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ASYMMETRIC US MONETARY POLICY SPILLOVER EFFECTS ON GLOBAL AND CROSS-COUNTRY FINANCIAL CYCLES

Abstract:

The literature extensively examines the impact of US monetary policy on global financial cycle; however, it does not show whether specific cross-country financial cycles exist or whether the US monetary policy has any differentiated impact on them. In this paper we investigate the existence of cross-country financial cycles across a group of Advanced and Emerging Market Economies for portfolio, FDI and credit inflows and outflows. We find that in a group of 15 advance economies (AEs) and emerging markets (EMEs), there are 11 cross-country financial cycles for portfolio, FDI and credit inflows and outflows across AEs and EMEs. The impact of US monetary shocks varies on global financial cycle as compared to cross-country financial cycles where the impact on global financial cycle is more pronounced and lasts for longer period. Though the US monetary shock is important determinant of global financial cycle, however, domestic macroeconomic and financial factors are more important in determining the cross-country financial cycles. We find that the common factors in stock market, exchange rate, inflation, GDP growth and interest rate are significant determinants of cross-country cycles.
For the analysis, we employ quarterly data from International Financial Statistics (IFS) of International Monetary Fund (IMF) between 2010-2019. We employ various empirical methodologies such as Structural VAR, dynamic factor models, common features approach and two-step least square to arrive at our results.

Keywords:

Keywords: Cross-country Financial Cycles; Global Financial Cycle; US Monetary Policy; Spillover Effects; Capital Flows

JEL Classification: C32, E32, E44