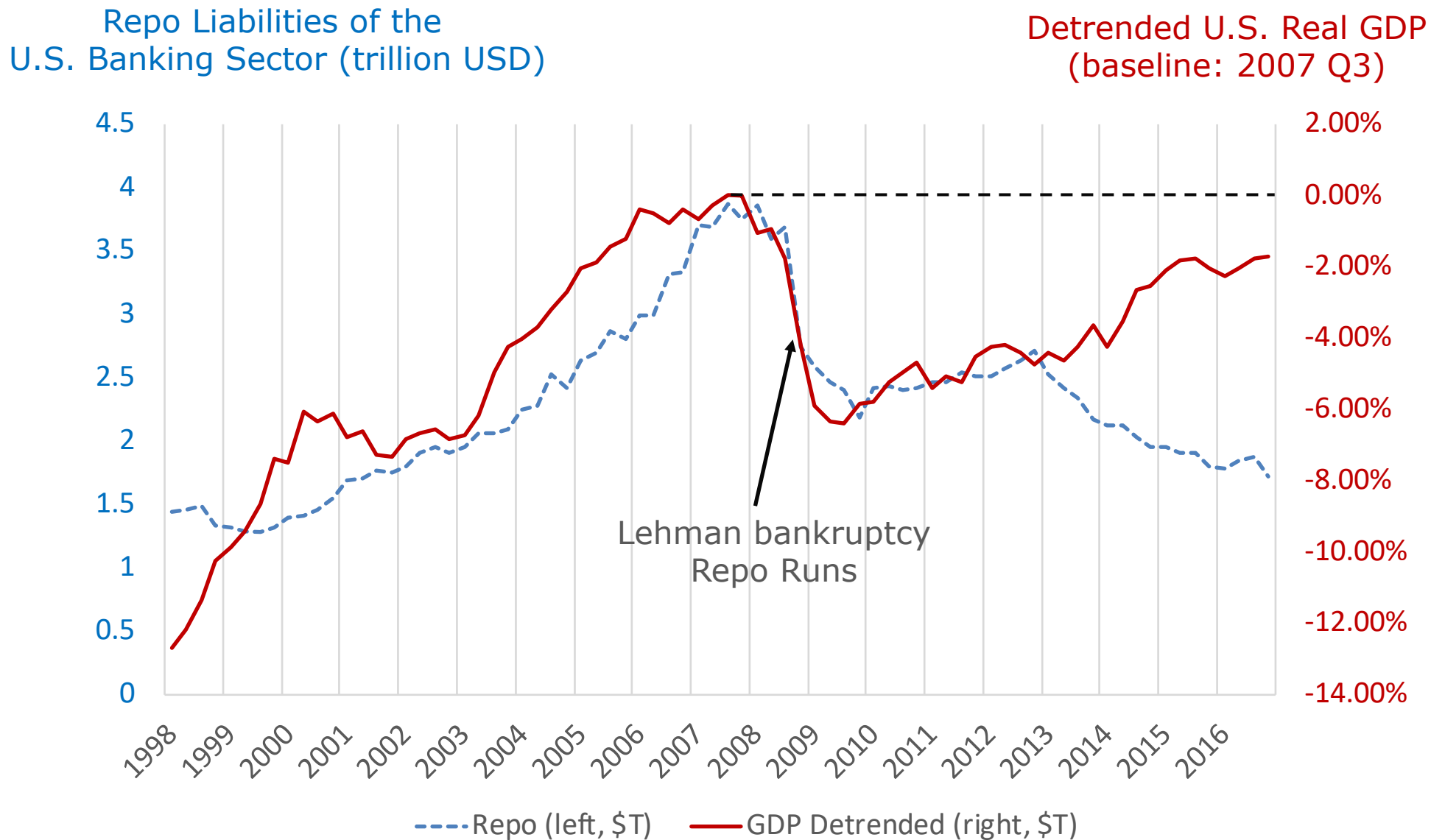


Risks of Shadow Banking in China

Wenhao Li

September 16, 2018

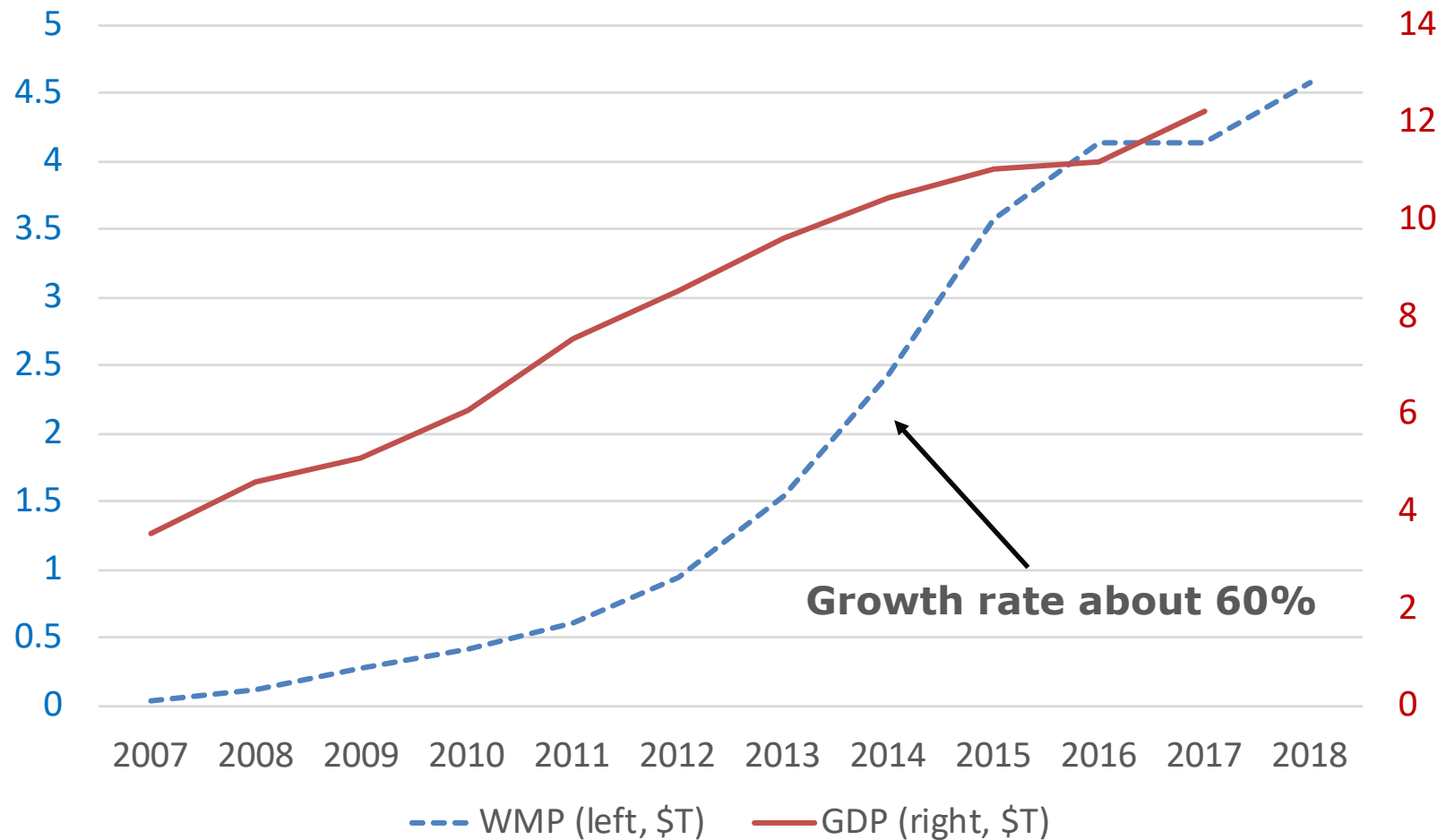
Why do we care about shadow banking?



