



Shadow Banking in Asia: Macro and Policy Implications

Anoop Singh
Director, Asia and Pacific Department
International Monetary Fund
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Shadow Banking: Background

- FSB broad definition:
System of credit intermediation (entities and activities) fully or partially outside the regular banking system.
- Signals financial deepening, but...
- ...could also reflect distortions in the mainstream financial system
- Across Asia: heterogeneity in nature of “shadow banking” activity

Main Messages

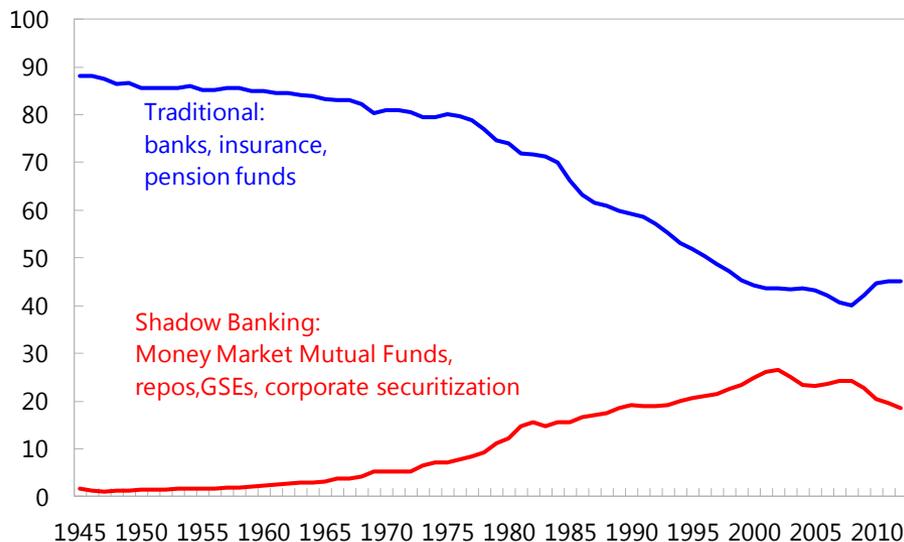
- Shadow banking: has pros (financial inclusion) and cons (increases sources of vulnerability)
- Main source of vulnerability in Asian context: nexus between banks and shadow banks
- Policy focus:
 - Eliminate distortions (low real deposit rates, rationing of borrowers out of mainstream channels) that shift activity to shadow banking
 - Contain risks from nexus between banks and shadow banks
 - Strengthen regulations on non-banks acting as shadow banks
 - Enhance data collection - highlight activities posing systemic risks

Intermediaries and instruments

United States as a reference case: Trends in credit intermediation

United States: Financial Liability by Type

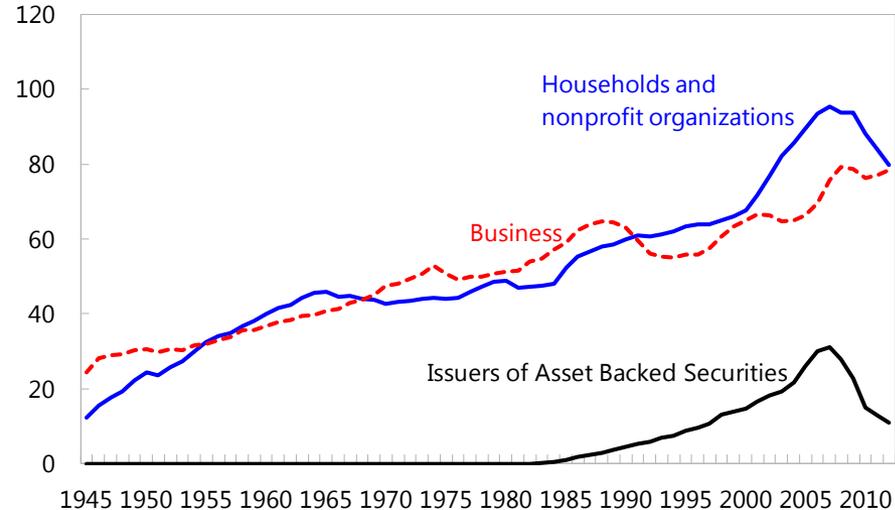
(In percent of total)



Sources: US Federal Flow of Funds, Table L107; and IMF staff calculations.

