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SHADOW BANKING, BANK LIQUIDITY AND MONETARY POLICY SHOCKS IN EMERGING COUNTRIES: A PANEL VAR ANALYSIS

Abstract:

The study provides an analysis of the relationships between monetary policy, shadow banking and bank liquidity in emerging market economies. The presents of market finance have important implications for monetary policy transmission, whilst on the other hand, changes in bank liquidity have an influence on the growth of the shadow banking sector. We employ panel VAR technique to analyse the dynamics of monetary policy, shadow banking and bank liquidity using data for 15 emerging economy countries. A contractionary monetary policy shock results in a decrease in shadow banking and a decrease in bank liquidity. We also find that a positive shock in bank liquidity increases shadow bank growth and a positive shock in shadow banking also increases bank liquidity. The results point to complementarity between shadow banking and bank liquidity. We suggest continuous monitoring of shadow banking activities to minimise transmission of risk from the shadow banking system into the banking sector.

Keywords:

monetary policy, shadow banking, bank liquidity, panel VAR

JEL Classification: E44, C40, G00