Is China's Situation Similar to the U.S. in 2007?

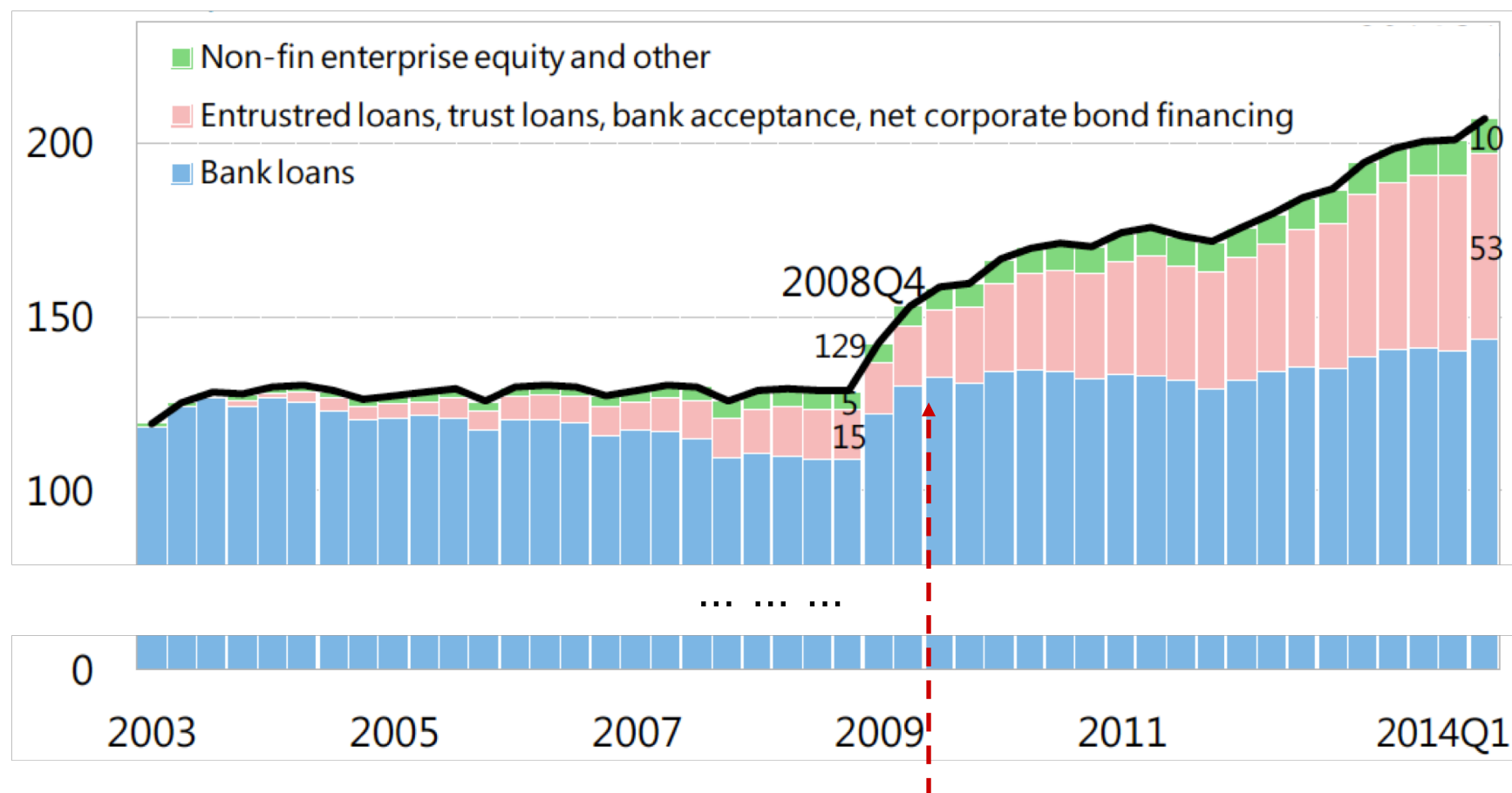
Wealth Management Product
(trillion USD)

China's GDP
(trillion USD)