US Credit Ratios: Liabilities of Households and Nonprofits, Nonfinancial Businesses, and Issuers of Asset Backed Paper

(In percent of GDP)



Source: US Federal Flow of Funds, Table L1; and IMF staff calculations.

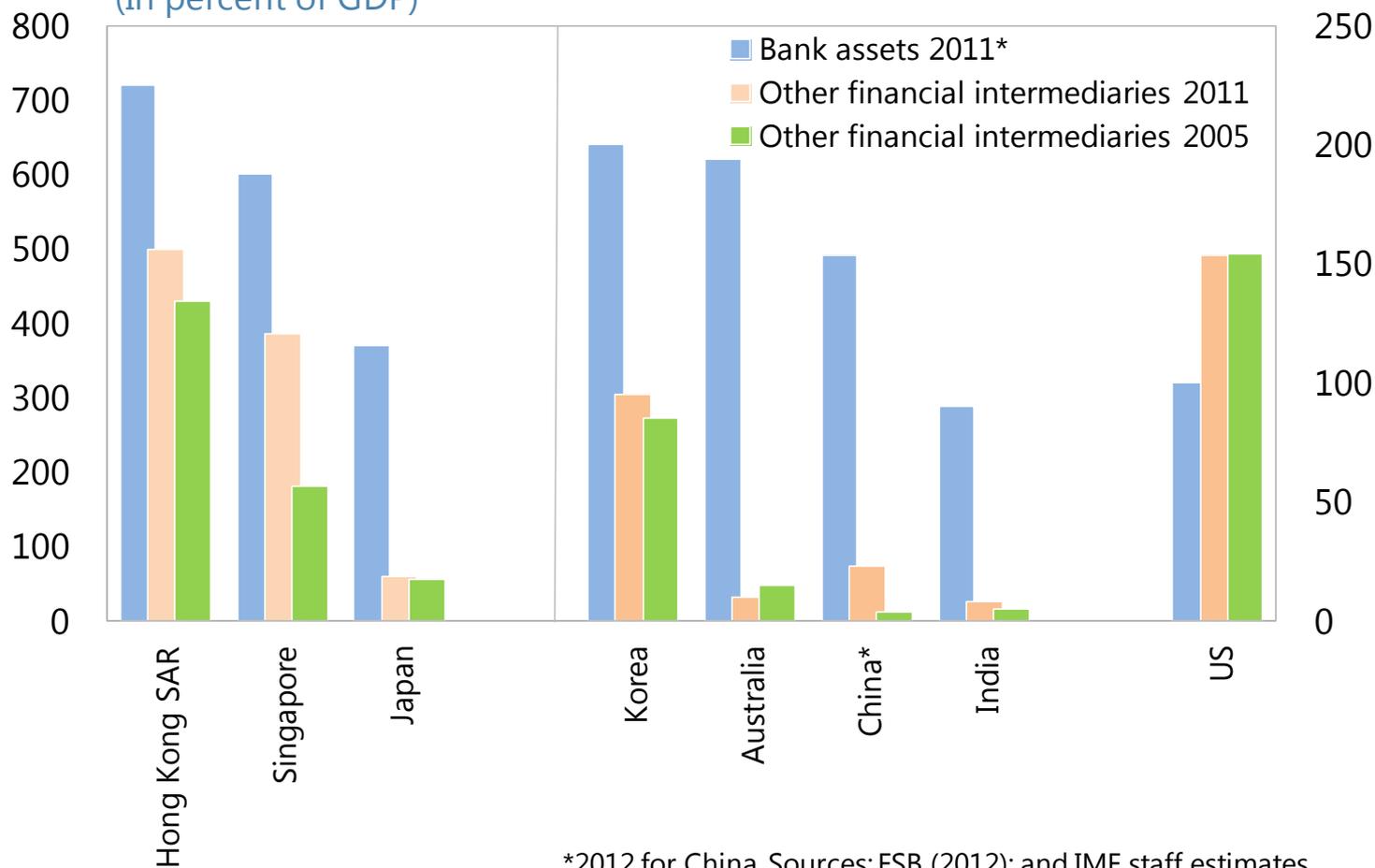
Asia

- Traditional intermediaries:
 - banks dominate credit intermediation
- Non-traditional intermediaries
 - Trusts and finance companies

