

**Discussion**  
**NBFIs and Global Financial Stability**

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**Joon-Ho Hahm**  
**Yonsei University**

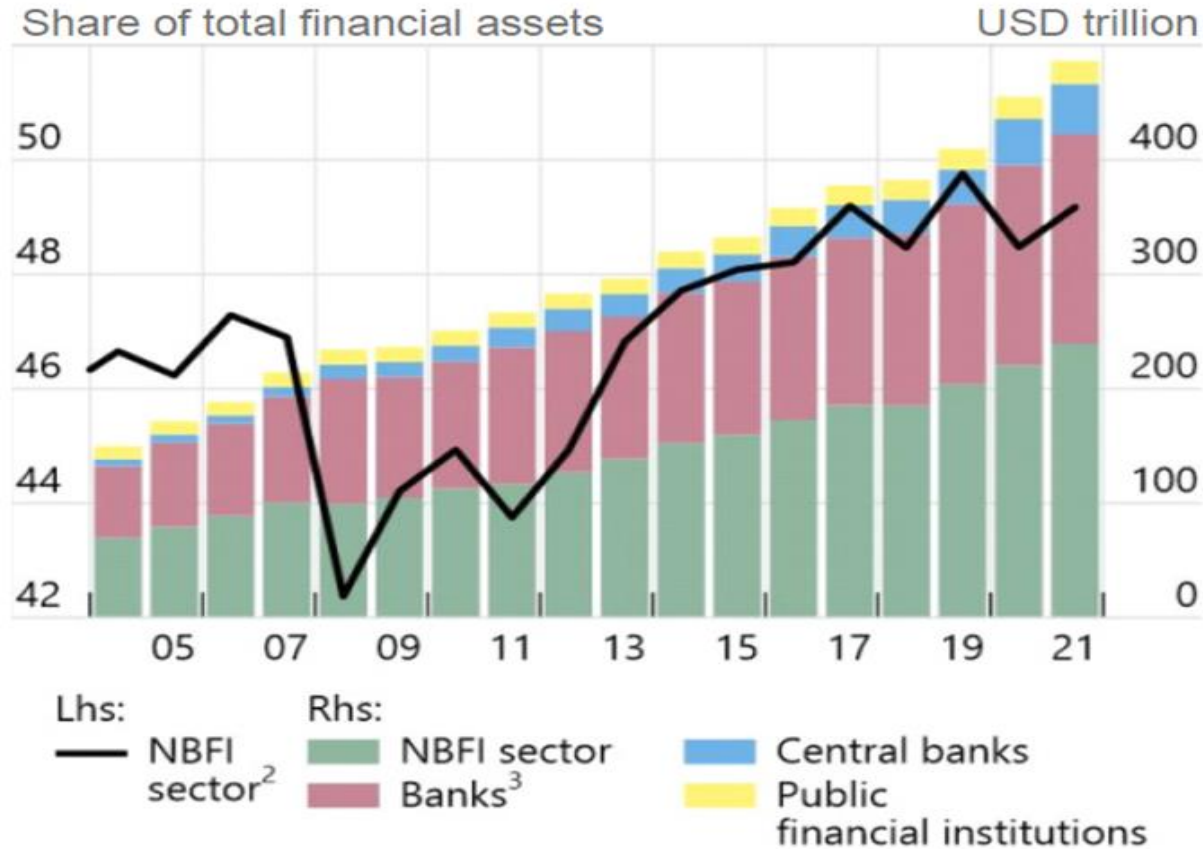
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# I. NBFIs and Global Financial Stability

