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The Alignment of Monetary Policy in Foreign Countries with the Federal Reserve Bank's Monetary Policy: Evidence from Fixed and Floating Exchange Rate Regimes

Abstract: The study participates in adding a new term to the monetary policy literature which is the alignment of monetary policies between foreign countries and the Federal Reserve Bank's policy. This study aims to examine the effect of the of the monetary policy alignment in foreign countries with the Federal Reserve Bank's monetary policy variable on gross domestic product and consumer price index in two groups of countries. Using the fixed effect model, results differed between countries that follow fixed exchange rates and others that follow floating exchange rate regimes. The study reveals that the alignment of domestic monetary policy in countries that follow a floating exchange rate regime is not symmetric with the Federal Reserve Bank's monetary policy, while the model for countries with a fixed exchange rate regime is not reliable.

Keywords: Alignment of Monetary Policy, Federal Reserve Bank, Monetary Policy, Interest Rate on Deposits, Exchange Rate Regimes, Fixed Effect.

JEL Classification: E4, E5

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1. Introduction

The term “alignment of monetary policies” may refer to the extent of parallel in monetary policy decisions in a country to changes in interest rates by the Federal Reserve Bank. Notably, many central banks follow the Federal Reserve’s decisions due to the international effect of the US Monetary Policy. The alignment of monetary policy differs from its transparency, which Aftab and Mehmood (2023) define as the process of monetary policy-making that relies on the information disclosed by a central bank. The decisions of the Federal Reserve Bank have a considerable impact on the exchange rate, inflation, and economic activity, both through directing international capital markets and their effects on US demand. The international effect of US Monetary Policy Financial spillovers transmits to other countries through three channels. According to the traditional Mundell-Fleming model, there are two ways that US monetary policy is transmitted internationally. First, a rise in US interest rates has a contractionary effect that results in decreased demand for both domestic and international commodities. In an attempt to find greater returns, investors reallocate their portfolios; the capital outflows cause currencies to weaken about the dollar. An unexpected decline in the value of a nation’s currency can hurt economic activity for many. Although depreciation is expansionary since it increases exports, according to conventional open-economy models (Krugman, 2014; Mundell, 1963). Second, the expenditure-switching impact occurs when the value of the dollar increases, making foreign goods comparatively more affordable and shifting the global demand composition away from US commodities and towards foreign goods. There is a minor offset between these two channels. Outside these traditional channels, the third transmission of monetary policy channel is through financial linkages that can have significant consequences according to Rey (2013). At longer maturities, a rate hike by the Federal Reserve affects the yield curve and lowers the cost of riskier financial assets (Farhi and Werning, 2014; Bruno and Shin, 2015a, 2015b)

Monetary policy regimes that prioritize the preservation of price stability are a contributing factor to macroeconomic stability. To effectively promote the goals of maximum employment, stable prices, and moderate long-term interest rates, the Board of Governors and the Federal Open Market Committee must maintain long-run growth of the money and credit aggregates commensurate with the economy’s long-run potential to increase production. Monetary policy can have a considerable effect on economic activity over the short term while influencing the rate of inflation in the longer term. Some features of this theory have been rather successfully quantified by economists. McCallum (1999) argues that the most fundamental decision regarding monetary policy is whether to use a floating exchange rate or a fixed exchange rate (or some variation thereof, such as a

crawling peg or an exchange rate band). This decision affects how monetary policy is conducted. While there are several reasons to support either kind of regime or an arrangement in between, some economists think that economic arguments regarding this matter can be boiled down to a single question: do the benefits of a fixed rate for resource allocation that result from an expanded currency area outweigh the macroeconomic or stabilizing drawbacks of a nation's inability to implement its monetary policy? Other justifications for a fixed rate, aside from the potential microeconomic benefits for a nation adopting a fixed-rate regime, appear to be primarily political in character. Naturally, a country can preserve an exchange rate anchor to establish credibility, and an exchange rate band structure gives the central bank some leeway to implement a more autonomous monetary policy. The channels were categorized as credit, asset price, and interest rate channels by the theory of transmission mechanism. To guarantee its efficacy, the monetary policy employs various transmission channels. According to Coll, Santander & Torres (2005), there are two prerequisites for the bank lending channel to function: first, borrowers must be dependent on banks to finance their debt, and second, monetary policy must have a major impact on the bank's ability to provide loans. Since banks are the main sources of funding for governments, businesses, and private citizens, monetary policy cannot be disregarded, according to Ladime, Sarpong-Kumankomah & Osei (2013). When implementing monetary policy, Mishkin (1995) asserts that it is necessary to interpret the impact of policy measures on an economy.

