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Transmission of monetary policy through global banks: whose policy matters?

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ABSTRACT

This paper explores the basic question of *whose* monetary policy matters for banks' international lending. In the international context, monetary policies from several countries could come into play: the lender's, the borrower's, and that of a third country, the issuer of the currency in which cross-border lending is denominated. Using the rich dimensionality of the BIS international banking statistics, we find significant effects for all three policies. US monetary easing fuels cross-border lending in US dollars, as befits a global funding currency. At the same time, a tightening in the lender or the borrower country reinforces international dollar lending as global banks turn to the greenback for cheaper funding and toward borrowers abroad. Our results also show that stronger capitalization and better access to funding sources mitigate the frictions underpinning the transmission channels. Analogous results for euro-denominated lending confirm that global funding currencies play a key role in international monetary policy transmission.