Issue 8 / 10

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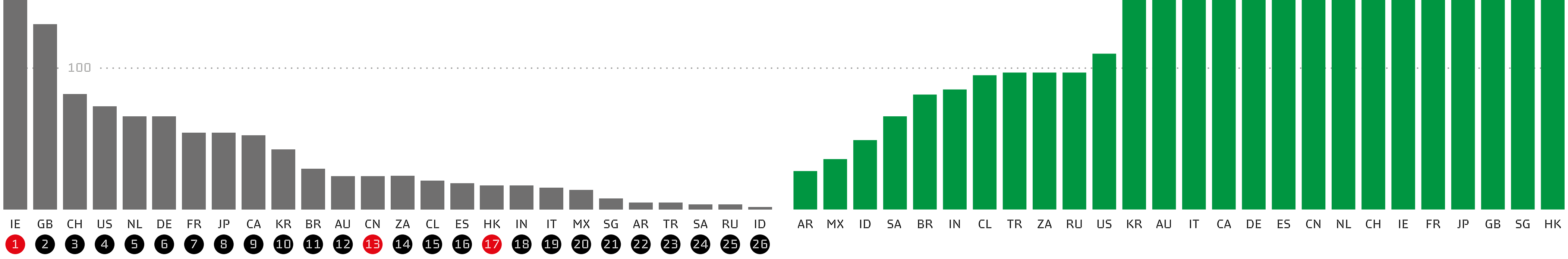
#visualizingthecrisis

OH! G.O.D.