Emphasizing the significance of gaining a deeper understanding of how monetary policy functions, it is especially important to consider the role of exchange rate regimes and consumer prices in the context of open economies. (Zuniga & Senbet, 2023). Many central banks believe that a rise in US interest rates will have a contractionary effect on their economy, deterring foreign investment and leading to currency devaluation. In response, they raise interest rates to close the resulting interest rate gap with the US, stop capital outflows, lower inflation brought on by currency depreciation, and, at least temporarily, preserve the value of their currency. Some central banks prefer to rely on foreign exchange interventions when trying to stabilize the currency rather than using the policy rate. There is an ongoing discussion on whether and to what extent US monetary policy influences the behaviour of other central banks. Central banks' responses to shifts in US monetary policy are probably going to vary from nation to nation. In general, it will depend on whether exchange rate pass-through is a major concern and if the net effect of foreign spillovers is contractionary or expansionary. The exchange rate system of a nation is intimately related to its monetary policies. Interest rates have an impact on a nation's currency's value; so, countries with fixed exchange rates will have less room for independent monetary policy than those

with flexible exchange rates. An efficient inflation-targeting system is supported by a completely flexible exchange rate regime. Accordingly, this study aims to test the effect of the alignment between the monetary policy in different countries with the Monetary policy in the USA on the real variables like the nominal GDP and inflation rate under two exchange rate regimes, the fixed and floating regimes. Countries like Jordan, Oman, Bahrain, Iraq, and Saudi Arabia follow a fixed exchange rate regime, while Egypt, Iran, Algeria, Croatia, and Vietnam follow a floating exchange rate regime. Thus, the study is going to answer the question of whether there is a difference in monetary alignment between countries under fixed and floating regimes. The remaining sections of the study are arranged as follows: A summary of the literature is given in the following part. The methodology is shown in section three. Data diagnostic tests are shown in section four. Results are discussed in section five. A conclusion and policy recommendations are made in section six.

2. Literature Review

Many central banks closely monitor the various activities of the Federal Reserve. Following the Federal Reserve's monetary policy requires a theoretical framework that encompasses various factors and considerations (Brassil, Major & Rickards, 2022). This framework should include an understanding of how money flows, who issues it, and the restrictions placed on its use and flow (Green, 1976). According to Kearns, Schrimpf & Xia (2022), examining the theories of monetary transmission to other countries is a crucial step in comprehending the theoretical basis for implementing the monetary policy of the Federal Reserve. How the operations of the Federal Reserve affect the international economy and the monetary policies of other nations is explained by several theories. The "Monetary Policy Spillover" idea is one well-known theory that contends that adjustments to the Federal Reserve's monetary policy may have an impact on other nations via channels including interest rates, capital flows, and exchange rates. Ca' Zorzi et al. (2020) refer to the "Interest Rate Parity" theory as another important theory that focuses on how interest rate differences between nations affect capital flows and exchange rates in response to monetary policy adjustments from the Federal Reserve.

Central banks attempt to stop capital outflows and close rate differentials in response to rising inflation brought on by currency depreciation. Countries with managed currency rates are more likely to follow the latter justification, whilst those with floating exchange rates are more frequently linked to the former. The central banks that do not modify their interest rates in reaction to US monetary

policy can be those that do so because they prefer to use foreign exchange reserves to stabilize their currency, or those that do so because they have limited exchange rate pass-through to inflation. Thus, it is not an exact postulate that US monetary policy is expected to have an impact on central banks. Naturally, this does not imply that interest rates in countries will instantly and exactly match those of the Federal Reserve. The status of each central bank's business cycle and its policy objectives will determine how it responds to shifts in US monetary policy. It is preferable to use monthly data rather than quarterly data because monetary authorities assert that they will respond to changes in US monetary circumstances in a matter of weeks. Additionally, assessing the monetary policy reaction function presents a much greater challenge in developed countries compared to developing countries (Fabris & Lazić, 2022)

