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Research Paper

Monetary Policy Transmission in Vietnam: Interest Rate vs. Credit Channel in the Post-COVID Period (2020–2025)

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Abstract
Vietnam's post-COVID monetary policy relied heavily on low interest rates, liquidity injections, and credit growth targets to support recovery. This paper examines the relative effectiveness of the interest rate and credit channels using a TVP-VAR model over 2020–2025. Results show muted interest rate pass-through during 2020–2022 (liquidity overhang, high debt), while credit supply shocks exerted stronger and more persistent effects on output and inflation. The credit channel dominated, explaining 45–60% of GDP variance at medium horizons. Post-2022 normalization partially restored rate-based transmission, but credit remained primary. Findings highlight structural shifts in Vietnam's bank-centric system and underscore the need for improved credit allocation efficiency and gradual interest rate liberalization to strengthen overall policy effectiveness.
Keywords: *monetary policy transmission, credit channel, interest rate channel, TVP-VAR, post-COVID Vietnam, State Bank of Vietnam, emerging markets*

I. Introduction

The COVID-19 pandemic created a severe global economic disruption, prompting central banks to launch aggressive monetary stimulus measures to stabilize financial markets, sustain credit availability, and soften the sharp decline in aggregate demand (Rathnayaka et al., 2024; Nguyen et al., 2022). In Vietnam, the State Bank of Vietnam (SBV) responded rapidly with a comprehensive approach: multiple policy rate reductions (refinancing rate lowered from 6% in early 2020 to 4% by late 2021), targeted liquidity injections via open-market operations, relaxed reserve requirements, and credit growth quotas set at 14–16% annually from 2020 to 2022 to ensure financing reached pandemic-affected sectors (Loi & Dang, 2023; Nguyen et al., 2023). These policies contributed to one of the strongest post-COVID recoveries in Asia, with real GDP growth reaching 8.02% in 2022 and averaging 6.5–7% in 2023–2024 despite global challenges (General Statistics Office of Vietnam, 2025; SBV Annual Reports, 2020–2024). However, the extended period of accommodative policy — combined with substantial increases in public and private debt (public debt stabilized near 37–40% of GDP, while household and corporate debt rose sharply) — has raised important questions about the ongoing effectiveness of monetary policy transmission mechanisms in Vietnam's post-pandemic environment (Hoang Tien et al., 2025; Le et al., 2024).

Monetary policy transmission channels represent the mechanisms through which central bank actions — changes in policy rates and liquidity operations — influence real economic variables such as output, inflation, and employment. The interest rate channel operates by adjusting borrowing costs: reductions in the policy rate lower lending rates, stimulate investment and consumption, and increase aggregate demand. The credit channel works through the availability and conditions of bank loans: expansionary policy boosts bank reserves and lending capacity, particularly benefiting credit-constrained borrowers (Bernanke & Gertler, 1995). Additional channels include the exchange rate channel (depreciation supports net exports), asset price channel (higher equity and property prices increase wealth and collateral values), and expectations channel (forward guidance influences inflation and growth expectations). In typical conditions, the interest rate channel dominates in advanced economies, while the credit channel often plays a larger role in bank-dependent financial systems like Vietnam's, where bank credit accounts for over 80% of total financing (SBV, 2024; Nguyen Khac Quoc & Pham Duy, 2025).

The post-COVID period in Vietnam has featured structural changes that likely altered the relative strength of these channels. Elevated public and private debt levels (corporate debt reached approximately 130% of GDP by 2023) have increased debt overhang and diminished borrowers' sensitivity to interest rate movements (Le et al., 2024). Banking sector liquidity remained abundant due to prolonged SBV stimulus, potentially weakening the connection between policy rates and actual lending rates (the so-called "interest rate pass-through") (Loi & Dang, 2023). Supply-side shocks — including global commodity price surges in 2022,

domestic supply-chain disruptions, and lingering pandemic effects — further complicated inflation dynamics and reduced the effectiveness of demand-side transmission (Nguyen et al., 2022). These developments suggest that the credit channel may have gained greater importance, as banks prioritized lending quotas over rate-based adjustments, while the interest rate channel weakened in a high-debt, liquidity-rich environment (Nguyen et al., 2023; Pham, 2025).

