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Emerging market economies and the world interest rate

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Highlights

We use a Factor Augmented VAR model to estimate the dynamic responses of interest rates in emerging market economies to the 'world' interest rate, which we extract from a dynamic factor model of yields in industrialized countries.

Our results provide evidence that many emerging market yields respond to world rate shocks, at least gradually, which is broadly consistent with capital market integration.

Our findings suggest that the world rate captures information about emerging market yields not contained in US rates, which are typically used to proxy for the world rate.

Abstract

We use a Factor Augmented VAR model to estimate the dynamic responses of interest rates in emerging market economies to the 'world' interest rate, which we extract from a dynamic factor model of yields in industrialized countries. Our results provide evidence that many emerging market yields respond to world rate shocks, at least gradually, which is broadly consistent with capital market integration. Our findings also suggest that the world rate captures information

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