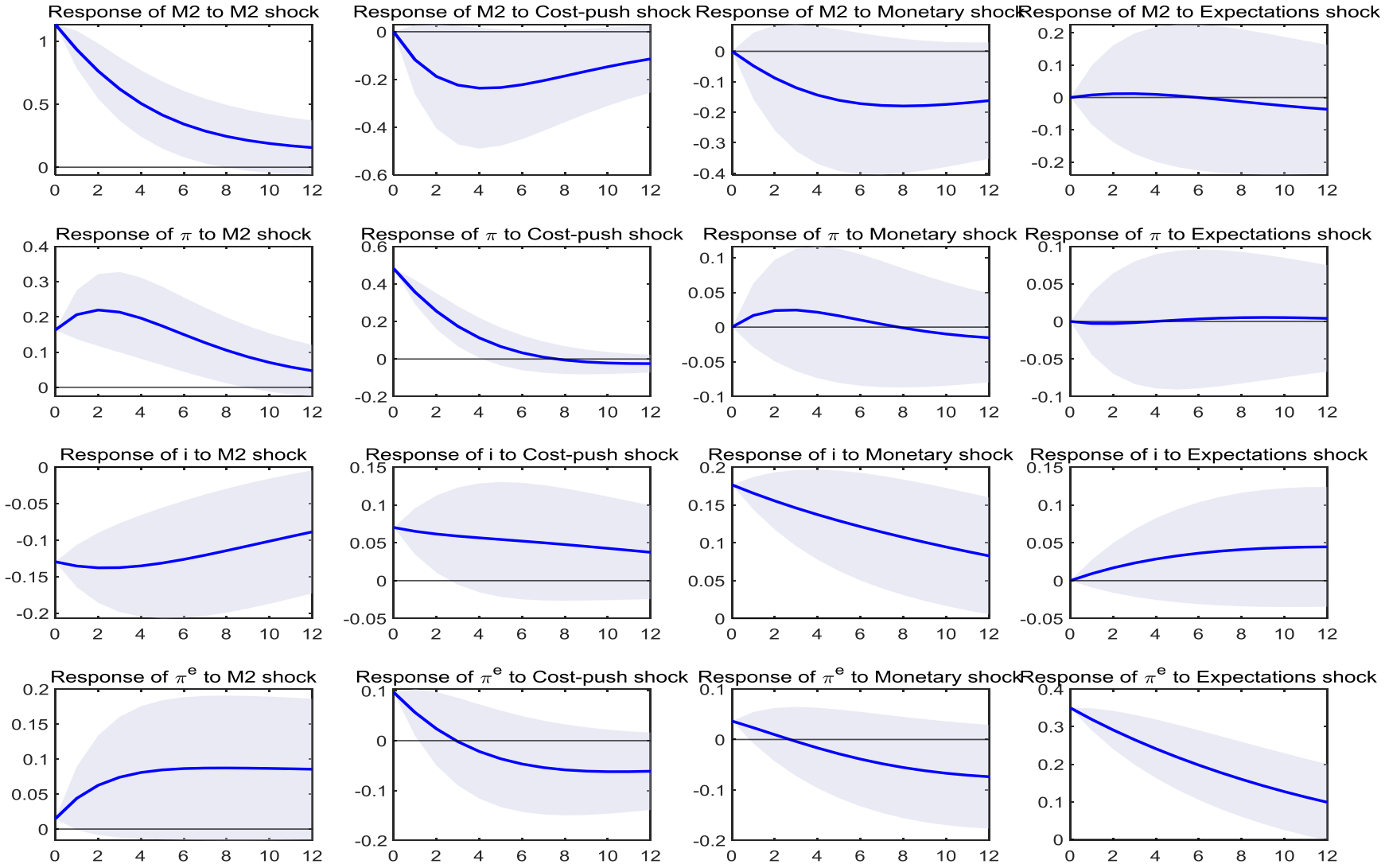
APPENDIX 1

IRFs of variables to shocks in SVAR (survey-based inflation expectations, full sample)