Vietnam's monetary policy framework provides a distinctive context for examining these dynamics. Since 2016, the SBV has adopted flexible inflation targeting, with a primary focus on price stability (CPI target around 4%) alongside multiple objectives (growth support, exchange rate stability, financial stability) (Luong et al., 2025; Vu et al., 2025). The credit growth ceiling policy — setting annual quotas for each bank — remains a distinctive feature, making the credit channel a direct and explicit policy instrument. The extensive stimulus after 2020 further reinforced reliance on credit allocation, prompting questions about whether conventional rate-based transmission has been overshadowed (Hoang Tien et al., 2025).

Despite a substantial body of literature on monetary transmission in emerging markets, Vietnam-specific studies using recent post-COVID data (2020–2025) and time-varying methods remain limited. Pre-pandemic analyses (e.g., Nguyen & Do, 2018; Le & Tran, 2020) consistently found the credit channel dominant, but few studies incorporate the structural breaks caused by COVID-19 stimulus, banking sector liquidity buildup, and subsequent tightening (2023–2025) (Nguyen et al., 2022). Time-varying parameter vector autoregression (TVP-VAR) models, which allow coefficients and variance-covariance matrices to evolve, are particularly well-suited to capture these shifts but have been underutilized in the Vietnamese context (Rathnayaka et al., 2024).

This paper fills that gap by estimating time-varying impulse responses of output and inflation to monetary policy shocks through both the interest rate and credit channels during the period 2020–2025. The primary objectives are to: (1) quantify the dynamic effects of policy rate shocks versus credit supply shocks on real GDP and CPI inflation; (2) compare the relative strength and persistence of the two channels over time; (3) identify structural changes in transmission during and after the COVID-19 stimulus period; and (4) draw policy implications for the SBV in managing inflation and growth in a high-debt, post-pandemic environment.

The scope is restricted to quarterly data from 2020Q1 to 2025Q4, focusing on the interest rate channel (proxied by the SBV refinancing rate) and the credit channel (bank credit growth to the economy). Control variables include the real effective exchange rate (REER) and global oil prices. The methodology employs a TVP-VAR framework following Primiceri (2005), with sign restrictions for shock identification. This approach enables the model to capture time-varying relationships without imposing constant parameters, making it appropriate for analyzing post-COVID structural shifts.

II. Literature Review

The theoretical roots of monetary policy transmission lie in Keynesian economics, which stresses that interest rates and credit availability play major roles in driving aggregate demand. Meltzer (1995) gave a broad overview of the various channels, arguing that policy doesn't just work through interest rates — it also affects asset prices, exchange rates, and credit conditions. Bernanke and Gertler (1995) built the credit channel into their financial accelerator model, showing how financial market imperfections make monetary policy stronger: policy rate changes impact borrowers' balance sheets and collateral values, which then affect the cost of external finance and real activity. In bank-based financial systems, the credit channel splits into two parts: the bank lending channel (policy influences banks' lending ability) and the balance sheet channel (policy affects borrowers' net worth and credit access). These mechanisms matter a lot in emerging markets, where financial frictions are bigger and banks handle most lending (Mishkin, 1996).

Evidence from around the world shows transmission works differently depending on the economy. In advanced countries with very low interest rates (like the Eurozone after 2012 or Japan during its long zero-rate phase), the interest rate channel has become much weaker. Studies using VAR and panel data find that policy rate changes have smaller, shorter-lived effects on output and inflation when rates near the zero lower bound or banks hold excess liquidity (ECB Working Paper Series, 2019; Joyce et al., 2011). In emerging markets, though, the credit channel often takes over — bank lending is the main financing source and financial markets are less developed. For example, Mishra et al. (2014) and Kohlscheen (2014) showed credit supply shocks drive output responses more strongly in Asia and Latin America, while policy rate pass-through is usually incomplete because of concentrated banking systems and regulatory limits.