## (1) Growing Shares in Global Financial Systems

### Share of NBFIs in Global Financial Assets



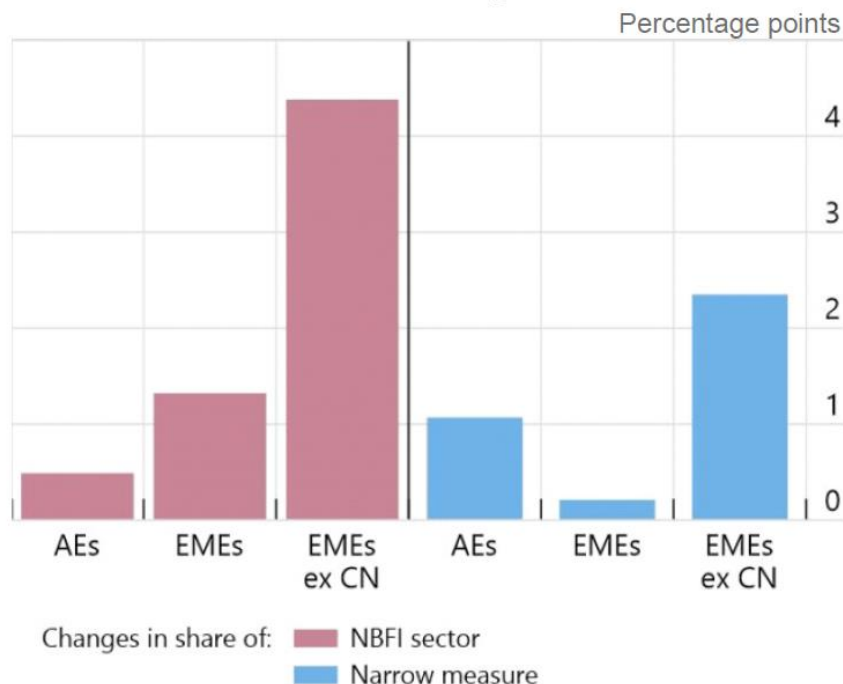
Source: FSB, Global Monitoring Report on Non-bank Financial Intermediation 2022

# I. NBFIs and Global Financial Stability

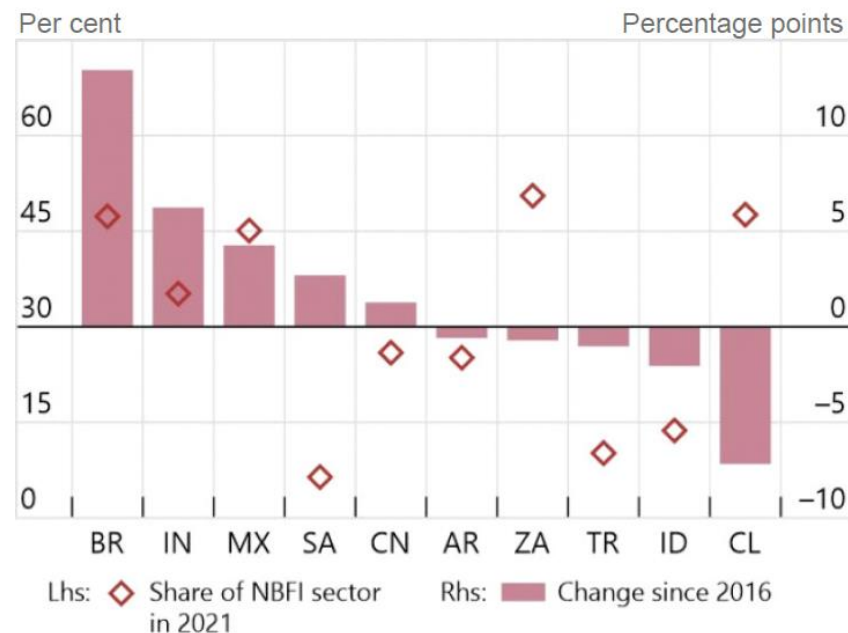
## (2) Growing Shares in EME Financial Markets

### Changes in the Share of NBFIs in EMEs

Changes in the share<sup>2</sup> of NBFIs sector and narrow measure as a percentage of total financial assets for AEs and EMEs over the last five years



Changes in the share<sup>3</sup> of NBFIs assets in each EME over the last five years