The monetary policy statements made by the Federal Reserve (Fed) have had a significant impact on international financial markets. In fact, monetary authorities are more inclined to raise rates in nations with managed currencies to bridge the interest rate gap and stop capital outflows. Therefore, the best strategy for preserving price stability in a small, open economy is exchange rate management. Exchange rate pass-through to inflation is more likely to influence monetary responses in countries with floating exchange rates, causing them to tighten domestic monetary policy to meet their mission for price stability. The theory behind floating exchange rates, which can help prevent international monetary spillovers, is that the central banks of small open economies "think like the Federal Reserve" in that they adjust interest rates in response to increases in inflation brought on by capital outflows without considering the impact on asset prices. Central banks frequently use foreign exchange interventions in addition to rate adjustments; they are more common in nations with controlled currencies and are frequently driven by worries that increasing rates would be too disruptive for the conditions of the home economy (Huertas, 2022). Central banks must work together to preserve market stability in the recent globalization age to lessen the effects of financial instability. The prior leader and follower system is explained by Carlozzi and Taylor (1983), Taylor (1985), and some other authors using response functions to illustrate how central banks use monetary rules to carry out their policies. According to them, the main components of the effectiveness and stability of the global financial markets are the agents' expectations, the global pricing of exportable goods, and the unrestricted flow of capital between nations (Mohan and Kapur, 2014). It is anticipated that historically, the exchange rate channel has been undermined by significant central bank involvement and underdeveloped financial markets, making monetary policy transmission in emerging nations weak. In light of this, Eklou (2023) looks into how monetary policy is transmitted in Malaysia, taking into account the influence of outside

forces. She discovers that credit and exchange rate channels play a significant part in this process. Furthermore, Eklou demonstrates that although global commodity prices do not affect the transmission of monetary policy, tightening global monetary policy could support national initiatives to establish price stability by causing worldwide disinflation. Jung (2023) reveals that significant international spillovers were caused by the Fed's monetary policy announcements to bond yields and European banks' and non-financial corporations' (NFCs') stock prices; crucial additional dimensions of these spillover effects were changes in uncertainty surrounding the expected Fed policy path and Fed information effects. The notable repercussions of the Fed's forward guidance on European bond yields demonstrate the importance of central bank communication for global transmission. Degasperi and Hong (2023) provide evidence regarding the dissemination of policy activities throughout the global economy. They demonstrate how monetary tightening in the US causes symmetric contractionary reactions in the financial and macroeconomies both domestically and internationally. This demonstrates the US dollar's status as a world currency. Additionally, they demonstrate that, in line with Rey (2013), the effects of US monetary policy ripple out to advanced countries and emerging markets alike. In a single framework, Ca' Zorzi et al. (2023) compare how monetary policy is transmitted internationally by the Federal Reserve System (Fed) and the European Central Bank (ECB). The findings show that whereas ECB monetary policy shocks do not have a comparable impact on the US, the Fed's monetary policy shocks have a considerable influence on real activity and financial conditions in the euro area. More so than the ECB's monetary policy shocks, the Fed's monetary policy shocks also impact real and financial variables in other parts of the world.

Yilmazkuday (2022) examines how 21 emerging-market nations' currency rates were impacted by the US monetary policy during the epidemic. The findings demonstrate that developing market currency depreciation was caused by a negative shock to the US monetary policy. According to Bhar and Malliaris (2021), the Fed's unconventional monetary policies, which were put into place during the 2008 financial crisis, have lowered longer-term interest rates. On the other hand, Wei and Han (2021) argue that the spread of pandemics has significantly hampered the ability of monetary policy to reach financial markets. In the sample period that followed the pandemic, the financial markets were not significantly impacted by either conventional or unconventional monetary policy. Naturally, since unconventional monetary policies have some degree of influence on the stock and currency rate markets, they are marginally more effective. Therefore, to achieve the intended effect in the post-pandemic period, larger policy changes or other macro policies, such as fiscal policies, may be required if the monetary policy is employed to support financial markets.