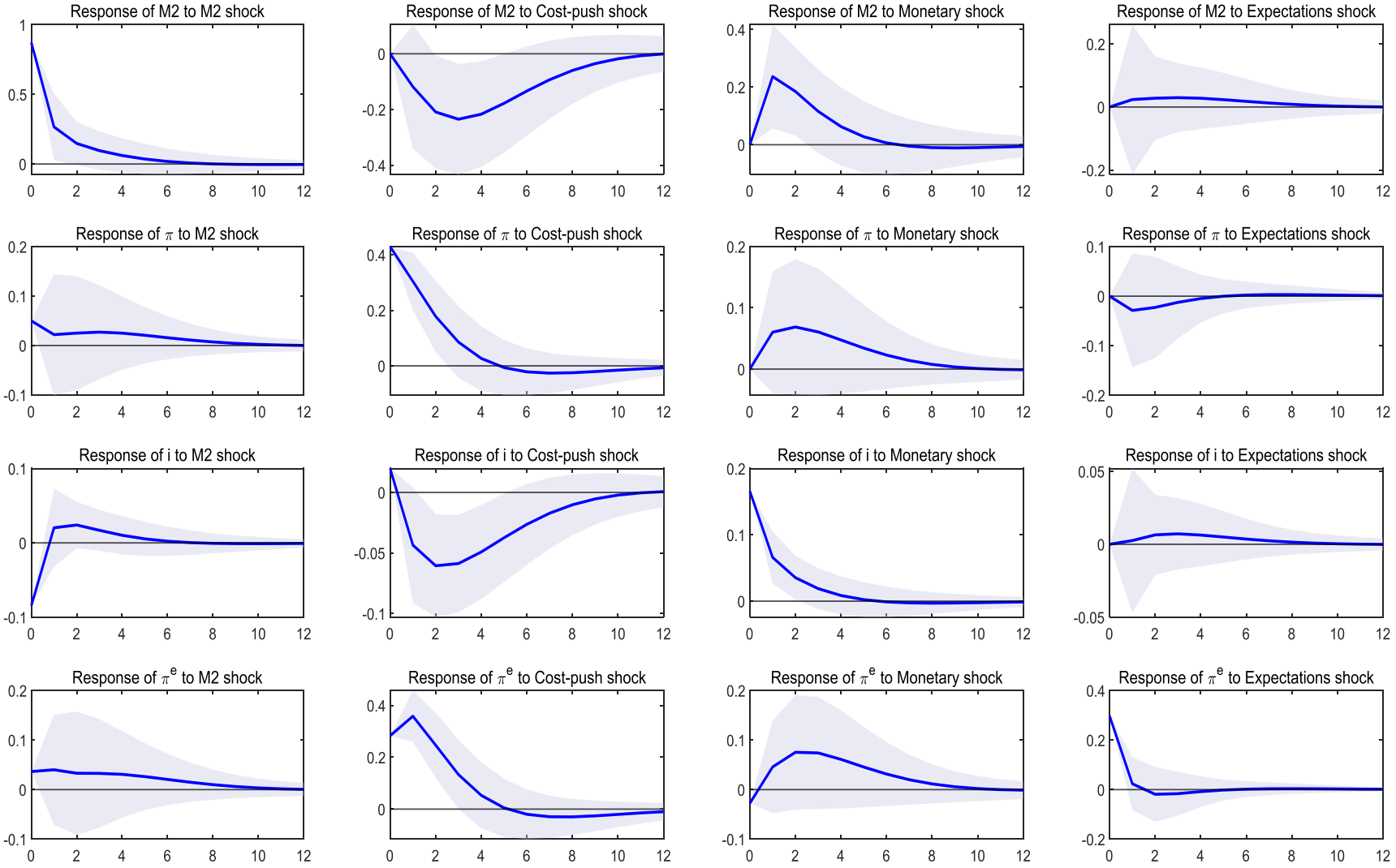
APPENDIX 2

IRFs of variables to shocks in SVAR (market-based inflation expectations, full sample)