Governors Of Demand

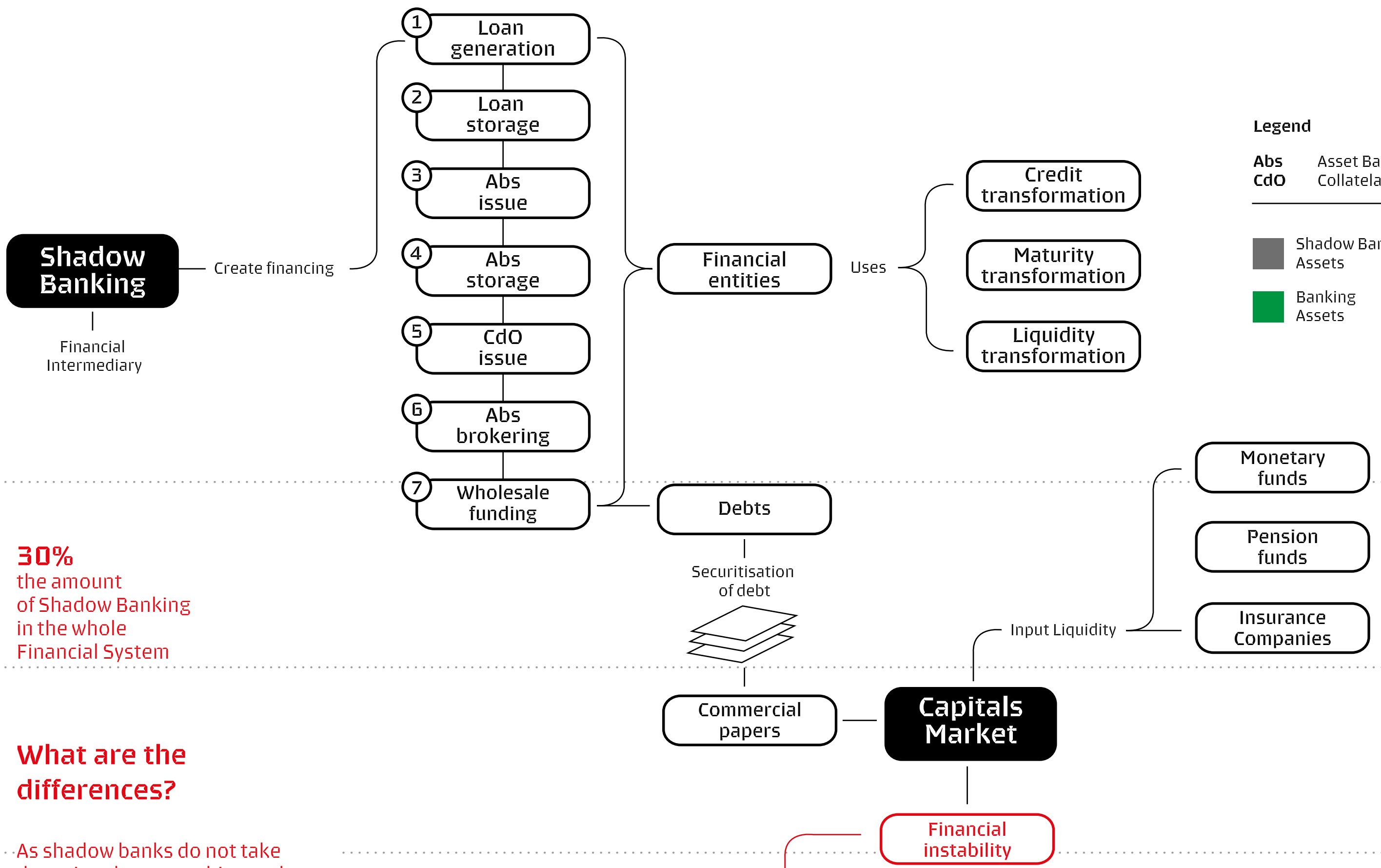
30.04.2016

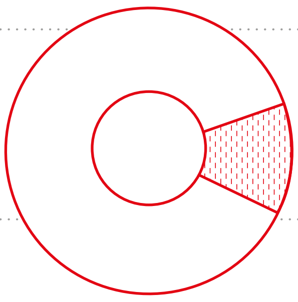
IUAV
Infodesign course
held by M. Ferrari and I. Williams
A.A. 2015 / 2016



A shadow World

A shadow banking system refers to the **financial intermediaries** involved in facilitating the **creation of credit** across the global financial system, but whose members are not subject to regulatory oversight. The shadow banking system also refers to **unregulated activities by regulated institutions**. One of the biggest is Ireland and nation's shadow banking system is more than **10 times the size of the economy**.

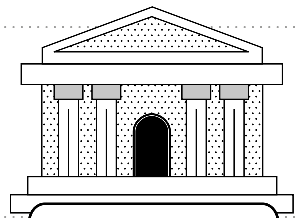




30%
the amount of Shadow Banking in the whole Financial System

What are the differences?

As shadow banks do not take deposits, they are subject to less regulation than traditional banks. They can therefore increase the rewards they get from investments by leveraging up much more than their mainstream counterparts, and this can lead to risks mounting in the financial system.



Shadow Banks don't use regular funds like bonds or money saver deposit. Also they can't access to Central Bank funds.

They decrease confidence in banking system that is already fragile.