According to Degasperis, Hong & Ricco (2021), a tightening of US monetary policy has significant contractionary consequences for both advanced and emerging countries. Buch, Bussierè, Goldberg, & Hills (2019) examine how the monetary policies of the US, the UK, Japan, and the euro region are transmitted internationally. There are international spillovers into lending to the private sector, particularly concerning US policy, and the degree of transmission varies depending on the heterogeneity of the individual banks. The impacts help to transmit monetary policy through the portfolio channel and the lending channel of multinational banks. They also demonstrate the importance of the frictions banks experience, particularly concerning foreign exchange funding and hedging considerations, which can be major contributors to variability. Different countries have different types of bank balance sheet heterogeneity that distinguish spillovers amongst banks. While average foreign policy spillovers into nonbank lending are generally small, for individual banks there can be significant international spillovers into lending. Hills et al. (2019) examine how monetary policy is transmitted across borders by contrasting and comparing the outcomes for two significant global financial hubs: Hong Kong and the UK. They look at how banks' domestic lending practices are affected by monetary policy in the US, the euro area, and Japan and discover that financial ties are crucial in the dissemination of foreign monetary policy. They can provide evidence for the UK and Hong Kong's bank financing and bank portfolio channels of monetary policy. These findings differ from the generally inconclusive findings of earlier research, which might have concealed offsetting individual bank impacts due to their aggregate character.

Using Switzerland and Canada as examples, Auer, Friedrich, Ganarin, Paligorova & Towbin (2018) investigate how banks in small open economies transmit monetary policy internationally. They find little evidence for the classic international bank lending channel, but results on the inward transmission of foreign monetary policy through Swiss banks are consistent with a role for the international portfolio channel. The results on the outward transmission of domestic monetary policy in Canada suggest that foreign lending by Canadian banks is affected through both channels, which work as predicted and largely balance each other. This may be the consequence of many transmission routes that operate counter to one another and balance each other out, or it may be the outcome of a balance sheet structure that is insensitive to foreign monetary policy. These are significant observations for evaluating the efficiency of domestic monetary policy in small open economies and how internationally active banks transmit monetary shocks. Regarding funding, Berthoud et al. (2018) investigate how European banks were affected by the US dollar funding shock that occurred in the summer of 2011 when US money market funds drastically reduced their exposure to European financial institutions amid the sovereign debt crisis. They discovered that before

the shock, banks that were borrowing more US dollars from the US financial sector lent less to French companies that were exporting to the US, which had an impact on the firms' shipments to the US. According to our findings, banks that borrow more from the US reduce their USD lending in the UK by a greater amount than other companies.

Changes in foreign monetary policy circumstances have a greater impact on bank lending in foreign currency than in domestic currency, according to Ongena, Schindele & Vonnák (2017) utilize data from Hungary, a country with a large percentage of loans denominated in foreign currencies. They attest that a foreign central bank's tightening of its monetary policy raises the cost of funding for the bank in foreign currencies but not in domestic ones and that this has an impact on the bank's local lending decisions. Takáts and Temesváry (2017) investigate how monetary policy is transmitted in a panel of nations that report to the Bank for International Settlements concerning currency. They discover that even when neither the lending banking system nor the borrowing nation utilizes the targeted currency as their own, monetary policy shocks in those currencies nonetheless cause lending in those currencies. The UK's results regarding the US monetary policy transmission through financial lending denominated in US dollars are consistent with their findings; however, they do not discover a comparable route for the UK to receive monetary policy from the euro area. This could be attributed to the fact that a sizable amount of financial ties to the UK are not made in euros but rather in other currencies, such as USD.

According to Takáts and Vela (2014), advanced economic monetary policy appears to influence policy rates above what domestic causes would imply, as measured by US monetary conditions. Moreover, there is a considerable correlation between US long-term interest rates and long-term interest rates in emerging market countries. After the 2008 financial crisis, the co-movement of long-term rates strengthened, while the significance of policy rate responses decreased. This is in contrast to the diminishing impact of US monetary policy. They observed that, as should be expected given the change from conventional to unconventional policy, long-term interest rates became increasingly significant. The transmission of monetary policy to the economy is commonly believed to involve long and varied lags, according to Havranek and Rusnak (2013). The transmission lag is twenty-nine months on average, and following a one percentage point increase in the policy rate, prices can drop as much as 0.9 percent on average. Compared to post-transition economies, which have transmission lags of ten to twenty months, industrialized economies have transmission lags of twenty-five to fifty months. They propose that financial development, where higher financial growth is linked to slower transmission, is the component that best explains this variability. Kim

