

Adoption of Inflation Targeting Framework in Vietnam

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Abstract: This study investigates the adoption of an inflation targeting framework in Vietnam. This work is done by examining the satisfaction of one crucial prerequisite of inflation targeting, that there is the existence of predictable and stable linkages between monetary policy instruments and inflation outcomes. The Johansen multivariate cointegration procedure and vector error correction model approach are designed to realize the relationship between monetary policy instruments and inflation, and the findings point out that there exists a stable and predictable linkage between monetary policy instruments and inflation in Viet Nam. However, it is too weak. As a result, Viet Nam is not yet a candidate for adopting inflation targeting framework.

Keywords: Inflation targeting framework, Johansen test, Monetary policy, Vietnam.

JEL classification: E5.

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