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“The Rise of Shadow Banking, Systemic Risk and the role of Monetary Policy in the Chinese Financial System”

Abstract. The institutional features of shadow banking entities in China differ significantly from those of other countries. Because of their specificities, these entities might have differently contributed to increase the systemic risk of the Chinese financial system in the years across the global financial crisis. This paper examines the features of the shadow banking system in China, its connection with the traditional banking system, the nature of systemic risk and estimate, by using the CoVaR methodology (Adrian and Brunnermeier, 2016), the contribution of different typologies of listed Chinese shadow banking entities, to the systemic risk in China. Using a sample of 201 Chinese shadow banking entities (i.e., finance services, real estate financial services), and 37 traditional commercial banks, continuously listed between 2005:4 and 2017:4, we investigate the interaction between traditional banks, shadow banking entities and the impact of their corporate variables on systemic risk.