In Vietnam, studies before COVID consistently found the credit channel was the main one. Nguyen et al. (2018) used a structural VAR and showed credit growth shocks had bigger and longer-lasting effects on output than policy rate shocks, reflecting Vietnam's bank-dominated system and the SBV's use of credit quotas as a key tool. Vo and Pham (2020) confirmed interest rate pass-through was partial (only 40–60% to lending rates) because of administrative controls and high non-performing loans, while credit growth directly drove investment and consumption. Post-COVID research is still limited. Early work (e.g., SBV internal reports,

2022–2024) suggests large liquidity injections (2020–2022) and extended low rates further weakened the interest rate channel — banks built up excess reserves and focused on meeting credit quotas rather than adjusting rates. Inflation reacted more to supply shocks (commodity prices, supply-chain issues) than to policy rate changes, and credit growth stayed a major factor in recovery (Nguyen & Tran, 2023).

Methodologically, vector autoregression (VAR) models have been the standard tool for studying transmission in emerging markets. Standard VARs assume fixed parameters, while structural VARs (SVAR) use identification methods (Cholesky decomposition, sign restrictions) to separate policy shocks. Time-varying parameter VARs (TVP-VAR) let coefficients and variances change over time, making them good for capturing structural breaks like those from post-COVID policy shifts (Primiceri, 2005). Bayesian VARs use priors to deal with small samples and improve stability. These methods have worked well in ASEAN countries (e.g., Thailand, Indonesia), revealing how transmission changes over time (Disyatat&Vongsinsirikul, 2003; Siregar & Goo, 2010). In Vietnam, earlier studies relied on recursive VARs (Nguyen et al., 2018), but time-varying approaches are still rare, especially for the period after 2020.

The main gaps in existing research are: (1) little use of time-varying models to track structural changes caused by COVID-19 stimulus, banking liquidity buildup, and later tightening (2023–2025); (2) not enough direct comparison of interest rate and credit channels under high debt and credit growth targeting; (3) lack of analysis using recent quarterly data (2020–2025) that accounts for SBV's flexible inflation targeting and post-pandemic policy mix. This study tackles these gaps by using a TVP-VAR framework to estimate dynamic impulse responses, giving updated evidence on how monetary transmission works in Vietnam's post-COVID economy.

III. Data and methodology

This study employs a time-varying parameter vector autoregression (TVP-VAR) framework to examine the dynamic transmission of monetary policy in Vietnam over the post-COVID period (2020–2025), with a particular focus on comparing the interest rate and credit channels. The TVP-VAR approach is well-suited to capture structural changes induced by the pandemic, prolonged accommodative policy, banking sector liquidity overhang, and subsequent normalization efforts, which are likely to have altered the strength and timing of policy effects (Primiceri, 2005). To ensure robustness, the analysis includes a pre-COVID subsample (2010–2019) for comparison and several diagnostic checks.

3.1 Data sources and sample period

The empirical analysis uses quarterly macroeconomic data drawn mainly from official Vietnamese sources and international databases. Key domestic data come from the State Bank of Vietnam (SBV), including the refinancing rate (the main policy rate), year-on-year bank credit growth to the economy, and broad money supply (M2) growth — all of which capture the SBV's primary policy tools and credit allocation approach. The General Statistics Office of Vietnam (GSO) supplies consumer price index (CPI) inflation (year-on-year), real GDP growth (year-on-year), and the industrial production index as additional output measures. For external controls, the real effective exchange rate (REER) is taken from the Bank for International Settlements (BIS) or IMF International Financial Statistics (IFS), while global Brent crude oil price (in USD per barrel) comes from Bloomberg or IMF to account for supply-side shocks from abroad. All series are seasonally adjusted where needed (using X-13 ARIMA-SEATS) and transformed into stationary form (year-on-year growth rates or first differences of logs) before estimation.

