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Yelyzaveta Yu. Zelinska, Anna A. Oleshko
Kyiv National University of Technologies and Design, Ukraine
**THEORETICAL AND CATEGORICAL BASIS OF SHADOW BANKING
IN EUROPE AND UKRAINE**

Traditionally, the control over the classical financial system is stricter, therefore as a result shadow financial institutions have greater advantages, because they are not subject to regulation and provide riskier and more profitable services. Shadow banking does not directly violate the established rules of financial monitoring, but carries the threat of excessive debt load, money laundering, unethical consumer lending with an unlimited interest rate. The purpose of this study is to define the concept of shadow banking and its components, to study the development and definition of shadow banking in European countries and Ukraine, as well as to highlight methods of possible regulation of shadow banking. System analysis methods were used to determine the concept and structure of the shadow banking system. Methods of observation and description were used to collect data on shadow banking in European countries and Ukraine and compare them, the method of synthesis was used to highlight the features of the shadow banking system of European countries and Ukraine during the crisis years. Based on the results of the study, the concept of shadow banking was defined as a system of shadow financial organizations that carry out financial intermediation outside the country's classical banking system. The main reason for the existence of shadow financial institutions in Europe is to ensure the income of enterprises for survival in crisis situations. The factors forming shadow banking in Ukraine were also determined: weak monitoring, money laundering, low standard of living and financial literacy of the population. It was concluded that the current approach of regulatory bodies to shadow banking involves fragmented monitoring and regulation, which leads to a lack of transparency. The main features of shadow banking in European countries are: cyclicity, relationship with classical banking, diversification of the level of shadowing depending on the EU state. The Ukrainian shadow financial system is characterized by opacity and money laundering, public distrust of classic financial institutions, cash culture and arbitration.

Keywords: shadow banking; shadow financial institutions; commercial banks; state regulation; shadow economy.

Єлизавета Ю. Зелінська, Анна А. Олешко
Київський національний університет технологій та дизайну, Україна
**ТЕОРЕТИКО-КАТЕГОРІАЛЬНІ ОСНОВИ ТІНЬОВОГО БАНКІНГУ
В ЄВРОПІ ТА УКРАЇНІ**

Традиційно контроль над класичною фінансовою системою більш суворий, внаслідок чого тіньові фінансові установи мають більші переваги, бо не підлягають регулюванню та надають більш ризиковані та прибуткові послуги. Тіньовий банкінг напряму не порушує встановлених правил з фінансового моніторингу, але несе загрозу формування надмірного боргового завантаження, відмивання коштів, неетичного споживчого кредитування з необмеженим розміром відсоткової ставки. Метою даного дослідження є визначення поняття тіньового банкіngu та його складових, дослідження розвитку та визначення тіньової банківської діяльності в європейських країнах та Україні, а також висвітлення методів можливого регулювання тіньової банківської діяльності. Використано методи системного аналізу для визначення поняття та структури тіньової банківської системи. Методи спостереження та опису застосовано для збору даних щодо тіньового банкіngu країн Європи та України та їх порівняння, метод синтезу – задля виділення особливостей

тіньової банківської системи Європейських країн та України в кризові роки. За результатами дослідження було визначено поняття тіньового банкінгу як системи тіньових фінансових організацій, які здійснюють фінансове посередництво поза класичною банківською системою країни. Головною причиною існування тіньових фінансових установ в Європі є забезпечення доходів підприємств для виживання у кризових станах. Також було визначено фактори, що формують тіньовий банкінг в Україні: слабкий моніторинг, відмивання грошей, низький рівень життя та фінансової грамотності населення. Зроблено висновок, що поточний підхід регуляторних органів до тіньової банківської діяльності передбачає фрагментарний моніторинг і регулювання, що призводить до відсутності прозорості. Основними ознаками тіньового банкінгу в європейських країнах є: циклічність, взаємозв'язок із класичним банкінгом, диверсифікація рівня мінізації залежно від держави ЄС. Українська тіньова фінансова система характеризується непрозорістю та відмиванням грошей, недовірою населення до класичних фінансових інститутів, готівкової культури та арбітражу.