Asia: Banks continue to dominate

Size of Financial Institutions

(In percent of GDP)

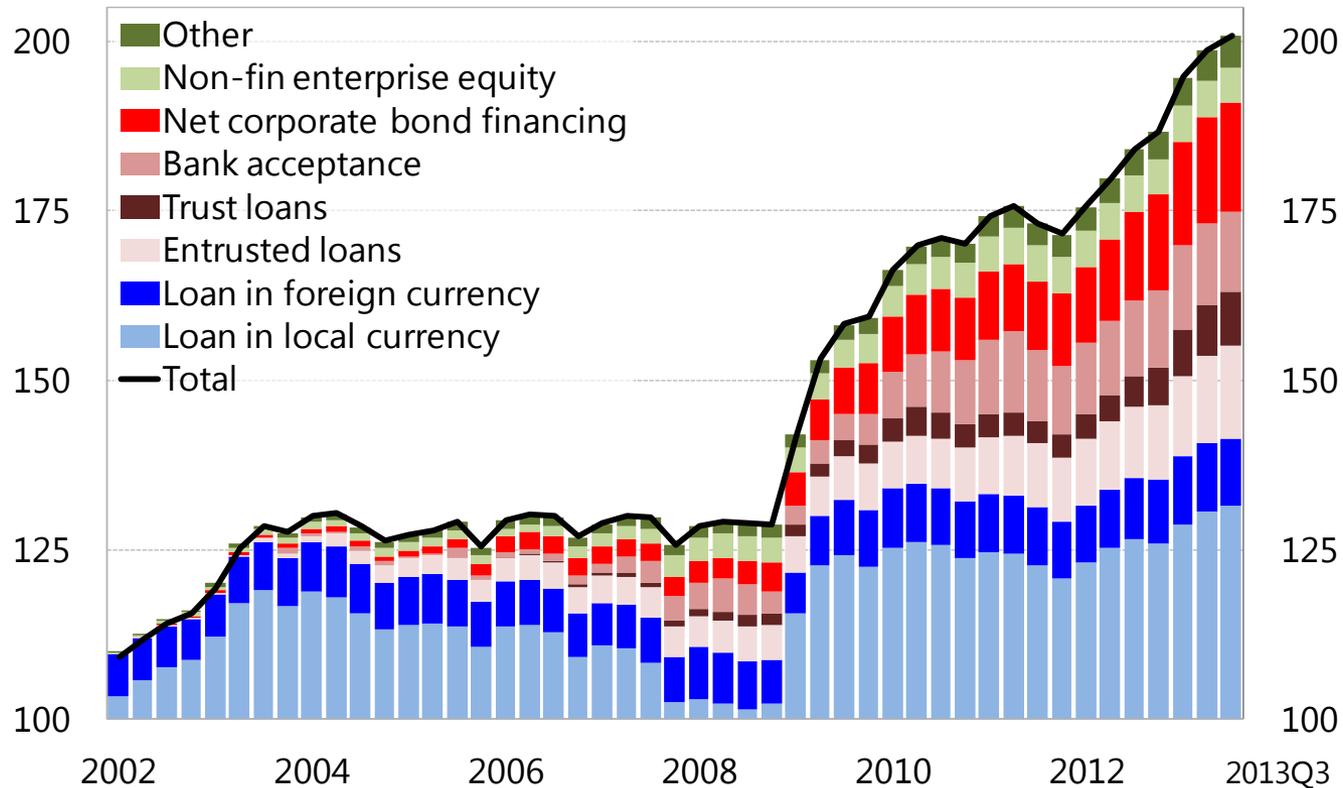


*2012 for China. Sources: FSB (2012); and IMF staff estimates.

