

2nd International Conference on Management and Business

18 - 20 July 2025

London, United Kingdom

Dynamic Causality among Economic Growth, Inflation, and Demand Management Policies in Vietnam

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Abstract

This research investigates the influence of demand management strategies—especially exchange rates, interest rates, and monetary policy—on Vietnam's economic development and inflation, considering both internal and external factors. By applying the aggregate demand and supply model, the study emphasizes how macroeconomic policies impact output and pricing. Data from 2005 to 2023 was reviewed, examining elements like the Consumer Price Index, money supply, interest rates, the VND/USD exchange rate, imports, exports, crude oil prices sourced from the IMF, and GDP data from VietstockFinance. Unit root tests, including ADF, PP, and KPSS, demonstrated that most variables are integrated of order one, with the exception of money supply, which is of order two. The Johansen cointegration method revealed long-term connections, subsequently analyzed using a vector error correction model. Results from Granger causality indicated that GDP growth is influenced by various factors rather than being caused by one specific variable; it is particularly impacted by fluctuations in oil prices, which also affect trade dynamics. Block exogeneity tests indicated that oil prices are independent of Vietnam's economic conditions, reflecting restricted domestic policy influence. Moreover, the growth of money supply and depreciation of the exchange rate were found to be mostly exogenous, whereas the money market rate was categorized as endogenous. The results suggest that Vietnam has systematically employed monetary policy as a strategy for managing demand during the observed period of economic variations and external pressures.

Keywords: demand management policy; economic growth; Granger causality test; VECM; Vietnam