

LEE, BYONGJU

Economist, The Bank of Korea, Republic of Korea

(Co-authors: **CHOI**, WOON GYU & **KANG**, TAESU & **KIM**, GEUN-YOUNG)

Divergent EME Responses to Global and Domestic Monetary Policy Shocks

We assess the effect of the United States (US) and domestic monetary policies on emerging market economies (EMEs) using a panel factor-augmented vector autoregressive model. We find a US policy rate hike outstrips a tantamount hike in EME policy rates in its impacts on EMEs and discover that bond flows are more sensitive to interest rate differentials than are equity flows. Tighter global or EME-specific policy entails divergent responses of growth and inflation in EMEs: in particular, the output loss is greater in those EMEs with higher inflation. When US monetary policy tightens, bond and equity markets in EMEs are prone to outflows. Domestic policy alone is not enough to counteract the effects of global policy shocks on capital flows in EMEs.