China: Non-traditional instruments on the rise

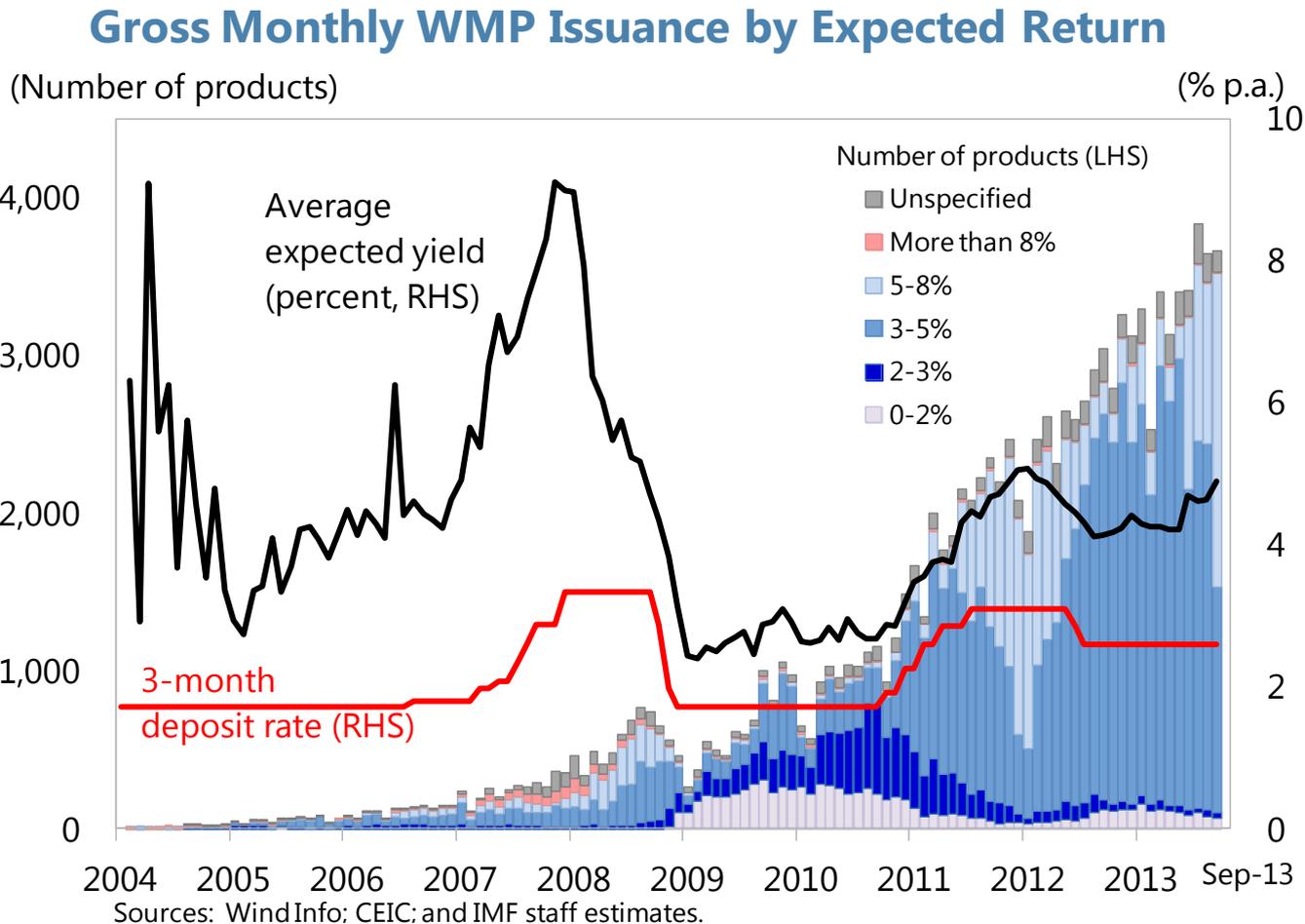
China: Social Financing Outstanding

(In percent of GDP*)