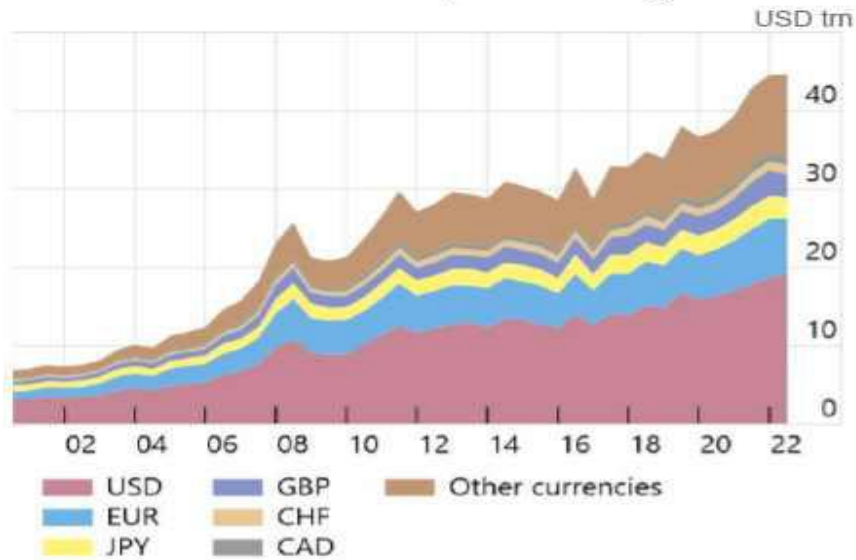
<sup>1</sup> Does not include data for Russia. <sup>2</sup> Shares of the NBFI sector and narrow measure are calculated as aggregated financial assets of the NBFI sector and narrow measure of each region divided by aggregated total financial assets of the region. <sup>3</sup> Shares of the NBFI sector for each jurisdiction are calculated as financial assets of the NBFI sector of a jurisdiction divided by total financial assets of the jurisdiction.

# I. NBFIs and Global Financial Stability

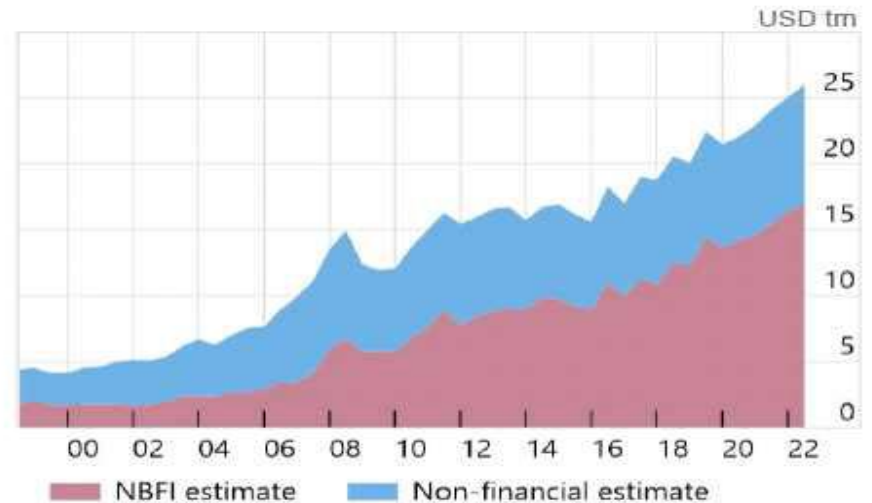
## (3) Rising Off-Balance Sheet Leverage

