

# Why Follow the Fed?

## Monetary Policy in Times of U.S. Tightening

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**Why Follow the Fed? Monetary Policy in Times of U.S. Tightening**

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**ABSTRACT:** I conduct interviews with 32 Central Bankers from Emerging Markets and present five unifying themes that explain their behavior when reacting to a U.S. monetary tightening. I then estimate the impulse response functions of their two main monetary tools, the policy rate and foreign exchange interventions, to an increase in the U.S. rate, using the answers from the interviews as a guide for the best econometric specification. I find that most Central Banks react to a U.S. tightening by raising domestic rates, regardless of the exchange rate regime, but their reasons for doing so vary – from controlling inflation to preventing capital outflows.

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## WORKING PAPERS

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Prepared by Gonzalo Huertas<sup>1</sup>

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