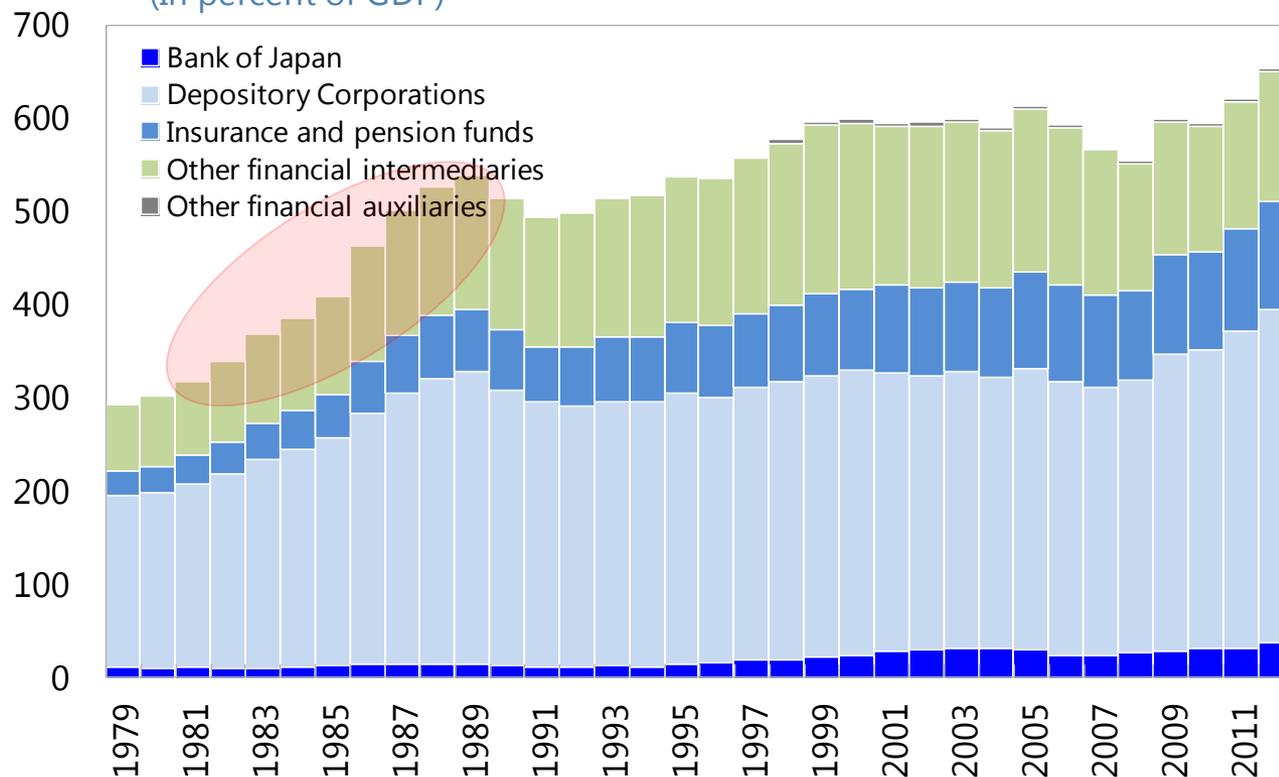
* in percent of 4Q rolling sum of quarterly GDP.

China: Impetus from investors seeking higher yield



Japan: Boom in the 1980s, but credit demand grew at more moderate pace thereafter

Total Financial Assets, by Institutions
(In percent of GDP)