### Off-Balance Sheet Leverages of NBFIs

NBFIs' FX Futures and Swap



USD Off-B/S Liabilities



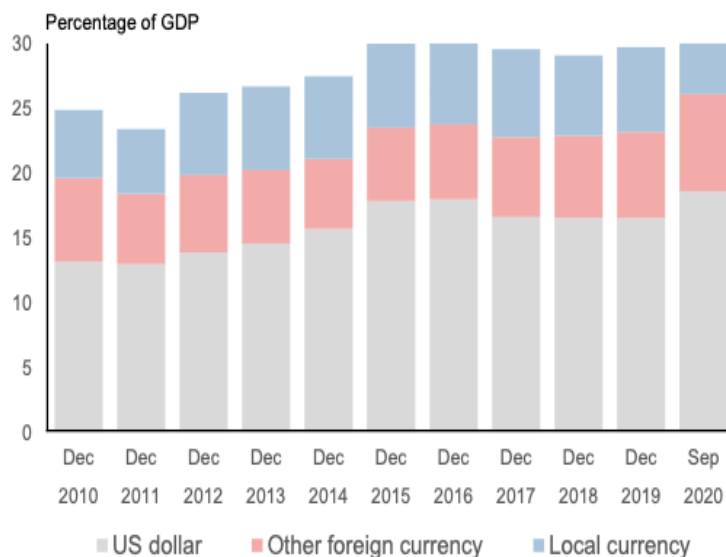
Source: BIS, FSB

# I. NBFIs and Global Financial Stability

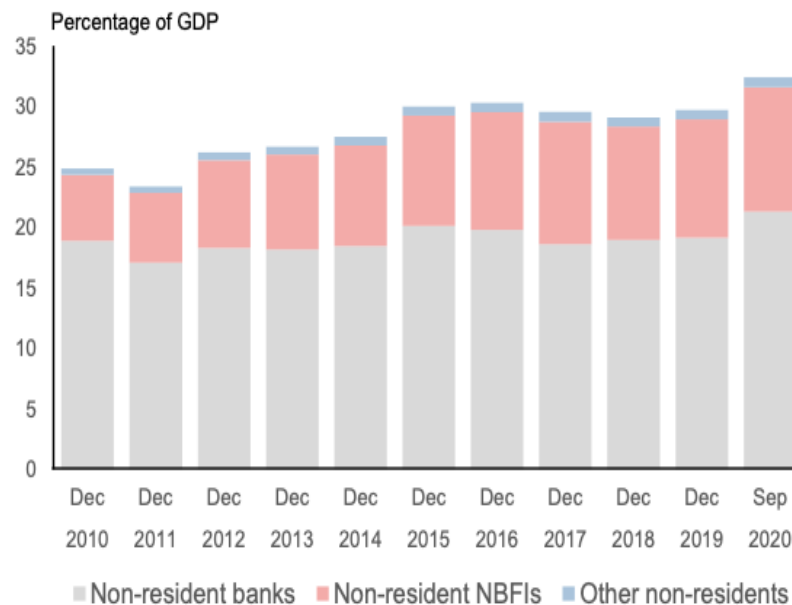
## (4) Growing Shares in EME External Debt

### External Debts of EMEs

a. EME External Debt, by currency



b. EME External Debt, by type of Non-resident Investor



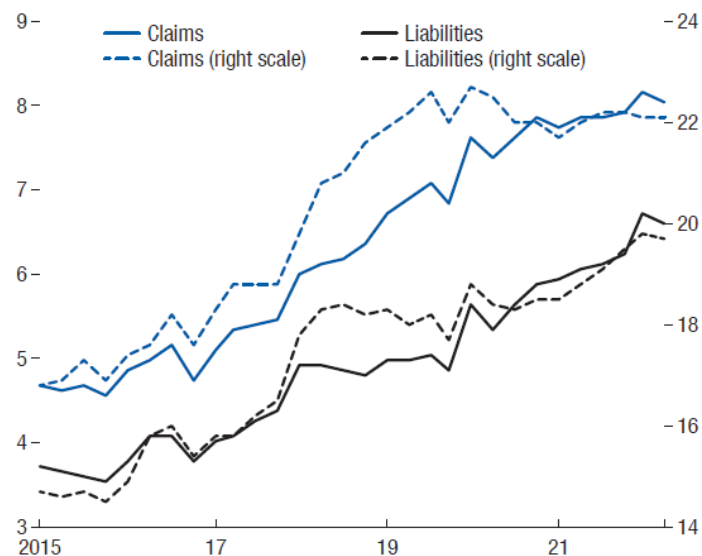
Source: FSB, US Dollar Funding and EME Vulnerabilities, April 2022