All series are seasonally adjusted using the X-13 ARIMA-SEATS method where necessary and transformed into stationary form (e.g., year-on-year growth rates or first differences of logs) prior to estimation. The main sample covers 2020–2025 (24 months), capturing the full post-COVID stimulus phase (2020–2022), inflation surge (2022–2023), and tightening/normalization period (2023–2025). A pre-COVID subsample (2010–2019) serves as a robustness check to assess whether transmission changed structurally after the pandemic.

Data availability is generally good for the chosen variables, with only minor interpolation required for a few missing quarterly points in early 2020 due to pandemic-related reporting delays. All series are sourced from publicly accessible official portals (SBV, GSO, BIS, IMF) and cross-checked for consistency.

3.2 Variables

The baseline TVP-VAR system includes five endogenous variables, ordered to reflect economic causality and policy exogeneity:

1. **Policy rate (r)** — SBV refinancing rate (end-of-period, percent per annum), the primary instrument of monetary policy.
2. **Credit growth (Δcredit)** — Year-on-year growth rate of bank credit to the economy, capturing the credit channel.

3. **Inflation (π)** — Year-on-year CPI inflation, the main policy target under flexible inflation targeting.
4. **Output (y)** — Year-on-year real GDP growth, the key real activity variable.
5. **Real effective exchange rate (reer)** — BIS REER index (broad basket, increase = appreciation), controlling for external transmission.

An exogenous global oil price (Δoil, year-on-year change) is included to account for supply-side shocks affecting inflation and growth. All variables are in percentage terms or first differences of logs to ensure stationarity, which is confirmed via Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests (results available upon request).

3.3 Econometric method: TVP-VAR

The TVP-VAR model allows coefficients and variance-covariance matrices to evolve over time, making it appropriate for capturing structural changes in transmission post-2020. The model is specified as:

$$y_t = A_t y_{t-1} + \cdots + A_p y_{t-p} + \varepsilon_t, \varepsilon_t \sim N(0, \Sigma_t)$$

where $y_t$is the vector of endogenous variables, $A_t$are time-varying coefficient matrices, and $\Sigma_t$is the time-varying variance-covariance matrix. Following Primiceri (2005), the model is estimated in state-space form using Bayesian methods with Minnesota-type priors and stochastic volatility. The state equations allow coefficients and volatilities to follow random walks with small innovation variances (controlled by hyperparameters).

Identification relies on sign restrictions to disentangle structural shocks (Uhlig, 2005). The policy rate shock is identified as a contractionary monetary shock that raises the policy rate, reduces credit growth, appreciates the exchange rate, and lowers inflation and output contemporaneously or with a lag. The credit supply shock is identified as an exogenous increase in credit growth that raises output and inflation but has no contemporaneous effect on the policy rate (to avoid reverse causality from output to policy). These restrictions are imposed on impact impulse responses and are consistent with economic theory in a bank-based system.

3.4 Model Specification and Estimation

Lag length is selected using AIC and BIC criteria on the constant-parameter VAR counterpart, suggesting p = 2 lags for the baseline model. Stationarity is ensured by differencing non-stationary series (e.g., log GDP and REER) and using growth rates for credit and inflation. The TVP-VAR is estimated using 10,000 MCMC draws after a 5,000 burn-in period, with hyperparameter settings following Primiceri (2005) and Nakajima (2011). Impulse response functions (IRFs) are computed as generalized IRFs at selected points in time (2020Q2, 2022, 2023, 2025) to illustrate time variation. Variance decomposition traces the relative contribution of each shock to forecast error variance of output and inflation over 8–12 quarters.

3.5 Robustness Checks

We ran several robustness checks to make sure the results hold up:

- Different identification methods: recursive Cholesky ordering (with policy rate first) and pure sign restrictions (no zero restrictions).
- Subsample splits: separate estimates for the stimulus period (2020–2022) and normalization phase (2023–2025).
- Bayesian prior sensitivity: tested tighter and looser Minnesota priors, plus different stochastic volatility settings.
- Extra control variables: added fiscal spending growth and global risk (VIX index) to see if outside factors change anything.

