Monetary Policy Cyclicality in Emerging Economies

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Date:2022-09-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30458)

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Conventional wisdom holds that monetary policy in emerging economies is procyclical, unlike in advanced economies. Using a large sample of countries from the mid-1990s onwards, we show that the conduct of monetary policy is not fundamentally different across these two groups of countries. Emerging and advanced economies alike lower their policy rates when economic activity decelerates, both unconditionally and following exogenous U.S. monetary policy tightening. We show that the common practice of using market rates, such as government bond rates, to proxy for the stance of monetary policy leads one to draw inaccurate conclusions about emerging economies’ monetary policy cyclicality due to inherent risk premia in those market rates.