



SYSTEMIC RISK

‘The Shadow Banking sector...is set-up by corporations, primarily for tax purposes, to attract external funding and facilitate intragroup transactions...

Shadow Banking assets in **Luxembourg, the Netherlands, and Ireland** are substantially larger than those of the regulated banking system, accounting for almost two-thirds of the entire euro area shadow banking system.

Credit through non-bank channels can have important advantages...but can also become **a source of Systemic Risk.**¹

SHADOW BANKING

‘Many financial institutions act like banks but are not supervised like banks. The term was coined by U.S. economist Paul McCulley in 2007...because they are not subject to traditional bank regulation...they are in the shadows.

Shadow Banks are characterized by lack of disclosure and information about the value of their assets...opaque governance and ownership structures between banks and shadow banks; little regulatory or supervisory oversight...**Shadows can be frightening because they obscure the shapes and sizes of objects within them.**

The same is true for shadow banks. Estimating the size of the shadow banking system is particularly difficult because many of its entities do not report to government regulators. The shadow banking system appears to be largest in the United States, but nonbank credit intermediation is present in other countries—and growing.²

In 2009, the Shadow Banking system’s share of total global financial intermediation was about 25%.

In 2021, it was 50%³

¹ Source Banking Structures Report (2008-2013), European Central Bank (ECB), October 2014)

² Source Finance & Development, International Monetary Fund (IMF), June 2013 Vol. 50 No.2.

³ Source Financial Stability Board (FSB), Global Monitoring Report on Non-Bank Financial Intermediation 2021, 16 December 2021.

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