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SHADOW BANKING : STATUS QUO ANALYSIS AND REGULATORY APPROACHES

ТЕНЕВОЙ БАНКИНГ: АНАЛИЗ СТАТУС-КВО И НОРМАТИВНЫЕ ПОДХОДЫ

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Ключевые слова: теневой банк, традиционная тeneвая банковская система, создание кредитных денег, банковская бухгалтерия, отчётность.

Abstract. The banking shadow, namely the money creation by banks beyond traditional loans, plays an important role in China's money creation process, which brings many challenges to monetary policy operation and financial risk management. This paper provides a detailed analysis of the money creation mechanism in China's shadow banking sector, provides an accurate measure, studies its impact on financial risk, and investigates recent regulation. To strengthen supervision, Chinese regulators should closely track the evolution of various shadow banking channels, both on – and off-balance sheet. Specific macro-prudential supervision tools, such as asset reserve

and risk reserve, should be applied to shadow banking and traditional shadow banking respectively.

Аннотация. Теневая банковская система, а именно создание банками денег помимо традиционных кредитов, играет важную роль в процессе создания денег в Китае, что создает множество проблем для проведения денежно-кредитной политики и управления финансовыми рисками. Статья дает подробный анализ механизма создания денег в теневом банковском секторе Китая, представлены точные измерения, изучено влияние механизма на финансовый риск и исследованы последние нововведения в регулировании. Чтобы усилить надзор, китайские регуляторы должны внимательно отслеживать эволюцию различных теневых банковских каналов, как балансовых, так и внебалансовых. Конкретные инструменты макропруденциального надзора, такие как резерв активов и резерв рисков, должны применяться к теневой банковской деятельности и традиционной теневой банковской деятельности соответственно.

Introduction

In recent years, China's shadow banking system has become an integral part of the financial system. Different from developed economies, China's shadow banking is dominated by commercial banks due to the bank-dominated financial system. A key feature of shadow banking in China is that banks hide loans in other accounting categories. We can define China's shadow banking system from the perspective of credit money creation, and highlight the differences between two categories of shadow banking in China: bank shadow banking and traditional shadow banking.

Shadow banking is defined as the money creation by which banks generate liabilities from assets through accounting treatment, while traditional shadow banking refers to the creation of credit by non-bank financial intermediaries through money transfer. Both provide funding under the general shadow banking system, but only the banking shadow can create new money supply and thus influence the intermediate monetary policy objectives of the People's Bank of China (PBC).

This paper highlights for the first time the role of shadow banking in money creation in China and how it affects financial risk and its impact on the effectiveness of monetary policy. While traditional shadow banking in China operates in much the same way as in developed economies, the shadow of banks mainly involves loans taking the form of other types of assets, posing challenges to the effectiveness of monetary policy and financial regulation. First, the banking shadow reduces the ability of monetary policy to influence money creation and risk taking, thus increasing financial stability risks. Second, it weakens the effectiveness of bank loan supervision and leads to the accumulation of systemic risks.

Banks' shadow and traditional shadow banking

Shadow banking in China has much in common with that of other countries, such as credit creation and regulatory arbitrage, but some of its features are products of China's financial and regulatory system. Thus, it is necessary to define China's shadow banking

system more accurately as the basis for further research. Considering the different credit creation mechanisms (credit money and non-money mechanisms), we classify Chinese shadow banking into two categories: banks' shadow and traditional shadow banking.

Banks' shadow entails banking activities that provide money for real sectors through asset expansion (which is inherently identical to bank loans) and related credit money creation (asset expansion simultaneously creates deposits), but which circumvent regulatory restrictions – such as credit allocation constraints – by hiding loans as alternative balance-sheet items. Banks' shadow is channeled mainly through third-party financial institutions, including other banks and non-bank financial institutions.

Analyzing the composition of bank assets facilitates our understanding of the operational mode and business types of banks' shadow. Banks' shadow can be decomposed into “interbank” and “investment” channels according to asset type.

Measuring China's shadow banking

One strand of the literature uses the aggregation approach to measure the scale of shadow banking, that is, directly sum up the products or subcategories of shadow banking. This creates two issues. First, the different definitions or classifications of shadow banking lead to significant differences in measurement results. For example, Yan et al. (2014) define six measures of Chinese shadow banking according to regulation intensity. The broadest measure of shadow banking is RMB 67.03 trillion, whereas the narrow measure is only RMB 10.3 trillion. Liu (2013) estimates the size of "other debts than formal credit lending" at approximately RMB 25 trillion, of which the scale of shadow banking is approximately RMB 10 trillion. Gao et al. (2013) focus on banks' off-balance sheet financing and make an estimation based on the indicators of total social financing, which they find to range from RMB 7.1 trillion to RMB 21.9 trillion.

