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The Effect of US Monetary Policy on the Credit Growth of Emerging Market Economies

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ABSTRACT

Purpose - Monetary policy decisions of advanced economies have effects on the emerging market economies through monetary transmission mechanisms. The purpose of this study is to examine the effect of US monetary policy on the credit growth of emerging market economies.

Methodology - For this purpose, the effects of FED policy rates on the private non-financial credit to GDP ratios of selected emerging market economies are analysed by panel data. The study comprises quarterly data over the period of 1990-2018. Austria, Brazil, China, Greece, India, Poland, Portugal, Russia, and Turkey are determined as representatives of emerging market economies. The Seemingly Unrelated Regression (SUR) is used for model estimation

Findings - According to the results, while FED reduces policy rates, credit markets of developing countries grow. However, slope and intercept parameters of the regression model are not identical for all countries. In other words, the sensitivity of national credit markets to FED policy rates varies under the influences of economic, legal and political environments of the countries.

Discussion - When the results are evaluated comparatively on the country basis, it is seen that the credit markets of European emerging economies show the strongest reaction to the changes in US monetary policy while the credit markets of Turkey and Brazil show the weakest.