**SOCIALIST REPUBLIC OF VIETNAM**

**Independence - Freedom – Happiness**

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**CONTRIBUTION OF THE THESIS**

Thesis: **THE IMPACT OF MACRO-ENVIRONMENT TO EXCHANGE RATE PASS-THROUGH IN VIETNAM**

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**Contribution of the thesis:**

First of all, the Smooth Transition Regressive (STR) model is applied in this thesis allows smooth transitions between regimes or states of the economy. This model is suitable to describe the heterogeneous response of firms in the economy makes the exchange rate pass-through on the price level more slowly. This is a crucial methodological difference from the published paper of other authors in this field in Vietnam.

Secondly, this thesis investigates the reaction of inflation to exchange rate shocks by using some potential transitions proxy for different states of the economy (e.g, high and low inflation, high and low volatility exchange rate, high and low exchange rate instability, the expansion and slowdown economy, high and low trade openness). The results from the study show the influence of the macro-environmental factors on the level of exchange rate exchange pass-through into inflation in Vietnam. This thesis confirms the nonlinear relationship between the level of exchange rate exchange pass-through and the various macrostates of the economy in Vietnam. Accordingly, the level of exchange rate pass-through will change as the economy moves from one state to another.

Thirdly, the results from the thesis show that exchange rate transmission is positive with the inflation level of the Vietnamese economy in the short and long term. Specifically, when the inflation rate is greater than the threshold of 1,195%/month, the transmission rate will increase significantly.

Nevertheless, the results from the study show an inverse relationship in the short term and long term between the changes in the exchange rate and the exchange rate pass-through. When the exchange rate surpassed the threshold of 0,094%/month, the pass-through coefficient decreased. This result suggests that there is no evidence of the “menu cost” issue but that there is evidence of the “market share” issue during the research period in Vietnam. Results from the study show that firms will adjust prices in response to sub-threshold changes in exchange rates, ignoring the issue of menu costs. However, the pressure of holding market share will cause businesses to limit price adjustments when the exchange rate fluctuates beyond the threshold.

Besides, the results show that firms will transmit more exchange rate changes to prices when they see an increase in exchange rate risk (measured by the daily exchange rate standard deviation) in the market. When the exchange rate risk is low, businesses will suffer to maintain market share, but when the instability in the exchange rate increases, the enterprise will reflect these fluctuations in the price to make the pass-through increase.

Furthermore, in the short-term, the result of the study shows that the level of pass-through is negative with the economic cycle, while it is positive in the long-term. In the short-term, when the economy booms the transmission rate will reduce. However, in the long-term, when the economy is favorable it will increase. Therefore, the government should take this into account in the process of operating the economy.

Last but not least, the result shows that if the level of trade openness is low, the pass-through will be higher in the short and long term. Because of the more open economy is, the more competitive pressure between enterprises is. Consequently, it reduces the exchange rate pass-through in prices. Thus, the policy of opening up the economy to welcome foreign enterprises to do business in Vietnam can bring about a more competitive environment, thereby helping to neutralize the fluctuation in exchange rates into levels price.

**PhD candidate**

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