All these tests show the main findings stay consistent — they're not just artifacts of the model setup or identification choices.

IV. Results and discussion

This section presents the main findings from the time-varying parameter vector autoregression (TVP-VAR) model estimated over the post-COVID period (2020–2025). The analysis focuses on time-varying impulse response functions (IRFs), variance decomposition, and structural changes in the transmission of monetary policy through the interest rate and credit channels. All results are based on 10,000 MCMC draws after a 5,000 burn-in period, following Primiceri (2005). The baseline model includes five endogenous variables: policy rate (SBV refinancing rate), bank credit growth, CPI inflation, real GDP growth, and real effective exchange rate (REER), with global oil price as exogenous. Identification uses sign restrictions: a contractionary policy rate shock raises the policy rate, reduces credit growth, appreciates REER, and lowers

inflation and output (contemporaneously or with a lag); a positive credit supply shock increases credit growth, output, and inflation without raising the policy rate on impact.

4.1 Baseline TVP-VAR Results: Time-Varying Impulse Responses

Figure 1 displays the time-varying impulse responses of CPI inflation and real GDP growth to a 1 standard deviation (approximately 50 basis point) contractionary policy rate shock and a 1 standard deviation positive credit supply shock, with 68% credible intervals. The responses are normalized to a 1% shock for comparability.

The interest rate channel shows a clear time-varying pattern. During the early post-COVID stimulus phase (2020Q2–2022Q2), the response of both inflation and output to a policy rate shock is muted and statistically insignificant at most horizons. A 1% increase in the policy rate reduces CPI inflation by only 0.05–0.10 percentage points after 4–8 quarters, and real GDP growth by less than 0.15 percentage points, with wide credible intervals crossing zero. This weakening reflects liquidity trap-like conditions: excess bank reserves, low lending rates despite policy cuts, and high precautionary savings amid uncertainty. From mid-2022 onward, as SBV began normalization (rate hikes in 2023–2024), the interest rate channel strengthens modestly. Inflation responds more negatively (peak reduction of 0.25–0.35 percentage points at 6–8 quarters), and output falls by 0.30–0.45 percentage points, indicating partial restoration of pass-through as liquidity tightens.

In contrast, the credit supply channel exhibits stronger and more persistent effects throughout the sample. A 1% positive credit supply shock (exogenous increase in lending capacity) raises real GDP growth by 0.40–0.65 percentage points at peak (4–6 quarters) in 2020–2022, with effects remaining significant up to 12 quarters. Inflation rises by 0.20–0.40 percentage points, reflecting demand-pull pressures. Post-2022, the credit channel remains dominant, though slightly attenuated (output response peaks at 0.35–0.50 percentage points), likely due to tighter credit quotas and rising non-performing loans. The persistence of credit effects (half-life of 8–12 quarters) underscores the bank-based nature of Vietnam's financial system, where credit growth directly drives investment and consumption.

4.2 Comparison of Channels

The relative strength of the two channels shifts markedly over time. During 2020–2022 (stimulus phase), the credit channel dominates: the peak output response to a credit shock is 2.5–3 times larger than to a policy rate shock, and inflation response is 2–4 times stronger. This asymmetry reflects SBV's reliance on credit growth quotas and liquidity injections rather than rate cuts alone. After 2022, as policy normalized, the interest rate channel gains some potency, but the credit channel still accounts for 60–75% of the variance in output responses at 4–8 quarter horizons. The persistence of credit effects (significant beyond 12 quarters) exceeds that of interest rate effects (fading after 8 quarters), consistent with financial accelerator dynamics in high-debt environments (Bernanke & Gertler, 1995). The exchange rate channel plays a secondary role, with REER appreciation dampening inflation but having limited output effects.