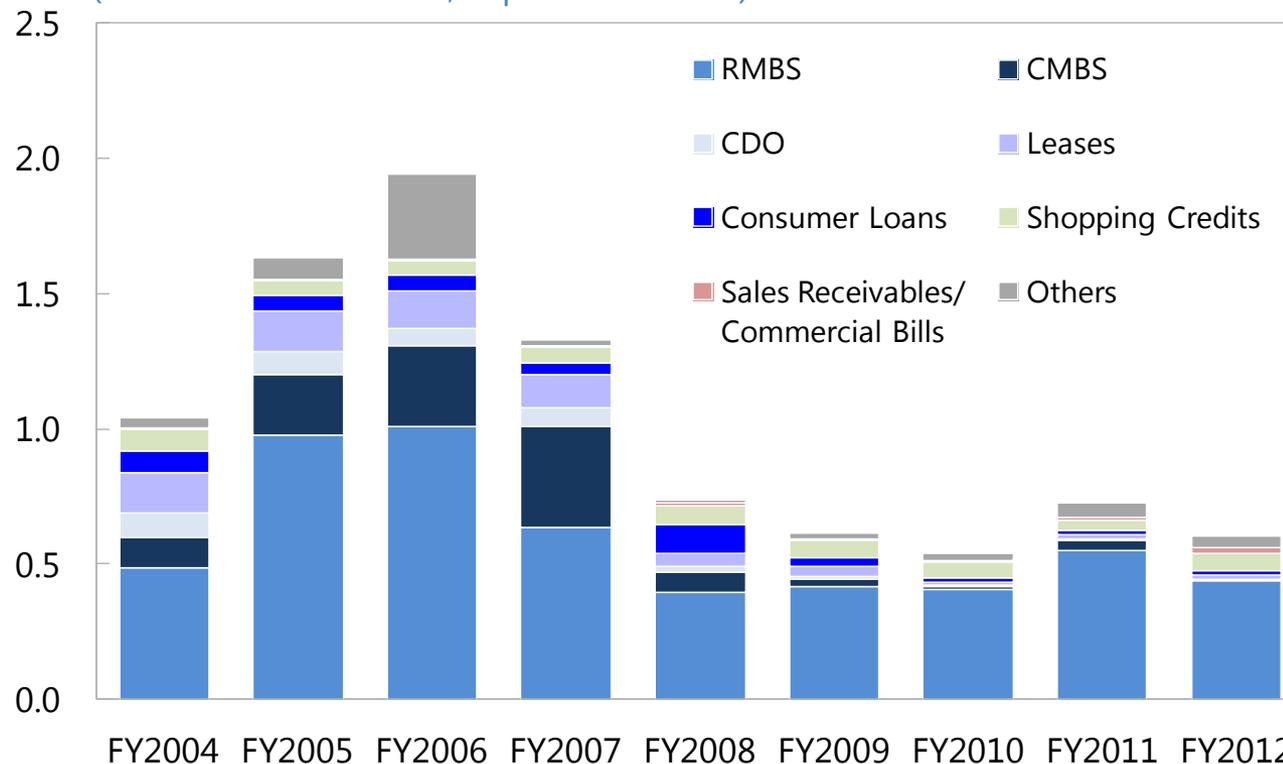


Sources: Flows of Funds, BoJ; and IMF staff calculations.

Japan: Securitization not as big an issue (even before the crisis)

Japan: Securitization Markets

(Total issuance amount, in percent of GDP)

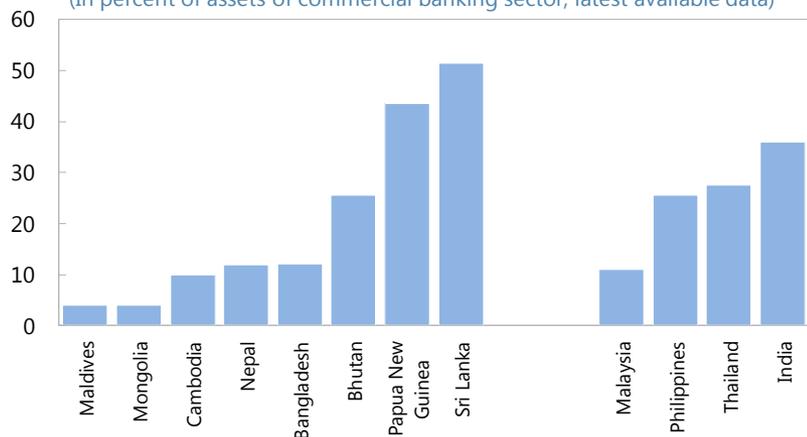


Sources: Japan Securities Dealers Association; and IMF staff calculations.

