

The International Transmission of U.S. Monetary Policy: New Evidence from Trade Data

Shu Lin

Fudan University

Hong Kong Institute for Monetary Research

and

Haichun Ye

Shanghai University of Finance and Economics

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Summary

This study aims to provide new evidence on the international transmission of U.S. monetary policy by examining its impact on the exports of other countries. Specifically, we propose an international credit channel through which U.S. monetary policy can affect domestic and international credit availability to exporting firms in other countries. We then test this hypothesis by making use of sector variations in the degree of technologically determined financial constraints and country variations in financial development and monetary autonomy.

In a large sector-level bilateral trade dataset of 137 countries for the years 1970-2000, we find strong and robust evidence supporting an international credit channel of U.S. monetary policy transmission. After carefully controlling for the real exchange rate and foreign demand factors, we find that: 1) financially more constrained sectors have a more negative exposure of their trade to a tight U.S. monetary policy; 2) this international credit channel works mainly during significant U.S. monetary tightening periods (e.g., a large increase in the U.S. federal funds rate); 3) the negative impact of a tight U.S. policy is significantly stronger in financially less developed countries or countries with no monetary autonomy.