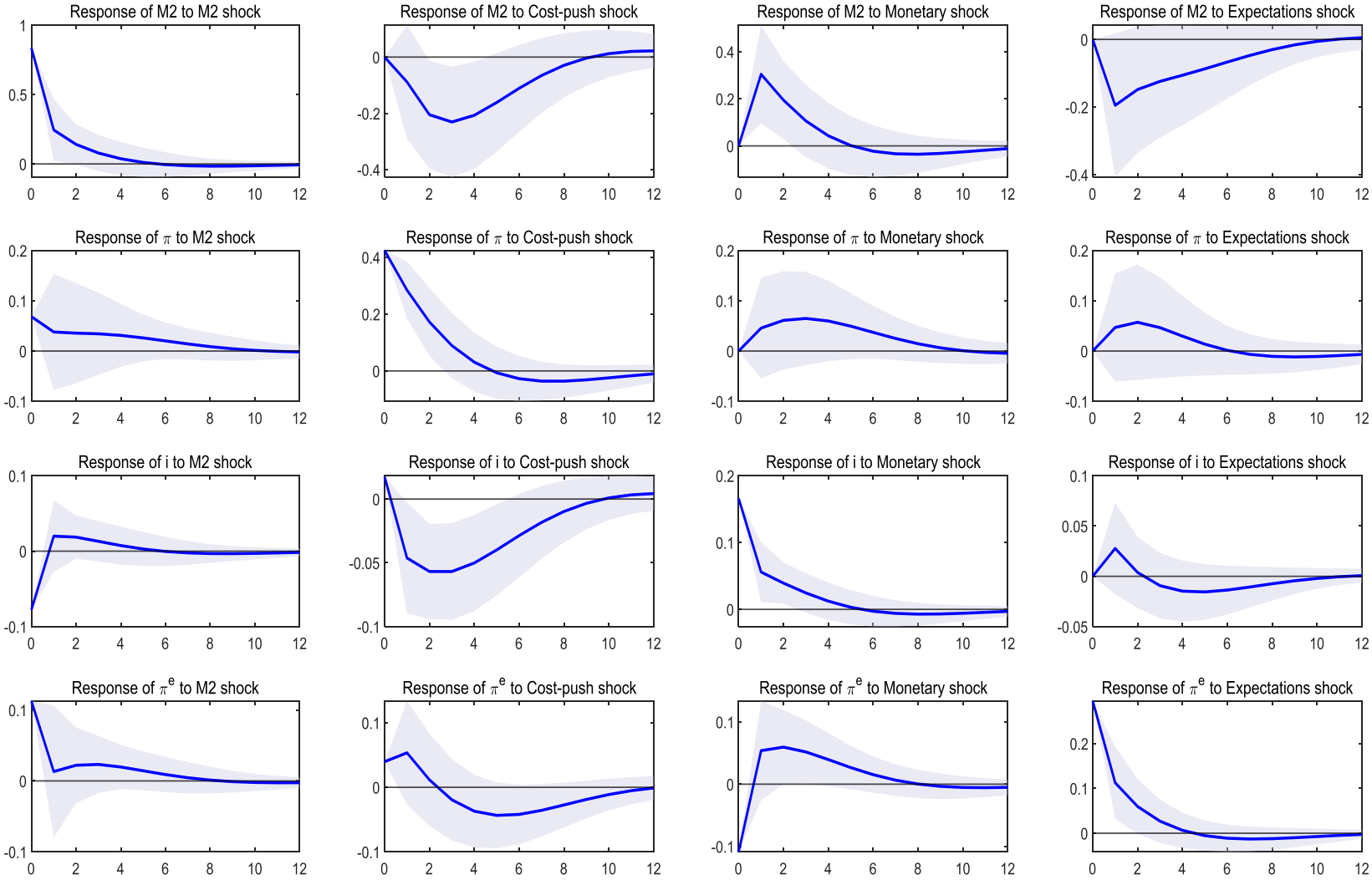
APPENDIX 3

IRFs of variables to shocks in SVAR (survey-based inflation expectations, short sample)