Real risk

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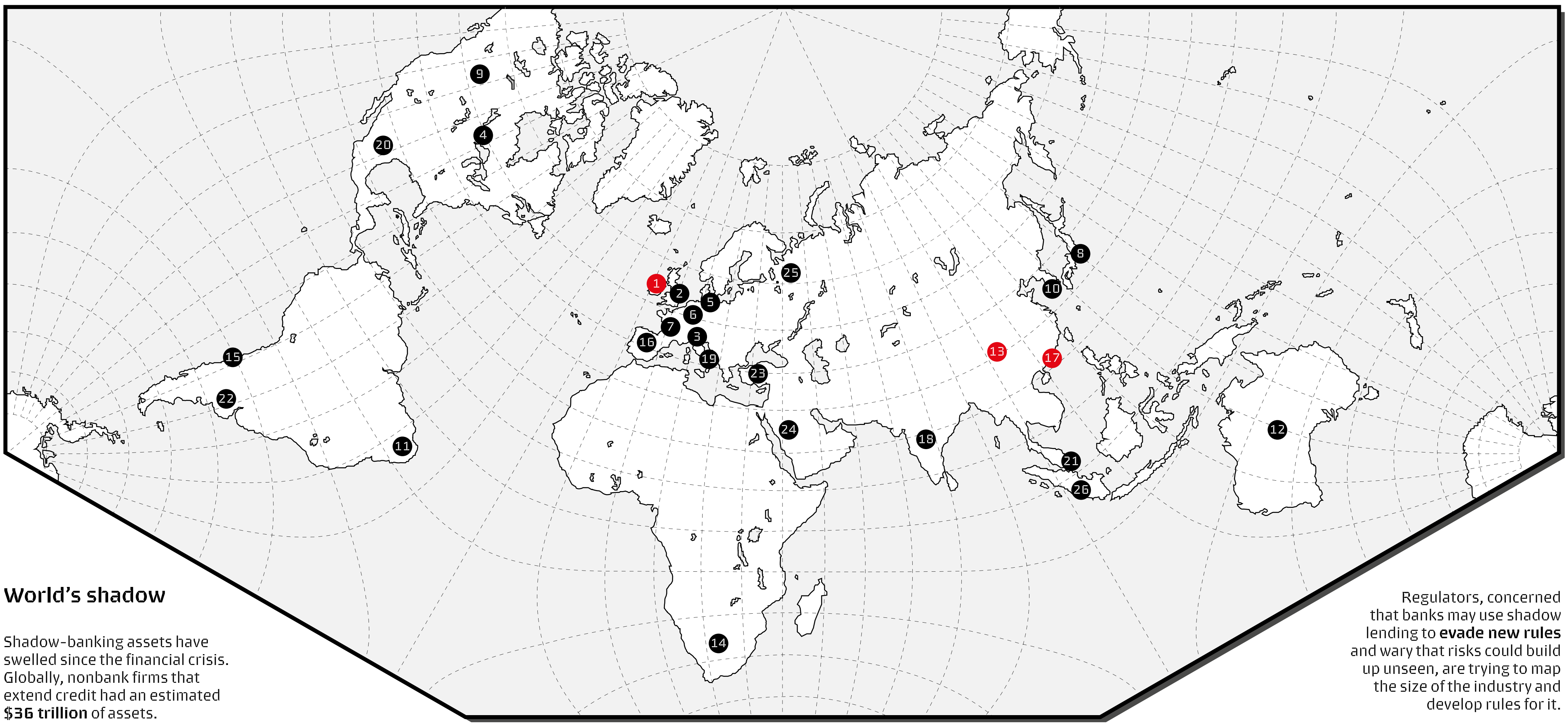


