MONETARY STIMULUS AND BANK LIQUIDITY HOARDING IN AN EMERGING MARKET

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ABSTRACT

The paper examines the impact of monetary policy on bank liquidity hoarding. Using novel measures to capture bank liquidity hoarding in Vietnam during 2007–2019, we find that banks decrease total liquidity hoarding and all three liquidity hoarding components (asset-, liability-, and off-balance sheet items) when the central bank injects more money into the economy. An interesting result appears when we document that banks hoard more liquidity in the event of lowered interest rates. Our additional analysis indicates that the extent to which bank liquidity hoarding responds to monetary policy changes is clearer in lower-risk banks.

Keywords: bank liquidity hoarding, bank risk, emerging market, monetary policy tools, monetary stimulus.