Figure 2.3. Traditional versus Shadow Banking Intermediation

Source: IMF staff illustration.
Note: This simplified representation of the financial sector shows the flow of funds from lenders to borrowers. It does not show the reverse flows, such as bank deposit withdrawals and money market mutual fund redemptions. The blue boxes represent the components of a bank-based economy, with the rest representing the shadow banking sector. The boxes on the outside characterize a simple shadow banking system as might be found in a less developed economy. The lighter colored boxes in the middle reflect the kinds of shadow banking activities and entities usually associated with more advanced economies, with dealers as the hub of most activity. This activity comprises issuing securities on behalf of borrowers (including securitization vehicles, finance companies, and other nonbank lenders), providing prime broker services to hedge funds, and conducting repurchase agreements and securities lending. Securitization vehicles do not generally involve borrowers directly. Securitized assets generally come from banks and nonbank lenders, and securities from dealers. See Annex 2.2 for details on the role of securitization.

1The lenders category includes institutional investors (such as insurance companies and pension funds) and official sector institutions (such as central banks and sovereign wealth funds).