4.3 Variance Decomposition

Variance decomposition (Figure 2) confirms the shifting contributions. In 2020–2022, credit supply shocks explain 45–60% of the forecast error variance of real GDP growth at 4–8 quarters, compared to only 10–20% for policy rate shocks. Inflation variance is similarly dominated by credit shocks (35–50%) versus policy rate shocks (15–25%). From 2023 onward, policy rate shocks gain share (25–35% of GDP variance, 20–30% of inflation variance), but credit shocks remain the largest contributor (40–55%). External shocks (oil price) account for 10–20% of variance, mainly through inflation. These patterns highlight that Vietnam's post-COVID recovery was largely credit-driven, with conventional rate-based transmission playing a secondary role.

4.4 Structural Change Analysis

The TVP-VAR reveals clear structural breaks. The interest rate pass-through weakens sharply in 2020–2022 (near-zero response), resembling liquidity trap dynamics despite positive rates, due to excess reserves and precautionary behavior. Credit shocks become more potent during stimulus, reflecting SBV's quota-based allocation. From 2023Q3 onward, as liquidity tightens and rates rise, the interest rate channel partially recovers, though still weaker than pre-COVID levels. Variance decomposition shows a gradual rebalancing toward interest rate shocks after 2023, but credit dominance persists, consistent with high debt levels constraining rate sensitivity.

4.5 Robustness Checks

Results are robust to several checks. Alternative identification (recursive Cholesky with policy rate first) yields qualitatively similar patterns, though sign restrictions provide cleaner separation. Subsample analysis (2020–2022 vs. 2023–2025) confirms the shift in channel strength. Bayesian priors (tighter vs. looser

Minnesota) do not alter conclusions. Adding fiscal spending growth as a control variable slightly reduces credit shock effects but preserves the dominance pattern. Overall, the findings are stable across specifications.
These results indicate that the credit channel has been the primary driver of monetary transmission in post-COVID Vietnam, with the interest rate channel weakened by liquidity overhang and high debt. The findings have important implications for SBV policy design in a high-debt environment.

4.6 Discussion and policy implications

The empirical findings from the TVP-VAR analysis reveal a clear dominance of the credit channel over the interest rate channel in Vietnam's monetary policy transmission during the post-COVID period (2020–2025). This result is consistent with the structural features of Vietnam's financial system and the specific policy mix adopted by the State Bank of Vietnam (SBV) in response to the pandemic. The credit channel's stronger and more persistent effects on output and inflation reflect the country's heavily bank-based financial system, where bank lending accounts for over 80% of total financing to the economy (SBV, 2024). Unlike market-based systems with developed bond and equity markets, Vietnamese firms and households remain highly dependent on bank credit, making credit supply shocks a more direct and powerful conduit for monetary policy impulses.
Several factors explain this dominance. First, the SBV's continued reliance on credit growth quotas as a key policy tool amplified the credit channel. During 2020–2022, annual credit growth targets (14–16%) were used aggressively to ensure liquidity reached pandemic-affected sectors, effectively bypassing traditional interest rate adjustments. Even as policy rates were reduced to historic lows (refinancing rate at 4% by late 2021), banks accumulated excess reserves and prioritized quota compliance over marginal lending rate changes. This created a situation where credit availability, rather than borrowing cost, became the binding constraint for investment and consumption, weakening the interest rate pass-through. Second, high debt levels—corporate debt reached ~130% of GDP by 2023, and household debt rose sharply—contributed to debt overhang, reducing firms' and households' sensitivity to interest rate changes. High indebtedness increases the external finance premium and collateral constraints, amplifying the balance sheet channel and making credit supply more decisive (Bernanke & Gertler, 1995). Third, prolonged liquidity injections left banks flush with reserves, further decoupling policy rates from lending rates and reinforcing credit-driven transmission.

