

Investigating the Effect of Shadow Banking System on Liquidity in Iran

Mohammad Taghi Gilak Hakimabadi*

Alireza Azimi**

Zahra Mila Elmi***

DOI: 10.22096/esp.2024.527522.1507

Received Date: 07/11/2021 - Accepted Date: 18/04/2022

Abstract

According to financial and monetary theories, the main role of banks in the economy is to create liquidity through cash deposits and provide them in the form of loans. The main purpose of this study is to investigate the effect of shadow banking system on the volume of liquidity in Iran. For this purpose, Iranian quarterly data during the years 1397-1388 have been analyzed using structural vector autoregression and ordinary least squares. The results of the SVAR model in the form of shadow banking shock and analysis of variance show that the shadow banking system affects the liquidity of the country in the period under review, so that the effect of shadow banking shock on supply Money and quasi-money reached their highest levels in the second year, about 29.70 and 28.40 percent, respectively, and then began to decline. Also, the results of the ordinary least squares method show that there is a positive relationship between shadow banking and money supply and quasi-money and the correlation coefficient of shadow banking with money supply and quasi-money is 0.502677 and 1.043699, respectively. Therefore, the activities of the shadow banking system increase the volume of liquidity by promoting the volume of money and quasi-money, which are the components of the volume of liquidity.

Keywords: Shadow banking system; liquidity volume; structural vector autoregression model; seasonal data.

JEL Classification: E52 .G21

* Associate Professor, Faculty of Economic and Administrative Sciences, University of Mazandaran, Babolsar, Iran. (Corresponding Author)

Email: mgilak@umz.ac.ir

** Master's Student in Islamic banking, Mazandaran University, Babolsar, Iran.

Email: Alirezaazimi1994@yahoo.com

*** Professor, Faculty of Economic and Administrative Sciences, University of Mazandaran, Babolsar, Iran.

Email: Zelmi@umz.ac.ir



Bibliography

- Abbaspanah, Naeem, Meysam Amiri, and Mohammad Ali Dehghan Dehnavi. "Estimating of Shadow Banking size in Iran and Its Impact on Financial Stability" Master's thesis. Allameh Tabatabaei University, 2017. [In Persian]
- Adrian, Tobias, Adam B. Ashcraft, and Nicola Cetorelli. "Shadow Banking Monitoring." *Federal Reserve Bank of New York*, no. 638 (2013): 7-45.
- Akbarifard, Hossein, and Mohammad Sajjad Kooshesh. *Structural VAR Models in Econometrics*. 1st Edition, Tehran: Noor Elam, 2013. [In Persian]
- Arab Mazar, Abbas, and Saeed Kayqabadi. "The Posttion of qurd ul Hasaneh in Iran Islamic Banking." *Eghtesade Islami* 6, no. 22 (2006): 13-46. [In Persian]
- Arbab Afazli, Mohammad, Mahshid Shahchera, and Mandana Taheri. "Macrography of Shadow Banking in Iran." *Monetary and banking Research Institute* (2016):1-13. [In Persian]
- Arquie, Axelle, and Patrick Artush. *Measuring the shadow banking in the Euro area: what does the ECB know?*. Paris: School of Economic, 2012.
- "Central bank of Iran." Accesed January 20. 2021. www.cbi.ir. [In Persian]
- Chen, J., and X. Zhang "The Impact of Shadow banking System on the China's Economic Development – based on the analysis of quarterly data from 2000-2010." *Journal of Research on Financial and Economic Issues*, no. 8 (2012): 66-72.
- "China's Shadow Banking Revisited: Size, Implications, Risks, and Reforms." Accesed January 20. 2021. <http://caijing.com.cn/>.
- Claessens, Stijn, and Lev Ratnovski. "What Is Shadow Banking?." *IMF Working Paper WP/14/25* (2014).
- Diamond, Douglas W., and Philip H. Dybvig. "Banking Theory, Deposit Insurance, and Bank Regulation." *The Journal of Business* 59. no. 1 (1986):55-68. 10.1086/296314.
- Diz, Adolfo Cesar. "Money and Prices in Argentina 1935-65." In *Varieties of Monetary Experiences*, edited by David Meiselman 69-162. Chicago: University of Chicago Press, 1970.
- Griffith, John. "7 Things You Need to Know about Fannie Mae and Freddie Mac." Accesed January 20. 2021. <http://www.studymode.com/essays/2008-Financial-Crisis-Lehman-Brothers1102989.html>.
- Haisen, H. Rodriguez, and Hassan Yazdifar. "Impact of the shadow banking system on monetary policy in China." *ICTACT Journal on Management Studies* 1, no. 1 (2015): 1-12.

- Kashyap, Anil K, Raghuram Rajan, and Jeremy C. Stein. "Banks as Liquidity Providers: An Explanation for the Co-Existence of Lending and Deposit-Taking." *Journal of Finance* 57, no. 1 (2002): 33-74.
- Kordbcheh, Hamid, Mohammad Javad Hozouri, and Ali Malmir. "Measuring Risk Excesses in Iran's Mutual Funds industry." *Faslname Daneshe Sarmayegozari* 1, no. 2 (2012):117-140. [In Persian]
- Li, T., and G.Wu. "The Credit Creation Functions of the Shadow Banking System and the Challenge on the Monetary Policy." *Journal of Financial Research*, no. 12 (2011): 77-84.
- McCulley, Paul A. "Teton reflections." *PIMCO Global Central Bank Focus*, no. 2 (2007): 1-4.
- Michell, Jo. "Do shadow banks create money? 'Financialisation' and the monetary circuit." *Metroeconomica* 68, no. 2 (2017): 354-377.
- Minsky, Hyman P. *Stabilizing an Unstable Economy*. New Haven: Yale University Press, 2008.
- Nersisyan, Yeva, and Flavia Dantas. "Rethinking liquidity creation: Banks, shadow banks and the elasticity of finance." *Journal of Post Keynesian Economics* 40, no. 3 (2017): 279-299. 10.1080/01603477.2017.1356686.
- Pluksna, Lelde. "Role of Shadow Banking." Master's thesis, Tilburg University, 2013.
- "Statistics center of Iran." Accessed January 20, 2021. www.amar.org.ir. [In Persian]
- Tian, Jianbo. "Shadow Banking System, Derivatives and Liquidity Risks." *SUNY at Albany - Department of Economics* (2010). <http://ssrn.com/abstract=1571707>.
- Turner, Adair. "Shadow banking and financial instability." *arvard Law School Forum on Corporate Governance & Financial Regulation* (2012).
- "U.S. Securities and Exchange Commission." Accessed January 20, 2014. <https://www.sec.gov/>.
- Wang, Zh. "The Impact of Shadow Banking System on the China's Money Supply." *Journal of China Finance*, no. 23 (2010): 30-31.
- Xiao, Kairong. "Monetary transmission through shadow banks." *Columbia University - Columbia Business School*, (2019). <http://dx.doi.org/10.2139/ssrn.3166114>.
- Yang, Liu, S. Van Wijnbergen, Qi Xiaotong, and Yi Yuhuan. "Chinese shadow banking, financial regulation and effectiveness of monetary policy." *Pacific-Basin Finance Journal* 57 (2019): 101169.