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# U.S. Monetary Policy Spillovers to Middle East and Central Asia: Shocks, Fundamentals, and Propagations

Giovanni Ugazio and Weining Xin

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WORKING PAPER

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**U.S. Monetary Policy Spillovers to Middle East and Central Asia: Shocks, Fundamentals and Propagations**

Prepared by Giovanni Ugazio and Weining Xin\*

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**ABSTRACT:** We empirically examine U.S. monetary policy spillovers to the Middle East and Central Asia (ME & CA) region by decomposing U.S. interest rates changes into two orthogonal shocks: the pure monetary policy shock and the information news shock. Using a sample of 16 ME & CA countries, we find that when interest rates increase, the two shocks have opposite spillovers on the region. Tightening driven by contractionary monetary policy shocks hinders growth, while tightening driven by positive information news shocks boosts growth despite higher interest rates. Countries with weaker fundamentals face more negative spillovers from contractionary monetary policy shocks but may sometimes benefit more from positive information news shocks. Moreover, high oil prices mitigate both spillovers for oil exporters while global risk appetite amplifies both spillovers. Finally, we estimate a large degree of heterogeneity in the impact of the 2022 U.S. tightening cycle on ME & CA countries, with oil exporters with stronger fundamentals withstanding well the shock and oil importers with weaker fundamentals being hit the most.

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