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Volatility Spillovers between US Banking Industry and Bitcoin Market: Risk Implications for Banking Industry

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Abstract

This paper examines the volatility spillovers between Bitcoin market and US banking industry using unrestricted BEKK-GARCH model. The results show that there is a strong short-term volatility spillover effect in the two markets. However, Bitcoin trading volatility process weakens the short-term volatility spillover effect from Bitcoin market to banking industry in the United States and the volatility of banking industry returns (i.e. volatility of operational results) weakens the short-term volatility spillover effect from banking industry to Bitcoin market mainly due to inability of adoption in the short-run. Moreover, there is a significant and (positive) long-term volatility spillover effect from Bitcoin market to banking industry. This remarkable observation reveals that there is a possibility of banking industry adopting Bitcoin operation as a part of banking product portfolio development in the long-run. As such, imposition of any tax or trading restriction (e.g. price bands, transaction cost, tax etc.) on Bitcoin market will adversely impact the performance of banking industry in the long-run. The nature of the impact and its timing are of utmost importance for the government and policymakers, particularly in case of economic planning and restructuring of banking and financial services industry.

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ABSTRACT

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Abstract
Cryptocurrencies have emerged about ten years ago as a new form of currency and have attracted much attention since

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