Emerging and Frontier Asia: non-bank sector growing but banks continue to dominate

Emerging and Frontier Asia: Size of Nonbank Financial Sector

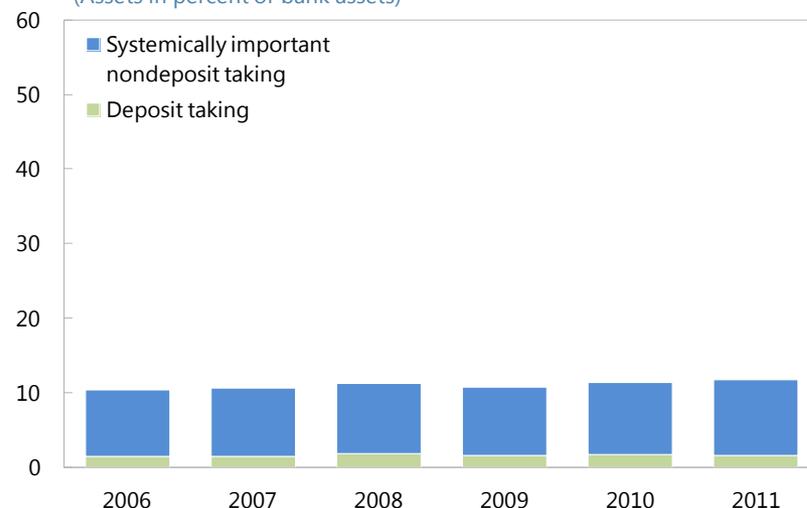
(In percent of assets of commercial banking sector; latest available data)



Sources: Publication by country authorities; Asian Development Bank (2011); and IMF, Financial System Stability Assessment reports.

India: Nonbank Finance Companies

(Assets in percent of bank assets)



Sources: Acharya et al. (2013); and IMF staff calculations.

Macro implications

Asia: Macro impact—The good side

Banking regulations: lead to a direct or implicit ceiling on bank credit

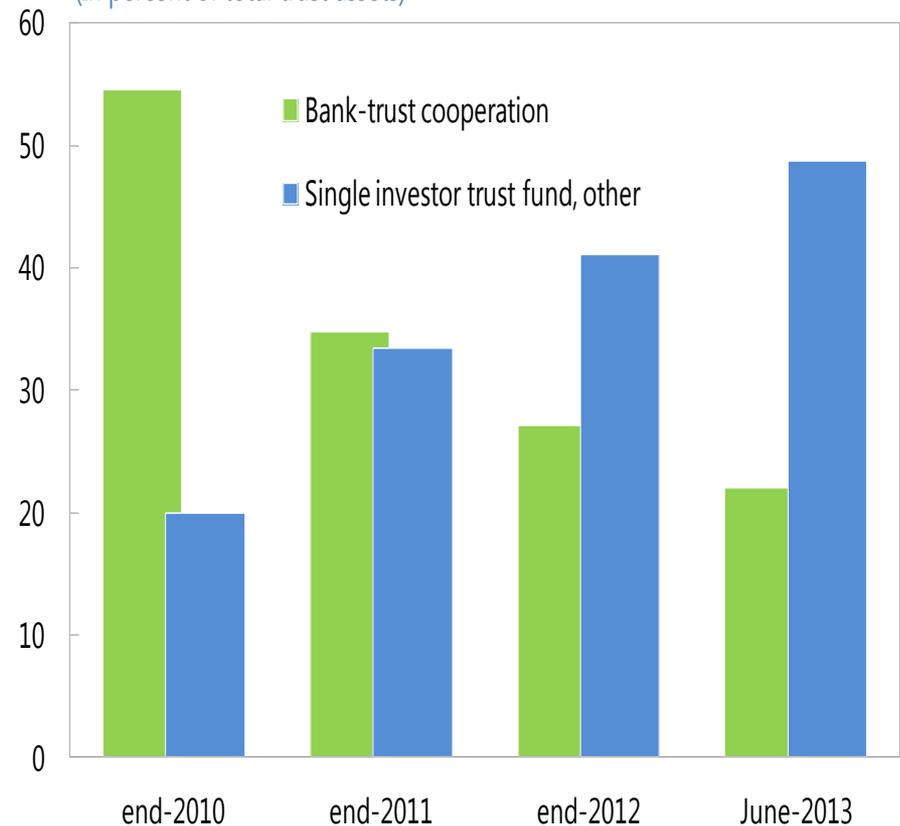
Shadow banking arises in some cases to satisfy unmet financing needs

Asia: Macro impact—Risks

- Key risks
 - Interconnections between banks and shadow banks
 - Financial sector becomes the propagator of initial shocks (a source of systemic risks)

China: Single Investor Trusts

(In percent of total trust assets)



Sources: CEIC; and IMF staff calculations.