and Lee (2008) discovered that when Korea and Thailand implemented floating exchange rate regimes, the sensitivity of local interest rates to global interest rates decreased. Additionally, they discovered that Japan has more monetary policy independence than Hong Kong due to its floating exchange arrangement. These empirical results imply that more monetary independence is achieved through exchange rate flexibility. According to Shambaugh's (2004) research, countries with variable exchange rates seem to react to changes in the base rate less quickly and with greater lag. In the same field, Ehrmann (2000) tests thirteen member countries of the European Union and reveals that most nations see rather quick price transmission—between two and eight quarters.

The contribution of this paper is adding a new term to the international transmission of monetary policy which is the alignment of monetary policy in foreign countries with the Federal Reserve Bank's policy according to the adopted exchange rate regime. Also, the methodology in the study differs from all other previous studies which use VAR and impulse response function to know if the Federal Reserve Bank's monetary policy transmits to other nations.

3. Methodology

This paper uses Panel data to estimate the effect of the alignment with the Federal Reserve Bank's monetary policy variable on Gross Domestic Product (GDP) and Consumer Price Index (CPI) under two regimes, fixed and floating exchange rates, for four countries in each regime. Jordan, Bahrain, Oman, and Iraq follow a fixed exchange rate regime, while Egypt, Iran, Vietnam, and Algeria follow a floating exchange rate regime. Data on GDP, CPI, and the Alignment factor (Ali) for all countries are collected covering the period (2008-2022). The study uses the Fixed Effect Model to estimate the effect for two reasons, the first one is that this study focuses on studying the effect of a specific variable (Ali) on both variables (GDP) and (CPI) so the intercept will capture the effect of other omitted variables and the intercept varying across countries and time. The second reason is that the study divides the countries into two categories of fixed and floating exchange rate regimes, which means that the effect of the independent variable on the dependent variable will be similar in all countries that follow the same exchange rate regime, so the intercept is fixed for all countries.

The functional form of the fixed effect model is

$$Y_{it} = \alpha_i + \beta X_{it} + \varepsilon_{it} \quad (1)$$

$i: 1, 2, 3, 4$ $t: 1, 2, \dots, 15$ α_i : the intercept ε_{it} : the residuals

Y_{it} : Dependent Variables (GDP, CPI).

X_{it} : Alignment Monetary Policy Factor (Ali).

The paper defined the Alignment term as the difference between the interest rate on deposits in any country and the Federal Fund rate in the US. The interest rate on deposits is chosen because it plays a significant role in determining whether deposits are made in local currency and, consequently, whether local currencies appreciate or depreciate relative to the US dollar. To estimate the functional form, the paper follows three steps with the first one being the conducting of the Hausman test to ensure the validity of the Fixed Effect Model. The second step is to regress the Fixed Effect Model and to avoid inconsistent estimates the study pooling the data outweighs the losses from the bias induced by heterogeneity (Baltagi and Griffin 1997). The last step is testing the normality of residuals and conducting the cross-section test to ensure the efficiency and consistency of the parameter of Fixed Effect regression. These steps repeat for both categories of the fixed and floating exchange regimes.

4. Results

According to Table 1, the results of the Hausman Test show that the Fixed Effect Model is more appropriate for floating exchange rate countries than the Random Effect, where the P-value is less than 5%, which means we reject the null hypothesis which states that the Random Effect Model is appreciated.

Table 1: Hausman Test Results (Floating Exchange Rate Countries)

Test Summary	Chi-Sq. Statistics	Chi-Sq. d.f	Prob
Cross-Section Random	53.211	1	0.000

Source: Using Eviews 12

*Significant at 1%

The estimation results regressing in Table 2 show the effect of the alignment monetary policy variable (Ali) on GDP for four countries (Egypt, Iran, Vietnam, and Algeria) which follow the floating exchange rate regime using the fixed effect model. The results show a negative and a significant relationship, which means that the alignment of domestic monetary policy in these countries is not symmetric with the Federal Reserve Bank's monetary policy, which means when the

Federal Reserve Bank follows a contraction monetary policy (increase Federal Fund Rate), the monetary authorities in the countries with floating exchange rate regime not need to raise its domestic interest rate, while in the case of expansionary Federal Reserve Bank's monetary policy, the countries with floating exchange rate regime should follow this policy and decrease the domestic interest rate to guarantee positive effect on the alignment variable on the GDP. These results are consistent with Kim and Lee (2008) and Shambaugh (2004).