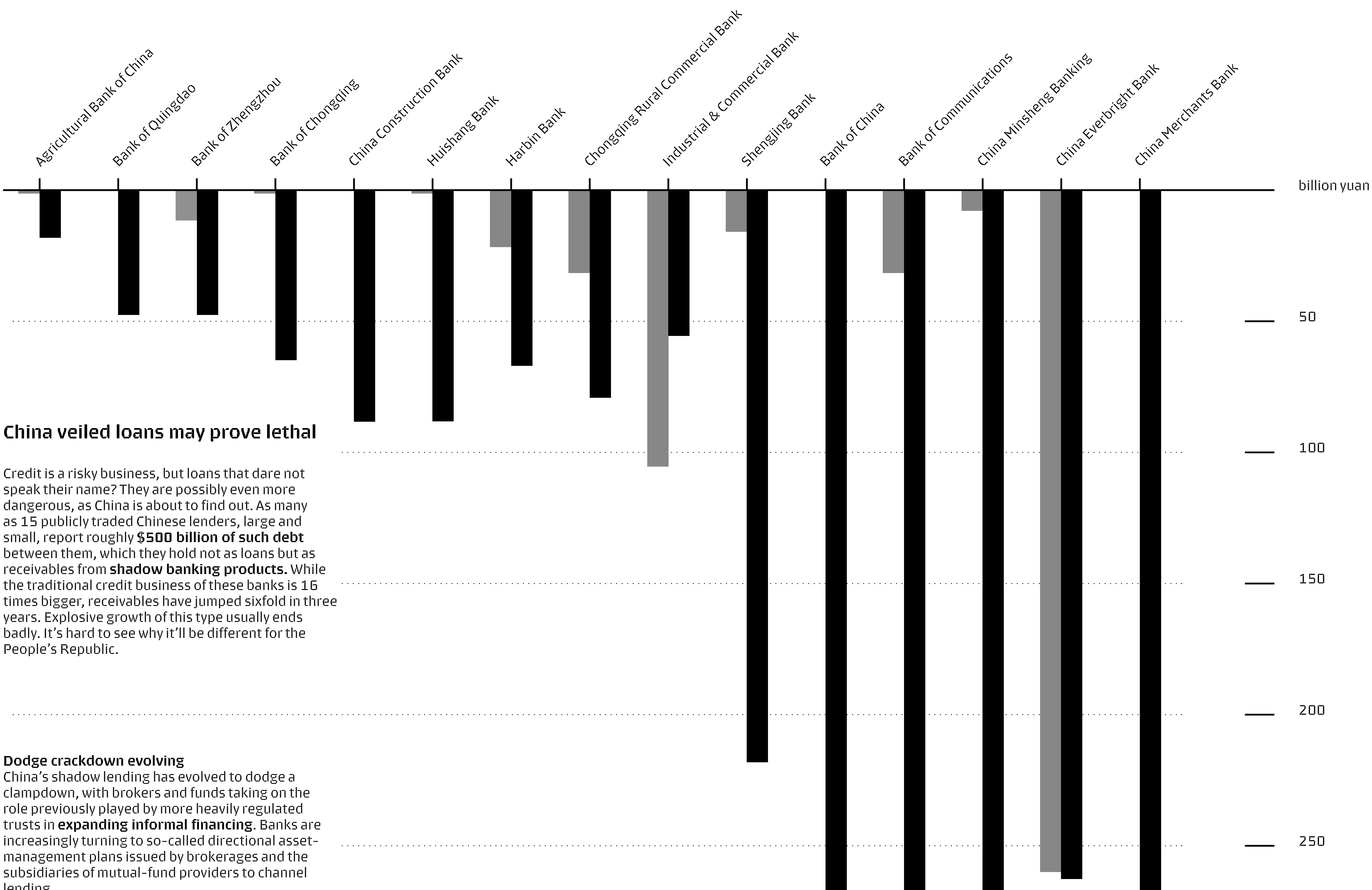
World's shadow

Shadow-banking assets have swelled since the financial crisis. Globally, nonbank firms that extend credit had an estimated **$36 trillion** of assets.

Regulators, concerned that banks may use shadow lending to **evade new rules** and wary that risks could build up unseen, are trying to map the size of the industry and develop rules for it.

CHINA'S HIDDEN LOAN BOOM!

Banks' receivables from wealth management products, trusts and other unlisted securities jump 6-fold

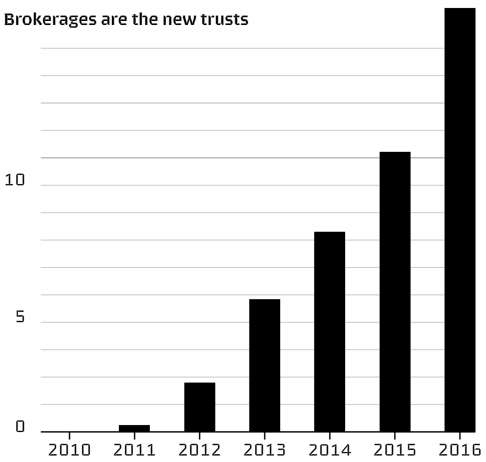


China veiled loans may prove lethal

Credit is a risky business, but loans that dare not speak their name? They are possibly even more dangerous, as China is about to find out. As many as 15 publicly traded Chinese lenders, large and small, report roughly **$500 billion of such debt** between them, which they hold not as loans but as receivables from **shadow banking products.** While the traditional credit business of these banks is 16 times bigger, receivables have jumped sixfold in three years. Explosive growth of this type usually ends badly. It's hard to see why it'll be different for the People's Republic.

Dodge crackdown evolving
China's shadow lending has evolved to dodge a clampdown, with brokers and funds taking on the role previously played by more heavily regulated trusts in **expanding informal financing**. Banks are increasingly turning to so-called directional asset-management plans issued by brokerages and the subsidiaries of mutual-fund providers to channel lending.