# I. NBFIs and Global Financial Stability

## (5) Rising Global Interconnectedness

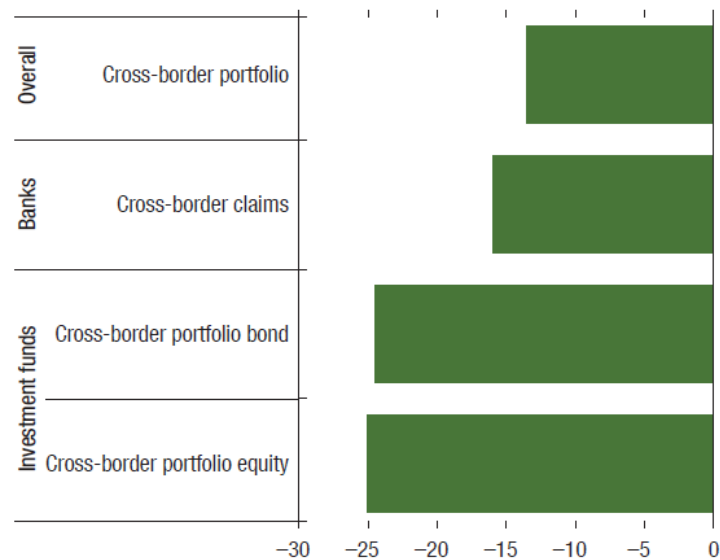
### Cross-border Interconnectedness of NBFIs

**Figure ES.13. Banks' Cross-Border Linkages with Nonbank Financial Intermediaries across Jurisdictions**  
(Trillions of US dollars, left scale; percent of total cross-border liabilities, right scale)



Sources: Bank for International Settlements; and IMF staff calculations.

**Figure ES.14. Rise in Geopolitical Tensions and Change in Cross-Border Capital Allocation**  
(Percent)



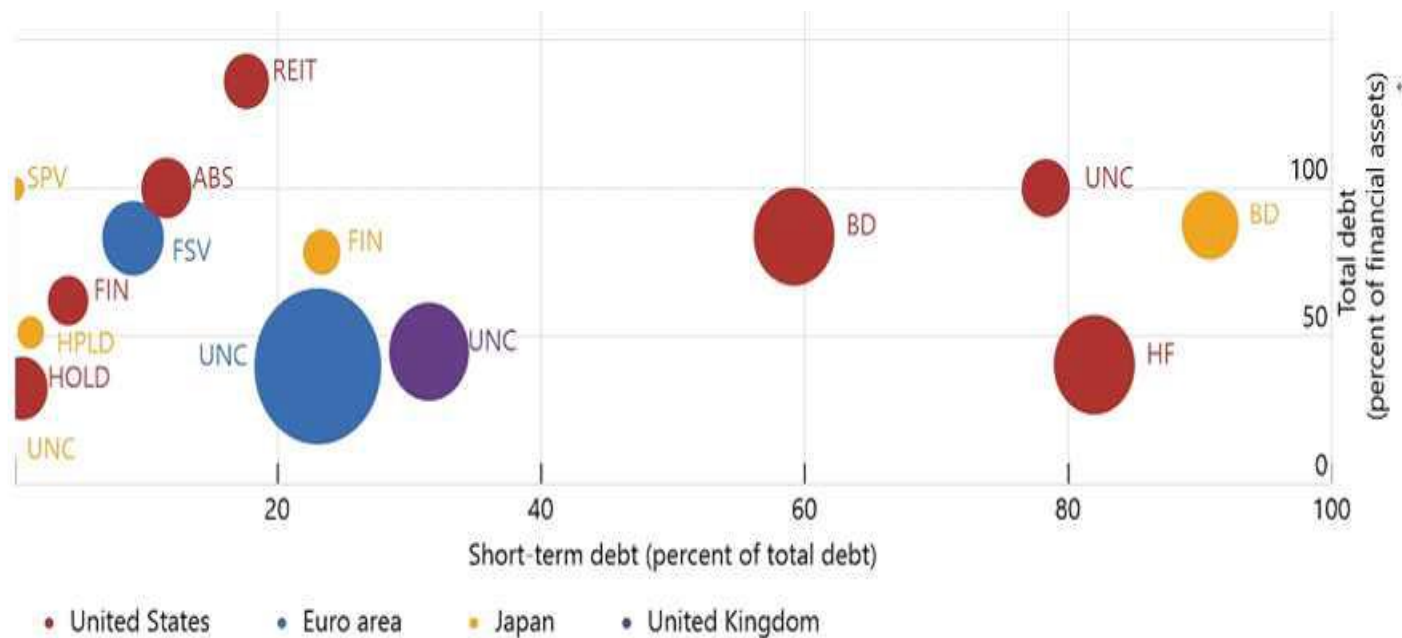
Sources: Bank for International Settlements, Locational Banking Statistics by Residence (restricted version); EPFR Global; FinFlows; IMF, Coordinated Direct Investment Survey; IMF, Coordinated Portfolio Investment Survey; and IMF staff calculations.