Table 2: Results of Fixed Effects Models (Floating Exchange Rate /Countries)

Variable	Coefficient	Std. Error	t-Statistics	Prob
Ali	-1384532	261253.4	-5.299	0.000*
C	337666.9	15802.20	21.36	0.000*
$R^2 = 0.90877$ Adjusted R-Squared = 0.900485				
F-statistics = 109.58 Prob (F-statistics) = 0.000				

Source: Using Eviews 12

*Significant at 1%

The parameter of the Fixed Effect Model is efficient and consistent and the result of the Pesaran CD Test in Table 3 supports that there is no cross-section dependence (correlation) in weighted residuals. Histogram-Normality Test 1 in Figure 1 shows the p-value is equal 0.60, which is greater than the significance level (0.05) and indicates that the null hypothesis cannot be rejected, and the data follow a normal distribution.

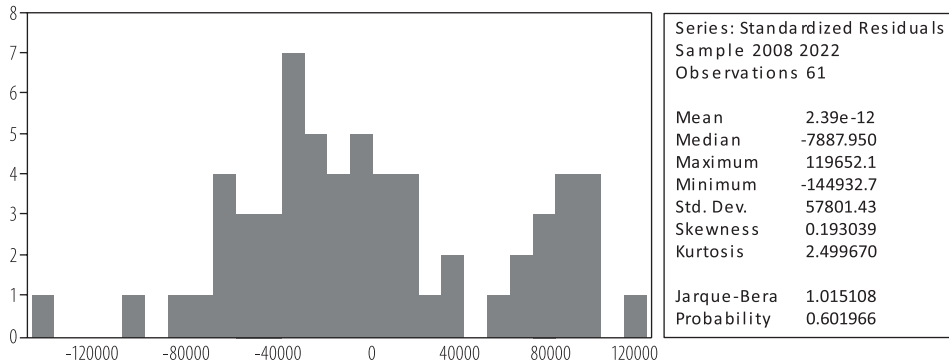
Table 3: Pesaran CD Cross Section Dependence Test (Floating Exchange Rate Countries)

Variable	Statistics	d.f	Prob
Pesaran CD	-0.156553	10	0.8756*

Source: Using Eviews 12

*not Significant

Figure 1: Histogram- Normality Test 1: Residual of estimation the effect of the Alignment factor on GDP for counties following the floating Exchange rate regime



Source: Using Eviews 12

The Hausman Test results in Table 4 show that the Fixed Effect Model is appropriate to estimate the effect of the alignment variable (Ali) on the consumer price index (CPI). Despite the parameter of the (Ali) variable being statistically significant as the results show in Table 5, the parameter is biased and inconsistent because the Pesaran CD Test in Table 6 shows that a cross-section dependence (correlation) in weighted residuals exists.

Table 4: Hausman Test Results (Floating Exchange Rate Countries)

Test Summary	Chi-Sq.Statistics	Chi-Sq.d.f	Prob
Cross-Section Random	4.93	1	0.0263*

Source: Using Eviews 12

*Significant at 5%

Table 5: Results of Fixed Effects Models (Floating Exchange Rate Countries)

Variable	Coefficient	Std. Error	t-Statistics	Prob
Ali	-349.61	55.34	-6.31	0.000*
C	117.25	3.35	34.90	0.000*
$R^2 = 0.8964$ Adjusted R-Squared = 0.8866				
F-statistics = 91.73 Prob (F-statistics) = 0.000				

Source: Using Eviews 12

*Significant at 1%

Table 6: Pesaran CD Cross Section Dependence Test

Variable	Statistics	d.f	Prob
Pesaran CD	5.656	10	0.000*

Source: Using Eviews 12

*Significant at 1%

Regarding countries that follow a fixed exchange rate regime, the Hausman Test results in Table 7 show that the Fixed Effect Model is appropriate to estimate the effect of the alignment variable (Ali) on consumer GDP. Histogram-Normality Test 2 in Figure 2 shows the p-value is equal 0.38, which is greater than the significance level (0.05) and indicates that the null hypothesis cannot be rejected, and the data follow a normal distribution.

