The monetary spillover matrix

Abstract

How do monetary policy shocks spillover to other countries' interest rates? What determines the intensity of spillovers between any two countries? This paper addresses these questions in two parts. First, using a high frequency identification scheme (for 7 countries), it maps out the response of foreign interest rates to monetary policy shocks, and considers whether this relationship has changed with low interest rates. Second, using daily data for 47 advanced and emerging market countries, it looks at what factors can explain the interest rate spillovers among these countries. It considers the role of cross-border trade and financial links, the nature of countries' financial markets and global factors.