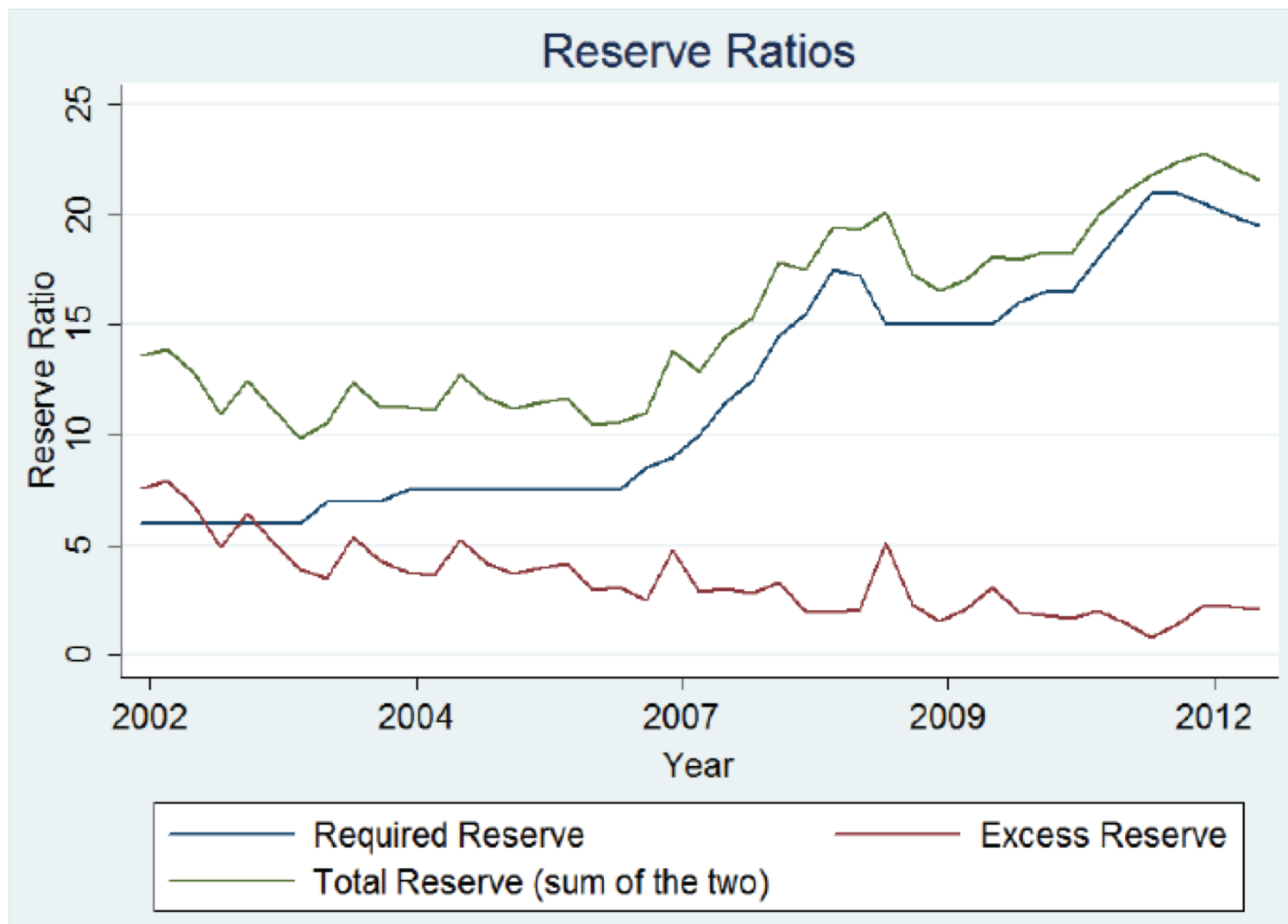
Growth of Shadow Banking in China

Decomposition of social financing in China



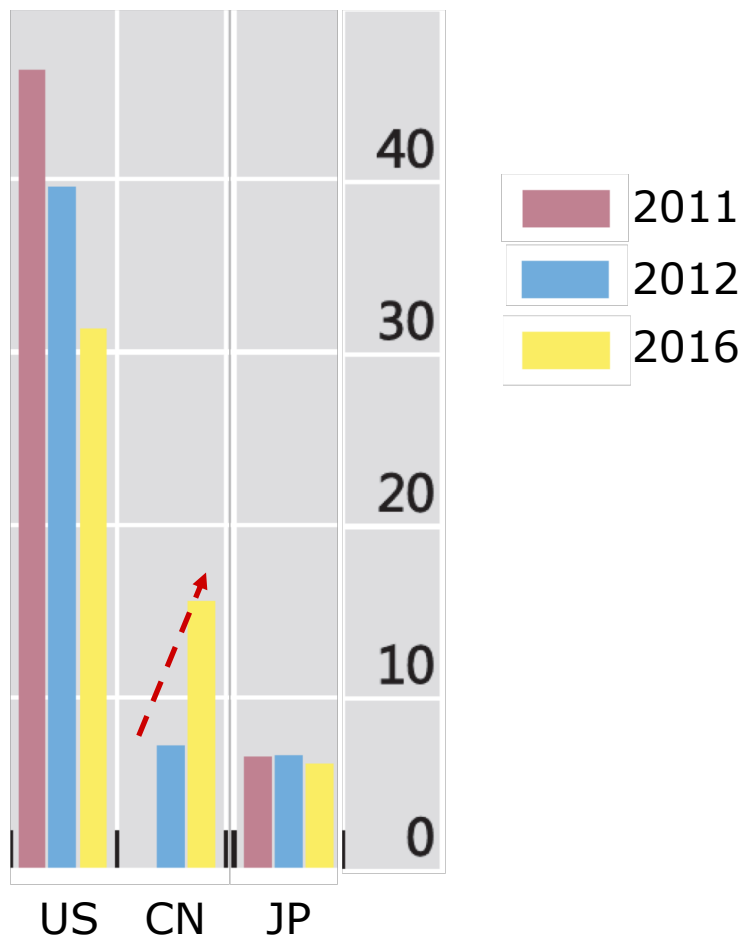
Reserve/deposits ratio tightening
Increased reserve/loan ratio