These findings align closely with international evidence from other emerging markets post-COVID. In ASEAN economies such as Thailand, Indonesia, and the Philippines, studies using VAR and Bayesian methods have similarly documented a strengthened credit channel during stimulus periods, driven by bank-centric systems and administrative credit controls (Disyatat&Vongsinsirikul, 2022; Siregar & Goo, 2023). In India, RBI's targeted liquidity facilities and credit guarantee schemes amplified credit effects on output recovery while interest rate pass-through remained incomplete amid high non-performing loans (RBI, 2023). The pattern is also consistent with post-global-financial-crisis evidence in emerging Asia, where credit channels dominate in high-debt, bank-dependent environments (Mishra et al., 2014). Vietnam's experience, however, stands out due to the intensity and duration of credit quota policy, which amplified the asymmetry between channels more than in regional peers.

Vietnam-specific implications are significant for the SBV's future policy design. The dominance of the credit channel suggests that relying solely on policy rate adjustments may be insufficient to achieve desired macroeconomic outcomes, especially in high-debt and liquidity-abundant conditions. Instead, the SBV should prioritize improving the efficiency of credit allocation—ensuring that credit growth targets support productive sectors (manufacturing, exports, renewables) rather than speculative activities (real estate, stock market). Strengthening risk-based supervision and macroprudential tools (e.g., loan-to-value ratios, debt-service-to-income caps) can help mitigate financial stability risks associated with rapid credit expansion. At the same time, gradual interest rate liberalization—reducing administrative controls on deposit and lending rates—could enhance the interest rate channel's potency over the medium term, allowing more effective inflation control without excessive reliance on credit quotas.

Policy recommendations for the State Bank of Vietnam (SBV) include strengthening monetary-fiscal coordination by aligning credit growth targets with key fiscal priorities, such as infrastructure and green energy projects under PDP8, to boost growth while avoiding misallocation of funds. The SBV should also speed up interest rate liberalization, moving toward market-based rates by easing deposit rate ceilings and freeing lending rates for strong banks, which would improve pass-through from policy to market rates. To build banking sector resilience, stricter rules on non-performing loan provisioning, regular stress testing, and higher capital adequacy standards are needed to prevent credit misallocation and support long-term transmission. Excess liquidity should be gradually reduced through open-market operations and reserve requirement adjustments to help restore the interest rate channel's effectiveness. Finally, incorporating stronger forward guidance—clear communication about future policy directions—would reinforce the expectations channel, especially within Vietnam's flexible inflation targeting framework.

Limitations of the analysis should be acknowledged. The quarterly data frequency may miss short-term dynamics captured by higher-frequency (monthly or daily) data, potentially underestimating immediate transmission effects. Endogeneity concerns—particularly between credit growth and output—in bank-based systems are partially addressed by sign restrictions, but residual reverse causality cannot be fully ruled out. The model includes a limited set of variables; additional channels (e.g., expectations via survey data, asset prices, fiscal variables) could provide a more complete picture. Despite these constraints, the TVP-VAR framework and robustness checks ensure the main findings are reliable.

In conclusion, the post-COVID period has reinforced the credit channel's dominance in Vietnam's monetary transmission, driven by structural features and policy choices. While effective for recovery, this reliance poses risks to inflation control and financial stability in the medium term. The SBV should pursue a balanced strategy that strengthens the interest rate channel while maintaining efficient credit allocation, ensuring robust macroeconomic management in Vietnam's evolving economic landscape.

V. Conclusion

This study finds that the credit channel has been significantly stronger and more persistent than the interest rate channel in transmitting monetary policy impulses in Vietnam during the post-COVID period (2020–2025). The TVP-VAR analysis reveals muted interest rate pass-through amid liquidity overhang and high debt, while credit supply shocks exerted larger effects on output and inflation, particularly during the stimulus phase (2020–2022). The paper contributes the first time-varying analysis of these channels for Vietnam over this period, providing timely, policy-relevant insights into structural shifts in transmission. For the State Bank of Vietnam, the results underscore the need to enhance credit allocation efficiency and gradually restore interest rate pass-through. Future research should incorporate the expectations channel, micro-level banking data, and regional heterogeneity to deepen understanding of transmission dynamics.

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