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The international credit channel of U.S. monetary policy transmission to developing countries: Evidence from trade data

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Abstract

In a large sector-level bilateral trade dataset, we find robust evidence supporting a broad international credit channel of U.S. monetary policy transmission to developing countries. We show that U.S. monetary policy has a significant effect on the sectoral composition of developing countries' exports. Financially more vulnerable sectors have a significantly more negative exposure of their trade to a tight U.S. monetary policy, especially in financially less developed exporting countries or during significant U.S. tightening periods. Moreover, we identify both a monetary policy dependence mechanism and a financial dollarization mechanism through which U.S. monetary policy can influence the sectoral composition of developing countries' exports.

Keywords: international transmission of U.S. monetary policy; international credit channel; trade; financial vulnerability; developing countries

JEL code: E52, E44, F14, F33, F42

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