Driving Forces of Shadow Banking Growth

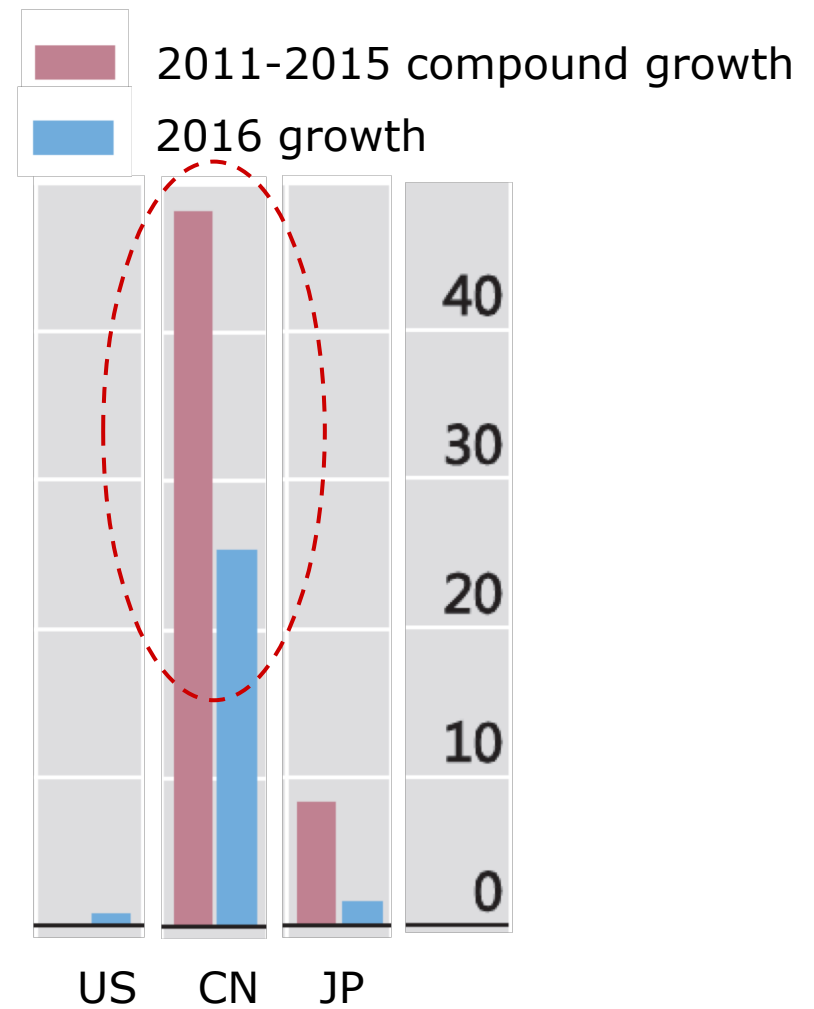


Comparison of Growth Rates

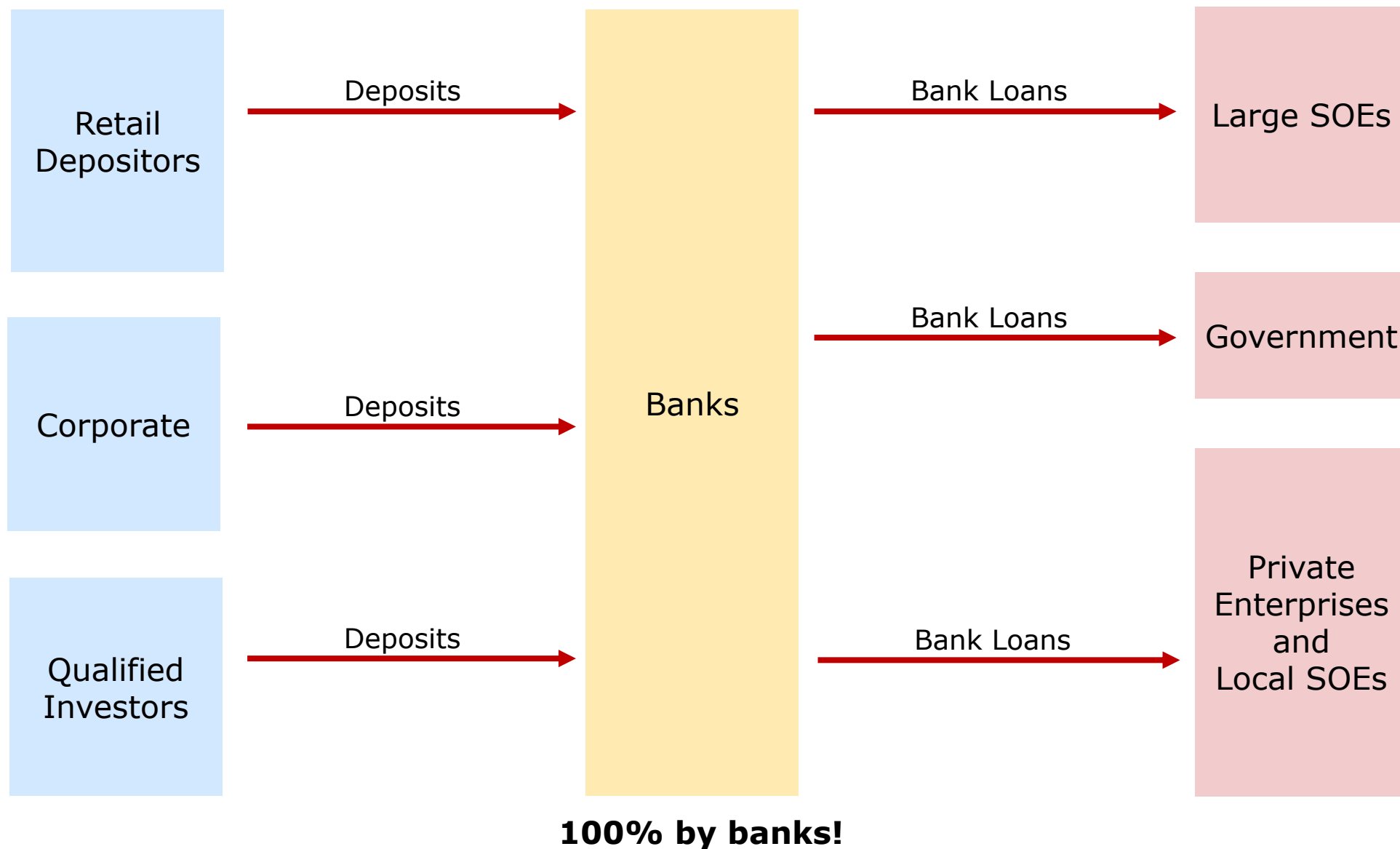
Shares of shadow banking in the world (29 jurisdictions)



