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Global Financial Transmission of Monetary Policy Shocks*

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Abstract

The paper analyses the transmission of US monetary policy shocks to global equity markets and the macroeconomic determinants of the underlying transmission process. We show that there is a substantial cross-country heterogeneity in reactions across 50 equity markets worldwide, with returns falling on average around 2.7% in response to a 100 basis point tightening of US monetary policy, but ranging from a zero response in some to a reaction of 5% or more in other markets. As to the determinants of the strength of transmission to individual countries, we test the relevance of their macroeconomic policies and the role of real and financial integration. We find that in particular the degree of global integration of countries – and not a country's bilateral integration with the United States – is a key determinant for the transmission process.

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