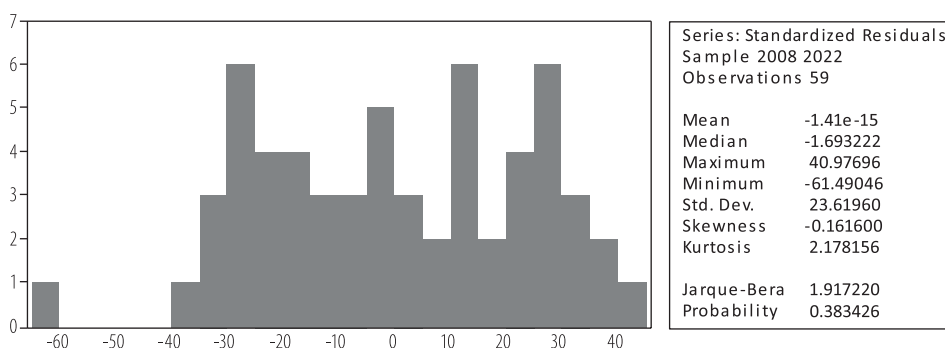
Table 7: Hausman Test Results (Fixed Exchange Rate Countries)

Test Summary	Chi-Sq.Statistics	Chi-Sq.d.f	Prob
Cross-Section Random	120.42	(3,39)	0.000*

Source: Using Eviews 12

*Significant at 1%

Figure 2: Histogram-Normality Test 2: Residual of estimation the effect of Alignment factor CPI for counties following floating Exchange rate regime



Source: Using Eviews 12

Despite that, the parameter of (Ali) variable is statistically significant as Table 8 shows, but the parameter is biased and inconsistent due to the Pesaran CD Test in Table 9, which indicates the existence of a cross-section dependence (correlation) in weighted residuals, meaning that the countries with a fixed exchange

rate regime need another suitable model to estimate the relationship between the alignment variable and GDP to be more reliable and accurate.

Table 8: Results of Fixed Effects Models

Variable	Coefficient	Std. Error	t-Statistics	Prob
Ali	-541668.6	132807.4	-4.0786	0.002*
C	96201.70	4610.41	20.86	0.000*
$R^2 = 0.9206$ Adjusted R-Squared = 0.9124				
F-statistics = 113.10 Prob (F-statistics) = 0.000				

Source: Using Eviews 12

*Significant at 1%

Table 9: Pesaran CD Cross Section Dependence Test

Variable	Statistics	d.f	Prob
Pesaran CD	5.65	10	0.000*

Source: Using Eviews 12

*Significant at 1%

5. Conclusion

Needless to say, several central banks keep a close eye on the Federal Reserve's multifarious operations. This study employs panel data to examine the impact of four nations under each of the two regimes—fixed and floating exchange rates—on GDP and the Consumer Price Index (CPI) as a function of the alignment with the Federal Reserve Bank's monetary policy variable. Egypt, Iran, Vietnam, and Algeria have floating exchange rates, while Jordan, Bahrain, Oman, and Iraq have fixed exchange rates.

This study concludes that the alignment of domestic monetary policy in countries following a floating exchange rate regime is not symmetric with the Federal Reserve Bank's monetary policy which indicates that any contractionary monetary policy by the Federal Reserve Bank (increase Federal Fund Rate), not necessarily need to be followed by the monetary authorities in the countries with floating exchange rate regime, while in the case of expansionary Federal Reserve Bank's monetary policy, the countries with floating exchange rate regime should follow this policy and decrease the domestic interest rate to guarantee positive effect on the alignment variable on the GDP.

The model for countries with fixed exchange rate regimes shows biased and inconsistent parameters, which means the model is not reliable. In fact, and according to our knowledge, countries with fixed exchange rates in this study follow the monetary policy of the Federal Reserve Bank regardless of whether it is contractionary or expansionary monetary policy. Thus, the alignment of domestic monetary policy in these countries with the Federal Reserve Bank's monetary policy is supposed to be symmetric.

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