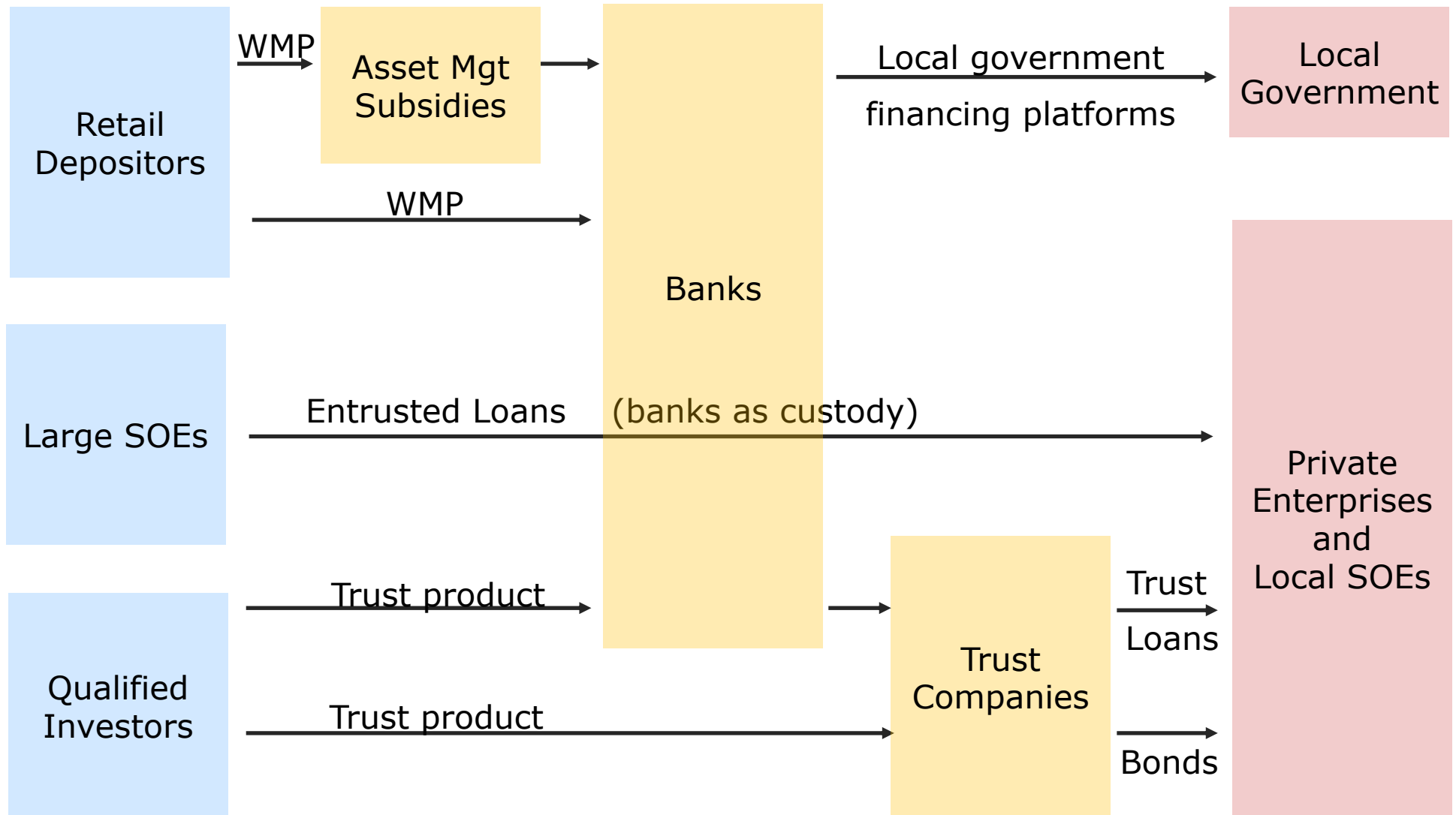
Shadow banking growth rates



History of China's Banking: 1978-2000

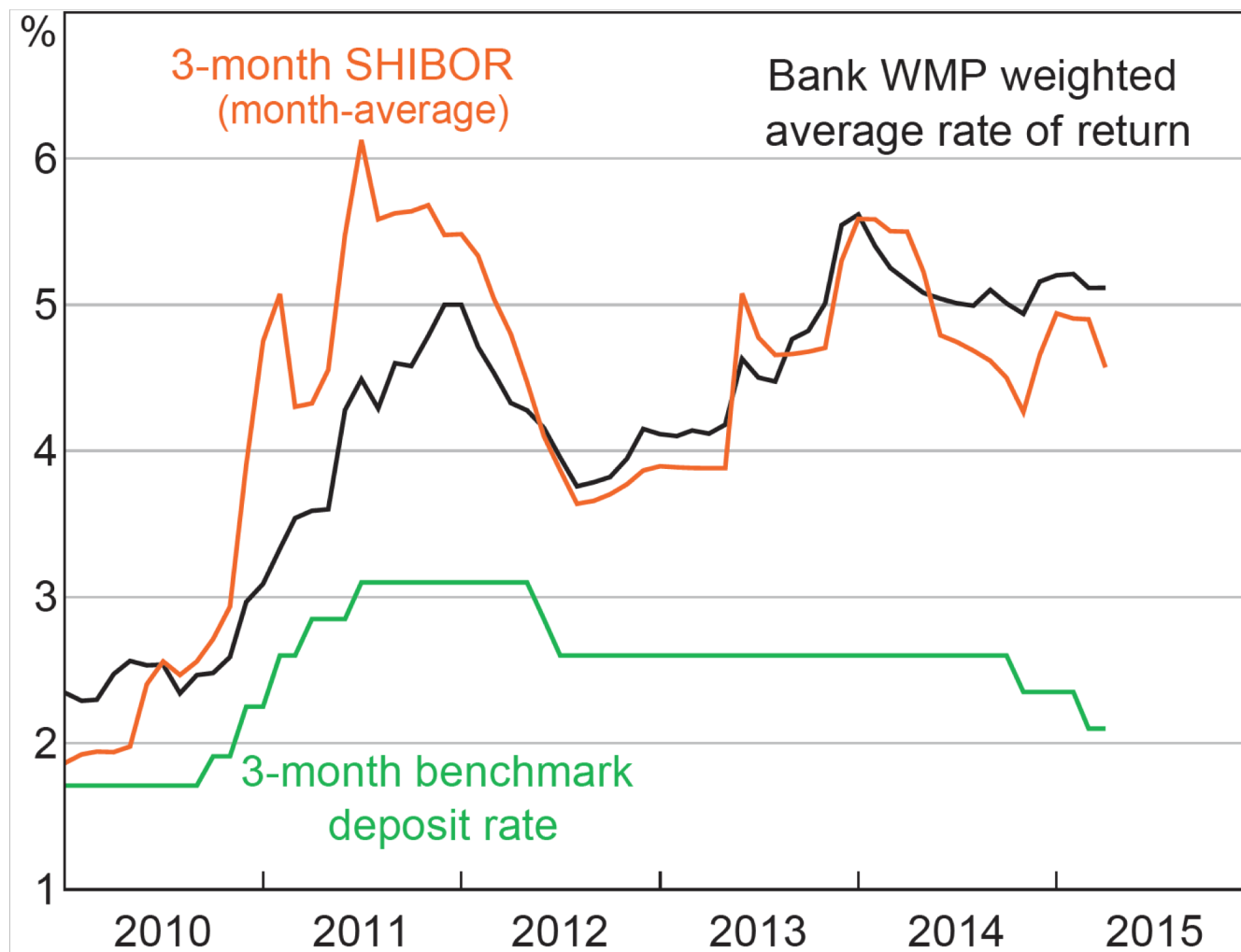


History of China's Banking: Post 2008 Financial Crisis



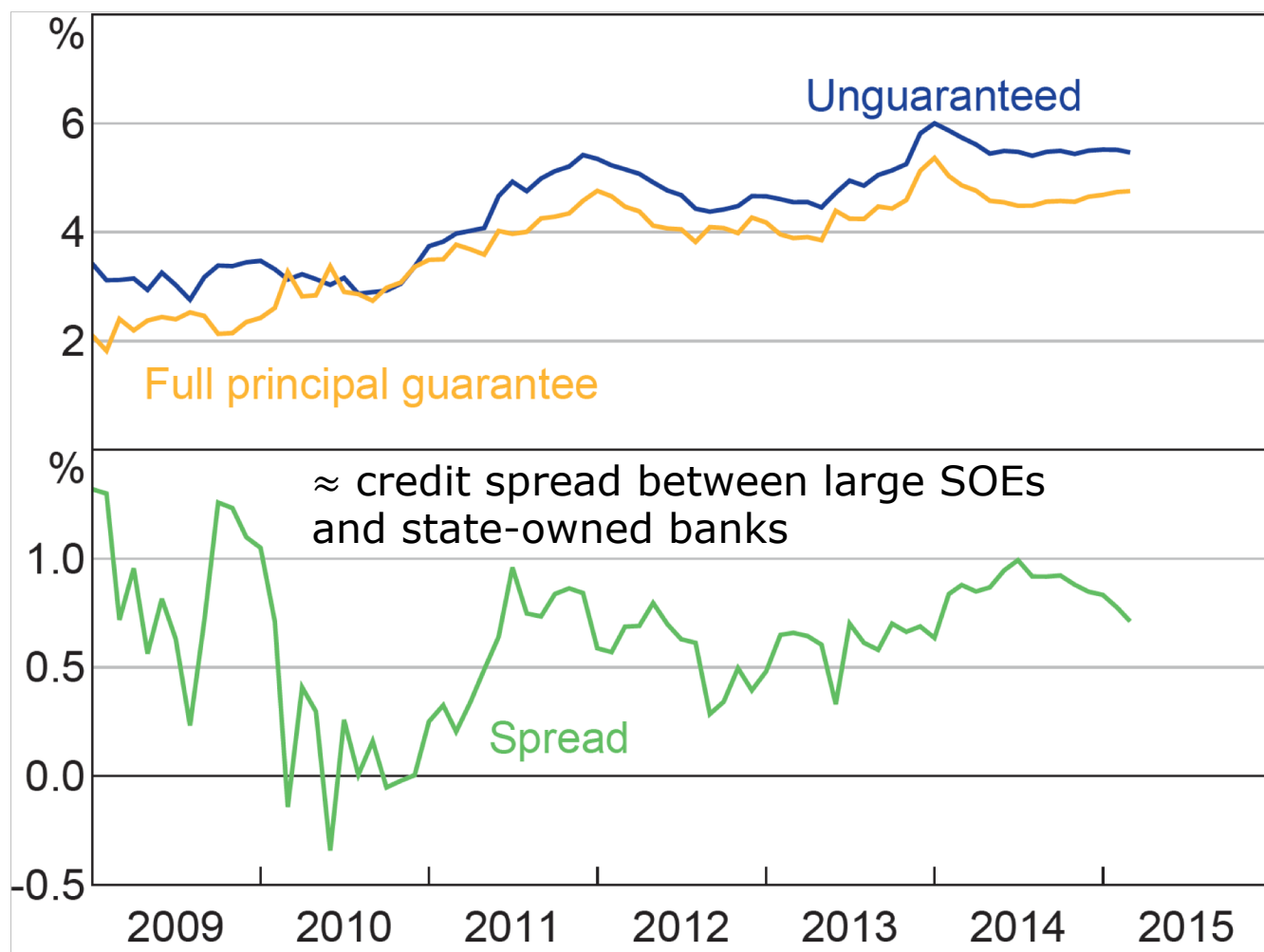
Risks Reflected by Asset Prices