Brokerages are the new trusts



18.8 trillion yuan
The amount of money placed in such products jumped **70%** last year outpacing the 17% growth for trust assets, according to data provided by industry groups

Source: bloomberg.com

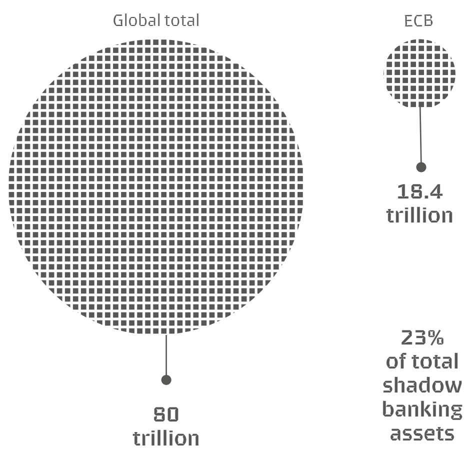
The new shadow channels work like trusts, with a bank investing proceeds from its wealth-management products in a directional plan that then lends to a borrower chosen by the lender. This extension of credit while circumventing restrictions on certain borrowers, like local government financing vehicles, as well as capital requirements.

The credit growth has fed into rising asset inflation, notably in property prices and especially those of first tier cities. Following Shenzhen's lead from last year, Shanghai's residential property prices rose **24% during the first two months of the year**. There are signs that speculative forces are at play, aided by the credit boom, a flourishing shadow banking sector and P2P (person-to-person) financing.

Around the world

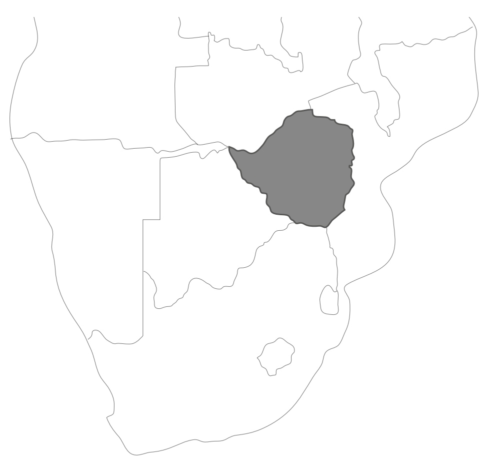
EURO AREA

The management of markets by the ECB is causing a hidden run on the shadow banking system, which is leading to demand for cash to replace credit. No one knows the true size of the Eurozone's shadow banks, partly because they are **hard to define**, and partly because attempts to quantify it focus on only **six Eurozone member states**. But we are talking of huge numbers.



23%
of total
shadow
banking
assets

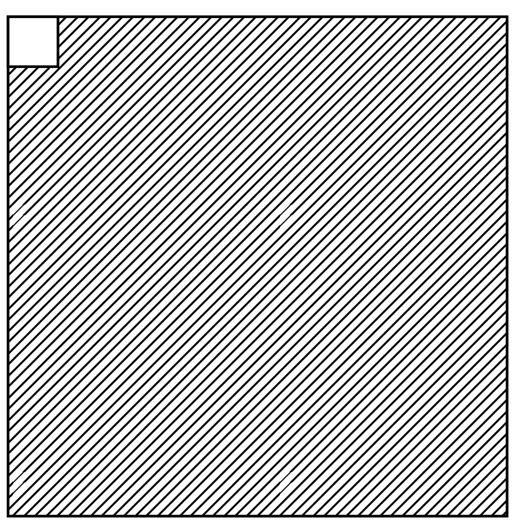
ZIMBABWE



Since the banking crisis of 2004, confidence in the financial system has been at a low and unenviable scale of fragility. Profound issues ranging from governance to structural composition of banks led to the inevitable **collapse of several institutions**, eroding depositor confidence along the way. The financial sector in Zimbabwe is facing its own in the form of shadow banks

IRELAND

The country's shadow banking system - including hedge funds, mutual funds and insurers - is **over 10 times the size of the Irish economy**.



Source: bloomberg.com