Second, the aggregation approach cannot avoid double-counting or omission. The approach is applicable to off-balance sheet securitization (a major component of U.S. shadow banking) rather than to China. For example, the overlapping of shadow banking subcategories may induce double-counting, and the different accounting practices of different institutions, such as identical items listed under different accounting items, may result in omission.

Monetary policy challenges and regulation

Strict regulation of traditional banking gives rise to the shadow banking system. The rapid growth of shadow banking in China was driven largely by the credit tightening policies introduced in 2010 and by China's unique banking regulation system. In the second quarter of 2010, Chinese monetary authorities began to implement a more prudent monetary policy, introduced macro-prudential policies characterized by capital constraints to strengthen regulation, and applied specific credit regulations to sectors with excess capacity (e.g., real estate). To circumvent regulations and meet financing needs in certain sectors, shadow banking activities rose sharply, posing threats to financial stability.

Conversely, shadow banking undermines the effect of monetary policy. The effectiveness of some regulatory policies and tools has been compromised or partially offset by the shadow banking system. For example, the Chinese government set credit restrictions – such as restrictions on loans from traditional banks and the equity ratio of developers – on the real estate sector to prevent housing bubbles, but shadow banking provides an alternative source of funding. A similar case holds for enterprises with excess capacity. Furthermore, capital adequacy requirements for banks have become less effective, as shadow banking activities have enabled banks to move some assets off-balance sheet, such as the above-mentioned entrusted and trust loans through bank-trust cooperation.

Conclusion

This paper's in-depth analysis of China's shadow banking system highlights the key role of shadow banking in creating credit money and hiding bank credit risks. It also assesses the challenges facing monetary policy regulation and financial risk management.

First of all, the definition of shadow banking in China is clarified, which is divided into shadow banking and traditional shadow banking, and the money creation mechanism of shadow banking channel (interbank channel and investment channel) is analyzed in detail. From the perspective of credit money creation, it also clarifies some misconceptions about wealth management products and their role in shadow banking in China. Secondly, this paper quantifies the size of China's shadow banking (including the shadow banking of banks and traditional shadow banking) by deduction and subtraction method, and compares it with the summing method commonly used in literature, indicating that deduction and subtraction method can avoid miscalculation problems, such as double calculation and overestimation. Thirdly, this paper examines the relationship between shadow banking credit and financial risk from both macro and micro levels. China's shadow banking funds are mainly used by local government financing vehicles, companies with overcapacity and property developers. The banking shadow is closely related to M2, the money creation indicator, while the traditional shadow banking has little correlation, which reduces the accuracy of M2 as a policy measurement indicator. At the micro level, based on the balance sheet information of 311 banks (including listed and unlisted banks) in the past decade, this paper finds that although the banking shadow has pushed up the credit risk of banks, banks have not fully assessed the risk or taken corresponding countermeasures. Finally, the paper discusses the monetary policy challenges posed by shadow banking in China and examines recent trends in regulatory tightening.

Both shadow banking and traditional shadow banking are inextricably linked with the banking system, with banks as the main source of capital. Regulators should strengthen macro-prudential management of the banking system to prevent excessive growth of financial risks in the future.

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STAKEHOLDER THEORY ТЕОРИЯ ЗАИНТЕРЕСОВАННЫХ СТОРОН

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Keywords: stakeholder, internal environment, owners, buyers, suppliers, employees, investors, creditors, the state.

Ключевые слова: стейкхолдер, внутреннее окружение, собственники, покупатели, поставщики, работники, инвесторы, кредиторы, государство.

Abstract. Current business development trends require the company to take into account the interests of a wide range of stakeholders that have a positive and negative impact on the company's performance. The article discusses historical milestones in the study and classification of stakeholders. A generalizing conclusion is made.

Аннотация. Современные тенденции развития бизнеса требуют от компании учитывать интересы широкого круга заинтересованных сторон, оказывающих положительное и отрицательное влияние на результаты деятельности компании. В статье рассмотрены исторические вехи в изучении и классификации стейкхолдеров. Сделан обобщающий вывод.