- Wealth management products as safe as interbank claims?



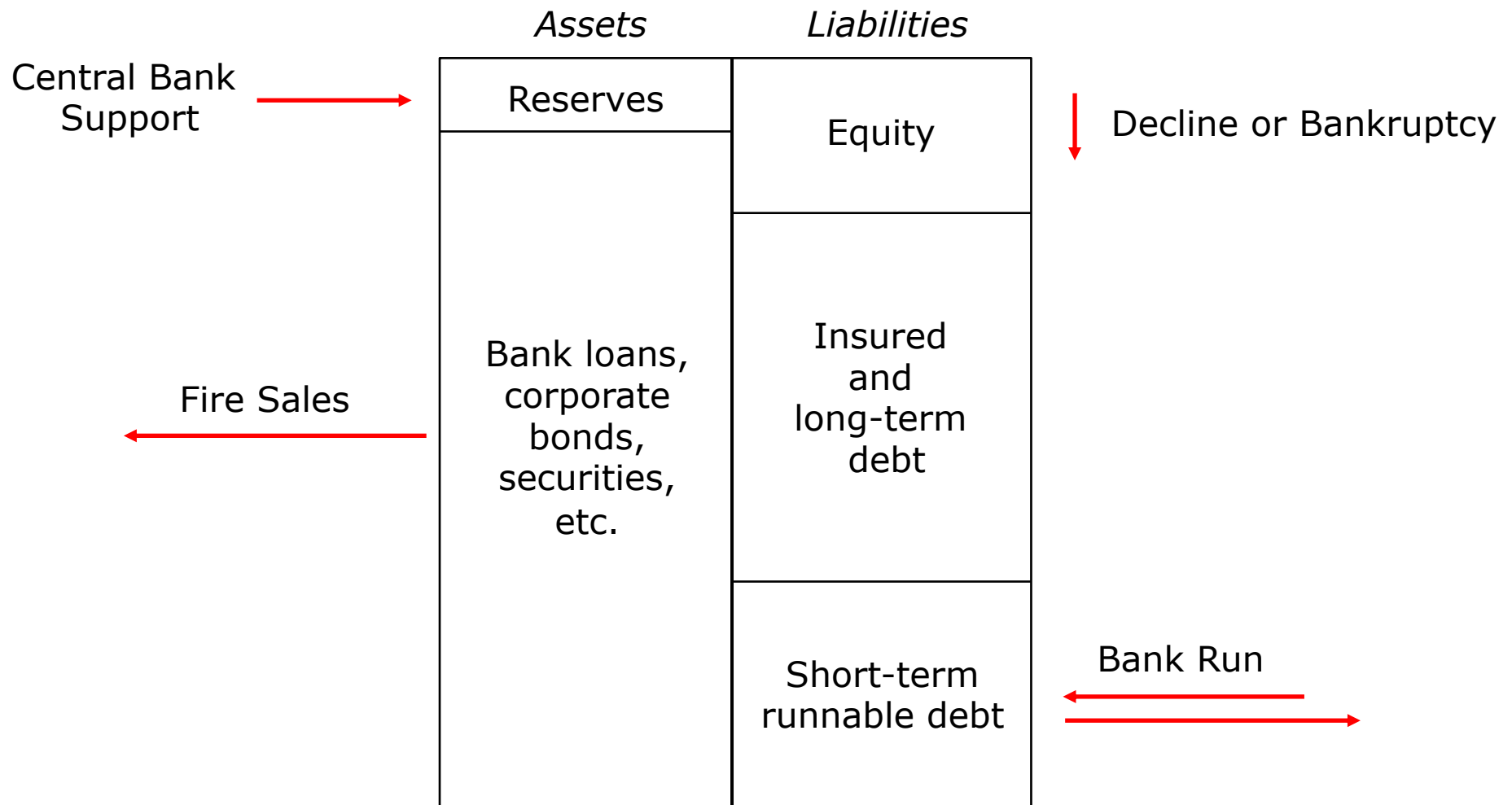
Risks Reflected by Asset Prices

- Yield spreads between guaranteed and unguaranteed products are much smaller than the spread between riskier firms and banks.