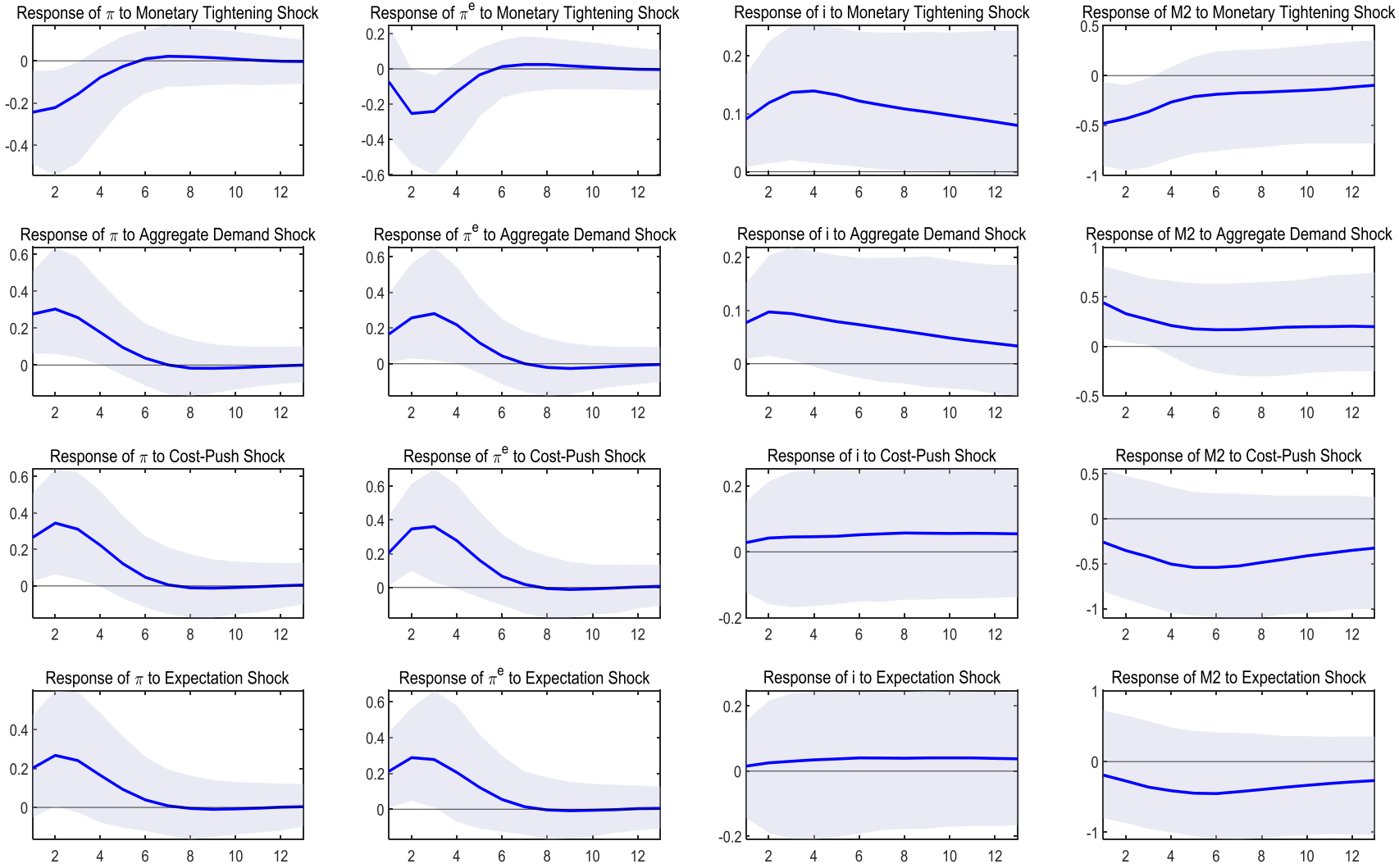
APPENDIX 4

IRFs of variables to shocks in SVAR (market-based inflation expectations, short sample)