Policy implications

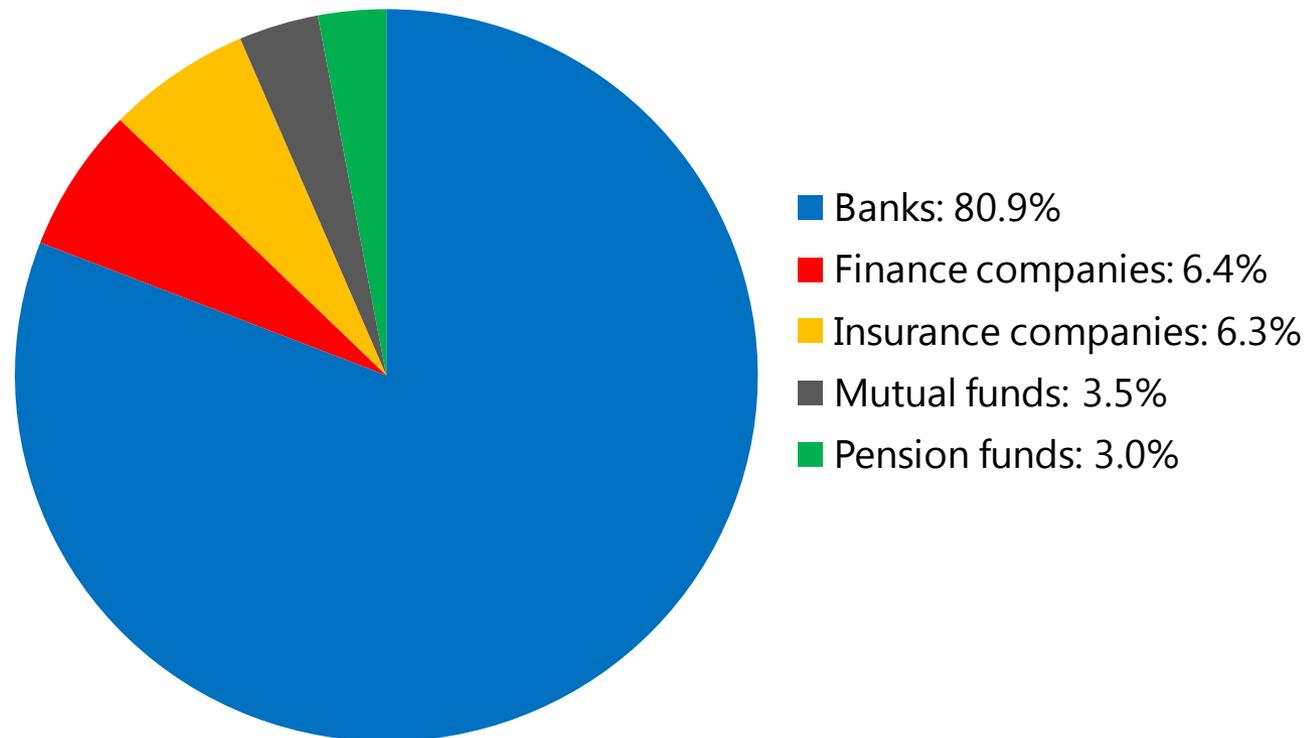
Policy Recommendations

- Address existing distortions in the mainstream financial system
- Strengthen buffers for banks deemed to have high exposures to shadow banks
- Strengthen regulations on those nonbanks acting as shadow banks
- Continue to collect consistent information to detect other forms of shadow banking

Addressing regulatory challenges in an interconnected financial system

Indonesia: Structure of Financial System, 2012

(Percent of total financial sector assets)



Sources: Bank Indonesia; and IMF staff estimates.

To Recap

- In Asia, shadow banking often fills some unmet financing needs
- Key risks: nexus between banks and shadow banks
- Policy implications: strengthen oversight of interactions between banks and shadow banks



Thank you