US MONETARY POLICY AND GLOBAL FINANCIAL STABILITY

ERIC TONG (JW-D)

This paper regresses the default probability of 180 banks around the world on the Federal Fund rate. It finds that US monetary policy is the single, significant determinant of global banks' risks. It further finds that banks domiciled in both fixed and floating exchange-rate regimes are equally susceptible to the influence of US monetary policy. The result echoes Rey's (2013) notion that financial integration has reduced a country's scope from achieving two policy goals out of three options - (i) fixed exchange rate, (ii) national independence in monetary policy, and (iii) capital mobility - to achieving only one out of the latter two.