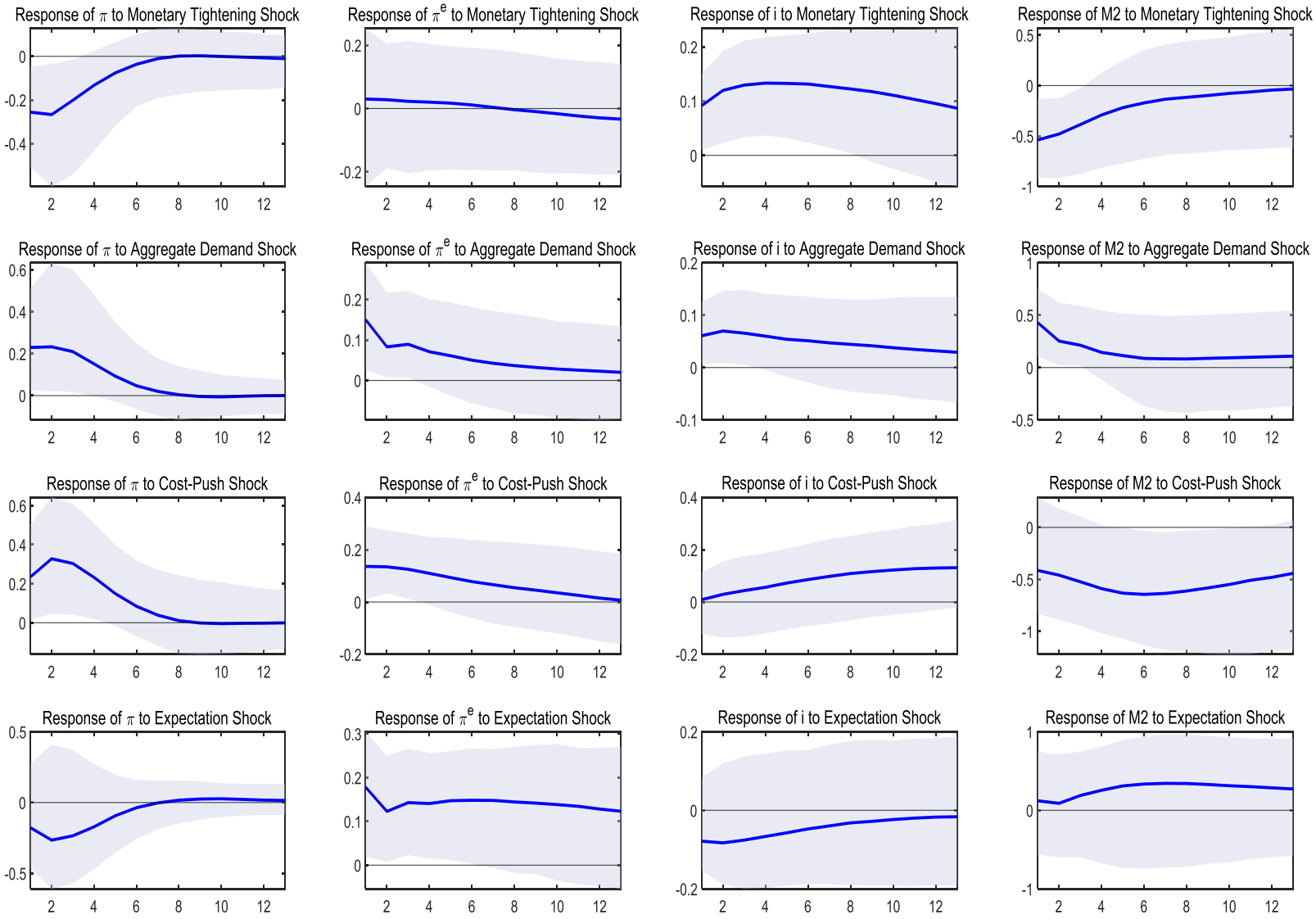
APPENDIX 5

IRFs of variables to shocks in SR-VAR (survey-based inflation expectations)



APPENDIX 6

IRFs of variables to shocks in SR-VAR (market-based inflation expectations)



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