Optimal Monetary Policy Transmission Mechanism for Economic Growth

(In case of Developing Countries)

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Abstract

This paper assesses the role of monetary policy on economic growth in selected developing countries and empirically estimates a dynamic model for exploring the performance of monetary policy in developing countries. The panel data is collected for 44 developing countries from 1974 to 2018. The analysis is carried out through the Generalized Method of Moment (GMM) which is efficient to handle the problem of endogeneity and serial correlation. The results of monetary indicators show that expansionary monetary policy is best suited for economic growth in developing countries. The results of the money supply and banks reserve ratio suggested that expansionary monetary is more appropriate for selected countries over contractionary monetary policy. In a similar line, population growth performs a negative impact on economic growth while the developing countries are labour-abundant, and analysis supports that the labor force has a positive role in economic growth. Based on empirics, it is suggested that expansionary monetary policy is more effective for economic growth and economic stability in selected countries.

Keywords: Monetary Policy, Economic Growth, Developing Countries, GMM