
Discussion of The Dark (and Bright?) Side of Shadow Banking: Evidence on Bank Stability and Market Power

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Disclaimer

Any views expressed are solely those of the DISCUSSANT and so cannot be taken to represent those of the European Banking Authority (EBA) or to state EBA policy.

Motivation and research questions

- **Motivation:** NBFIs rapid growth post-GFC, now ~49% of global financial assets (FSB, 2023).
- **Key Questions:**
 - How does shadow banking affect the stability of traditional banks?
 - How shadow banking reshapes the business models (lending, funding, performance) of traditional banks?
 - What mechanisms drive these relationships?
- **Sub-question:**
 - How does the impact differentiate between the various economic functions of shadow banking?

Main findings

- **Aggregate Effect:** Shadow banking reduces bank stability
- **Heterogeneity:** Most negative impact from collective investment vehicles and securitization-based entities
- **Impact on bank business models:** Affects both asset-side and liability-side of traditional banks, as well as their performance
- **Mechanism:** Increased competition reduces bank market power
- **Institutional Quality:** Stronger regulatory frameworks and macroprudential policies mitigate negative effects.

Strengths

- Highly relevant for policy makers
 - See [EBA's Risk assessment report](#) (July 2024) – Special topic on NBFIs
 - See EBA's response to [EC targeted consultation on adequacy of macroprudential policies for NBFIs](#)
- Large, international dataset of 5,559 banks across 27 countries (2009–2023)
- Shadow banking decomposition into economic functions
- New perspective on shadow banking: interaction with bank stability and market power
- Robust empirical strategy (IV, DiD, multiple controls)

Comments and Suggestions (1/2)

- EF1-EF5 categories can be broad and bundle different risks → Further breakdown of EF1-EF5 categories / mapping of fintechs?
- Focus on domestic shadow banking— what about cross-border spillovers?
→ Include foreign or global EF1-EF5 exposures
- Period covers major regulatory changes and financial cycles
→ Explore dynamic effects or sub-sample analyses
- Bank–shadow-bank interactions — competition or cooperation?
→ Examine heterogeneity across banks / control for banks' ownership links to shadow banks

Comments and Suggestions (2/2)

- AMRP is a strong quasi-experiment—how generalizable beyond China?
 - Compare with reforms in other jurisdictions
- Shadow banking may respond to bank weakness - Reverse causality?
 - Elaborate more in the paper
- Other mechanisms at play?
 - Elaborate more in the paper



Thank you!



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