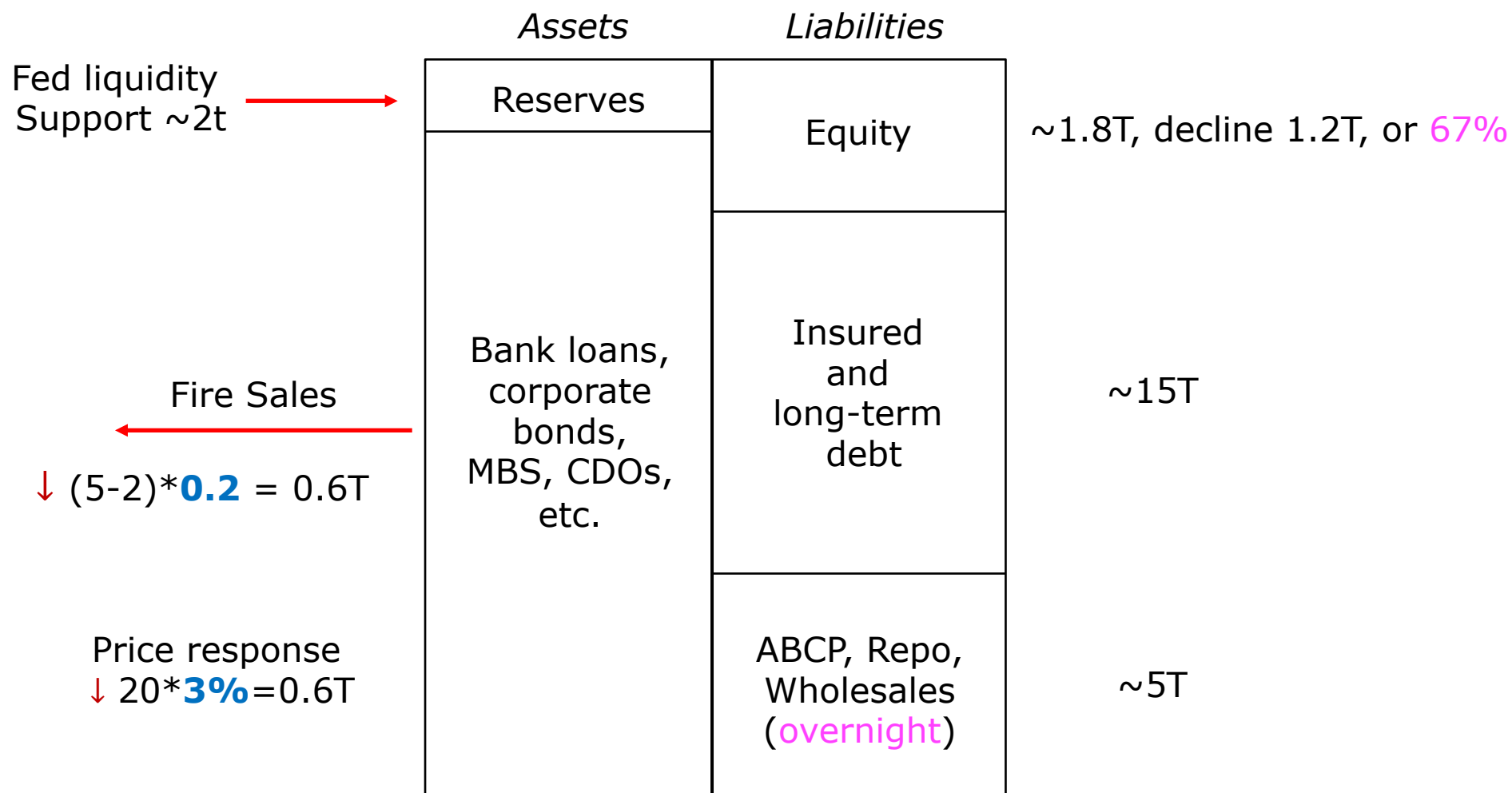
Financial Crises: A Simple Analytical Framework

