

## **Cross-border spillovers of monetary policy: what changes during a banking crisis?**

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### **Abstract**

This paper analyses cross-border spillovers of monetary policy by examining two countries that were in the eye of the storm during the euro area sovereign debt crisis, namely Ireland and Portugal. The research provides insight as to how banking and sovereign stress affects the inward transmission of foreign monetary policy to two economies that share many characteristics, but that also have many distinct features. In particular, our research addresses the question of whether a banking system in distress reacts more or less to monetary policy changes in other major economies. The empirical analysis indicates that international spillovers are present for US and UK monetary policy for both Ireland and Portugal, but there is heterogeneity in the transmission mechanisms by which they affect credit growth in the two economies.

**Keywords:** Cross-border banking, euro area sovereign crisis, unconventional monetary policy spillovers, credit supply.

**JEL Classification:** F60, G15, G21

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