Source: IMF, Global Financial Stability Report, April 2023

# I. NBFIs and Global Financial Stability

## (6) High Leverage and Maturity Mismatch

### OFIs Leverage and Short-term Debt Ratios



Note: 1) The size of each circle corresponds to the volume of liabilities of respective OFIs.  
 2) REIT=Real Estate Investment Trusts, BD=Broker-Dealer, SV=Securitisation Vehicles, FIN=Finance Companies, HF=Hedge Funds, HOLD=Holding Companies, UNC=Uncategorised OFIs  
 Source: FSB

# I. NBFIs and Global Financial Stability - Summary

- Noticeable shifts in composition of capital flows after global financial crisis
  - Growing role of EMEs in shaping global capital flows
  - Declining bank lending in advanced countries, increasing bond flows across all advanced and emerging economies, rise in NBFIs intermediated flows
  - Bond and NBFIs flows are important driving forces of global financial cycle
- Expansion of USD-denominated flows and funding by NBFIs
  - Growing reliance on debt markets and NBFIs for funding has made liquidity, especially in USD, increasingly crucial for stability of global financial system
  - Share of debt securities in overall USD-denominated credit to non-banks is at an unprecedented level
- Longstanding currency mismatches, combined with increased dependence on NBFIs for financing external debt, create significant vulnerabilities for EMEs
- Low-interest rate environment, surging capital inflows, improving risk appetites, and rising asset prices have contributed to an expansionary credit cycle and an unprecedented level of leverage in EMEs

## II. Policy Implications for GFA and EMEs (1)

- Despite advances in reform of global surveillance and regulatory framework since GFC, there remain some weaknesses
  - Primarily focuses on traditional banking sectors, neglecting fast-growing NFBIs
  - EMEs are underrepresented despite their growing share of global economy
  - Limited availability of standardized data on cross-border financial flows and interlinkages between global financial centers and institutions
  - Ineffective coordination and collaboration between different national and international regulatory agencies, leading to regulatory arbitrage and excessive regulatory burden on capital recipient countries
- One notable progress after GFC has been widespread adoption of macro-prudential policy measures in both advanced countries and EMEs
  - While encouraging to see changing views as to the use of capital management and macro-prudential measures in EMEs, more concerted efforts are needed to improve consistency among guidelines of IMF(IPF), BIS(MFSF), FSB and OECD

## II. Policy Implications for GFA and EMEs (2)

- EMEs are not fully equipped with policy tools and instruments to mitigate potential risks emanating from shifts in global capital flows, particularly from previous bank-centered to more bond and NBFIs-centered cross-border capital flows
  - Emergence of “original sin redux,” where EMEs continue to face currency risks despite expansion of local currency bond markets (Carstens and Shin 2019)
  - Significance of collective investment vehicles domiciled in Europe or US as crucial investors in EME local and foreign currency bond markets (Borio et al. 2022)
- FSB identifies NBFIs’ vulnerabilities as a priority area and emphasizes that closing data gaps is crucial for risk monitoring and timely adoption of policies (FSB 2022)
  - Expand sharing of NBFIs data among supervisors and regulatory agencies
- Important to coordinate macro-prudential policies between AEs and EMEs
  - Surveillance framework remains bilateral and focused on capital recipient countries
  - Negative externalities associated with global financial cycles would be better addressed in source countries

**Thank You**