Financial Intermediaries



Financial Crises: U.S. in 2008

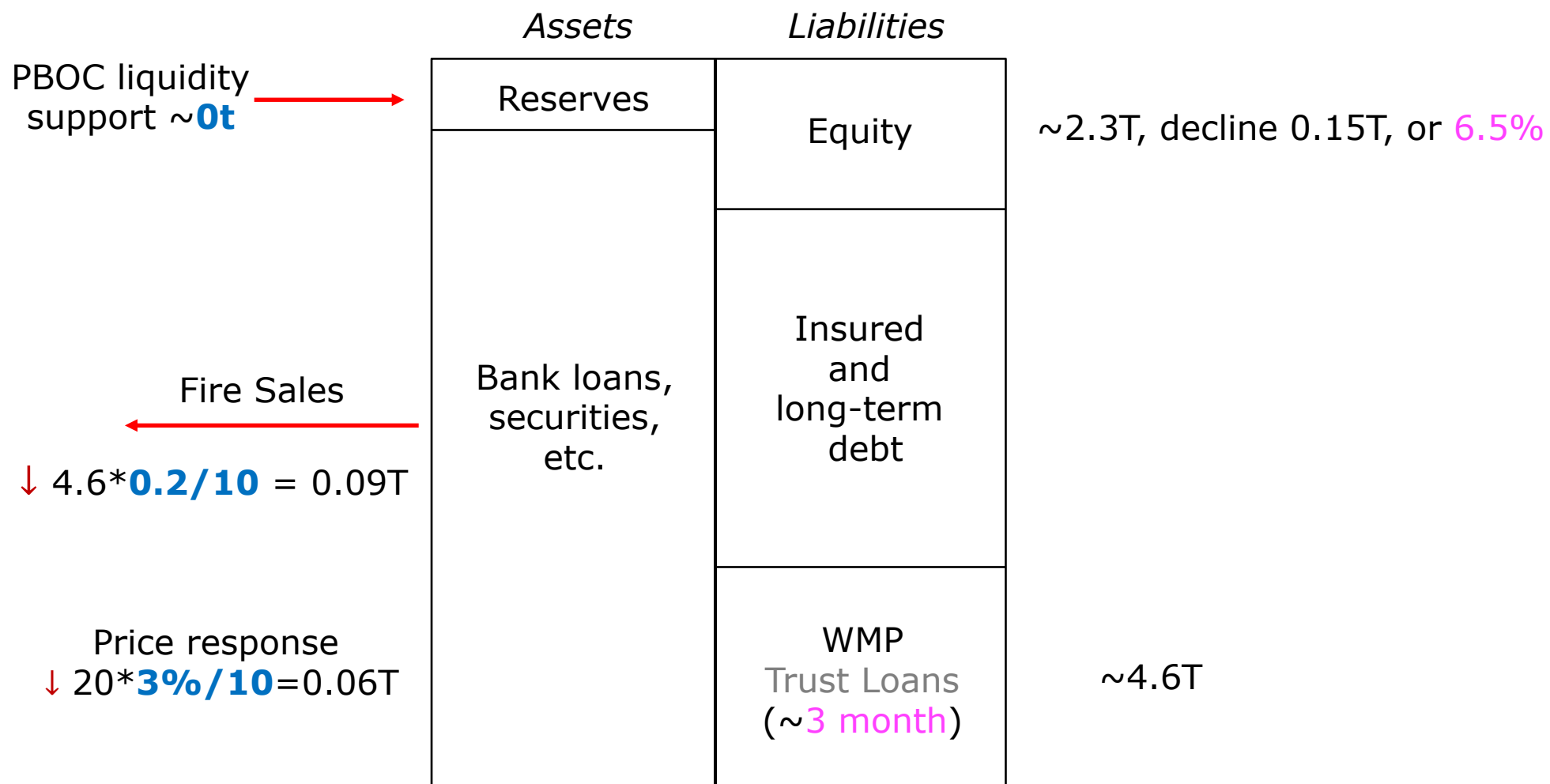
Investment Banks and Commercial Banks



GDP decline $\approx 67\% * 21\% * 0.28 = 4\%$

Financial Crises: China in 2019 ?

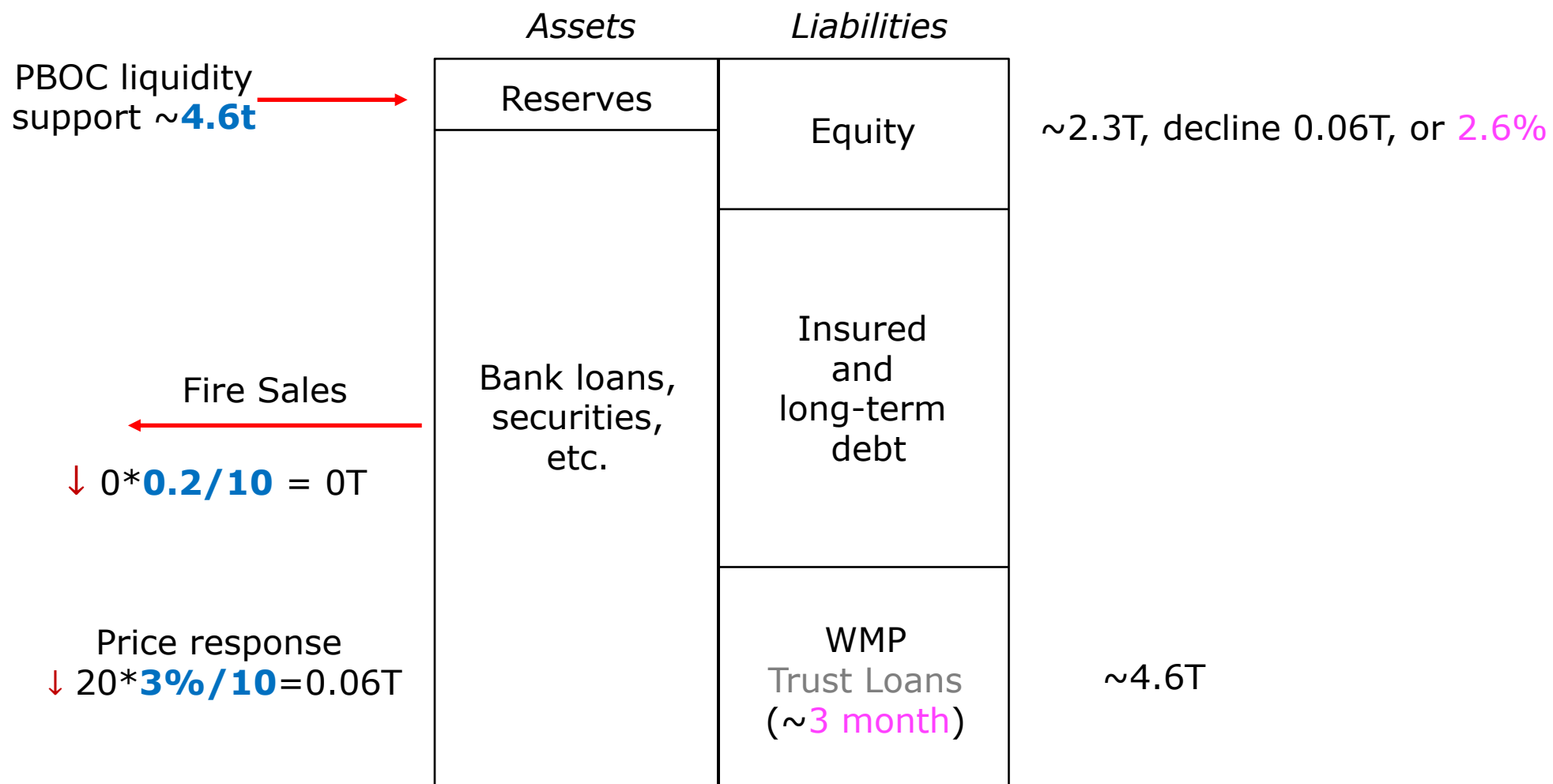
Commercial Banks and Trustees



GDP decline $\approx 6.5\% * 100\% * 0.28 = 1.82\%$

Financial Crises: China in 2019 ?

Commercial Banks and Trustees



GDP decline $\approx 2.6\% * 100\% * 0.28 = 0.7\%$

Summary

- Uninsured shadow banking liabilities might cause severe financial crises.
- Shadow Banking in China grows quickly after 2008, at yearly growth rate about 60%.
- Despite similarities, the longer maturity of shadow funding in China and more government power makes the concerns less severe.
 - U.S. GDP at risk in 2007: 4%, given intervention.
 - China GDP at risk in 2017: 1.8%, no intervention. ~0.7% or much lower if the government intervenes.

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