SHADOW BANKING: A COMPARATIVE ANALYSIS OF THE KEY DRIVERS IN THE EURO AREA AND THE UNITED STATES

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Abstract - Shadow banking is a real phenomenon, it has evolved considerably in complexity in the last years and it is growing at a rate that in some countries (especially in emerging market economies) surpasses that of the traditional banking system. In the Euro Area, not only the size of the shadow banking institutions has increased, but also their roles. The source of expansion of this sector (characterized by size, interconnectedness and opacity) seems to originate in the development of the non-bank and non-money market investment fund sector. Although on the rise in the more advanced EU economies (where the total assets held by traditional banking institutions are almost triple in size when compared to the shadow banking bodies), in the US the shadow banking sector is more evolved, bigger and more complex (the total liabilities of the shadow banking sector are almost double then of the traditional banking sector). It would be fair to presume that the existence and continuous growth of the shadow banking system – despite its complexity, some lack of transparency and the potential risks – derive also from its benefits or gains for an economy (at a micro or macroeconomic level) or the financial system. This is even more visible for the US economy. However, one questions remains: what are the drivers of this shadow banking system's growth? And more important, how different are these factors in the Euro Area countries when compared to the United States. The current paper seeks to unpack the 'shadow banking' concept and to provide a fresh perspective – mostly quantitative – into the level of development and of the key drivers of growth in this sector, within the Euro Area countries and the United States. The research looks into possible determinant factors referring to the economy as well as to the sector itself. After identifying a common measure of the shadow banking sector for all the countries in the sample, a regressions analysis will be performed on several models (and OLS as well as a panel data analysis) using quarterly data for a 17 years period span. The results could be useful for policymakers to design tailor-made policies that could foster the potential of the sector (for the advantage of the economy) and better manage the possible risks that could emerge (for the financial system, or for the economy as a whole).

Keywords - Shadow Banking, Traditional Banking, Other Non-Bank Financial Institutions, Determinant Factors, USA, Euro Area