***Ключові слова:** тіньовий банкінг; тіньові фінансові установи; комерційні банки; державне регулювання; тіньова економіка.*

Formulation of the problem. The spread of shadow banking began in the 1980s in the USA, as a result of the liberalization of markets and the development of information technologies, and gradually occupies a huge segment of the economy to this day. Over the past 20 years, the shadow banking system has acquired the status of one of the most important and largest sources of funding for the real banking system worldwide. According to the development of events in the world, the economies of many countries are experiencing crises and recessions. Banking institutions and the financial system play a leading role in the functioning of the state and its population. At the same time, during times of crisis, control over the financial system is strengthened, as a result shadow financial institutions, which exist in parallel with classic ones, have greater advantages, as they are not subject to regulation and provide riskier and more profitable services. Although the shadow banking industry plays an important role in financing the economy, its operation outside traditional banking regulations raises concerns about the risks it poses to the financial system. During the aggravation of political and economic crises and unstable situations, the connections between shadow banking and classical banking are strengthened. With this, risks also increase, as shadow banking contributes to money laundering, tax fraud, illegal trade, etc., which destabilizes the situation inside the state and affects its economic security and international authority. Another factor of the growth of the shadow financial sector is the technology of the modern world, namely, technological services are currently actively developing, which are gaining popularity as alternative financial systems that cannot be tracked and regulated for the most effective neutralization of shadow banking by the National Bank and the state. Modern technologies make it possible to create virtual companies and offices, the participants of which can have a joint business and carry out electronic commerce, being in different corners of the world. Shadow banking activity does not directly violate the established rules of financial monitoring, but carries the threat of potentially excessive debt load, money laundering, unethical consumer lending with an unlimited interest rate, caused by the lack of regulation, significantly exceeding the available benefits. Shadow banking refers to the system of credit intermediation, which includes business entities and activities outside the normal banking system. The European Central Bank is increasingly wary of risks to Eurozone lenders and other lenders due to the region's shadow banking sector, which has grown much faster than the traditional banking sector since the Global Financial Crisis (GFC). At the same time, the Ukrainian banking system underwent serious tests in 2014 and at the beginning of the war in 2022, but survived, according to many, also with the help of the shadow sector.

Analysis of recent research and publications. Academic studies of the phenomenon of shadow banking in Europe and Ukraine are focused on assessing the size of the shadow banking system, identifying the subjects and objects involved, assessing the role of shadow banking and its possible regulation. What's more, researches on European shadow banking are few compared to the number of studies on American shadow banking, and research on Ukraine's shadow banking system has obstacles in the form of full-scale invasion and internal problems of the state. After the analysis of the publications, it was established that the study of shadow banking can be divided into two groups according to their orientation: entities that carry out shadow banking activities (an approach based on economic entities) and types of activities in which economic entities participate (activity-based approach). According to the approach based on business entities, the authors Z. Pozsar, T. Adrian, A. Ashcraft and H. Boesky in their study define the shadow banking system as a system of financial intermediaries that carry out the transformation of repayment terms, lending and liquidity without access to central bank liquidity or public sector guarantees [1]. In the studies of S. Claessens and L. Ratnovski, shadow banking is defined from the point of view of an activity-based approach, that is, the system of shadow banking is primarily a financial activity, outside of classical banking, which relies on private or public support [2]. A comprehensive approach to the study of shadow banking from the point of view of both the subjective approach and the activity approach was established in the studies of such organizations as the Financial Stability Board [9–11], as well as in the studies of the International Monetary Fund [3]. Official reports on the study of shadow banking in the Green Book from the European Commission were analyzed in this research [20]. In the research paper of N. Riazanova, the actions of the state to ensure financial and economic security in the conditions of shadow banking were analyzed [4]. In the scientific work of M. Hodula, A. Meleckya and M. Machaceka researched that individual subjects of shadow banking activity in European countries can act as both a supplement and a substitute for classic banking services [13].

The aim of the study. The purpose of this research is to define the concept of shadow banking and its components, to study the development and definition of shadow banking in European countries and Ukraine, as well as to highlight methods of possible regulation of shadow banking.

Research methods. System analysis methods were used to determine the concept and structure of the shadow banking system in this study. Methods of observation and description were used to collect data on shadow banking in European countries and Ukraine and compare them, the method of synthesis was used to highlight the features of the shadow banking system of European countries and Ukraine during the crisis years.

Main material.

What is shadow banking? It is believed that the concept of "shadow banking" was first used by P. McCulley in 2007 mainly for non-banking financial institutions [5]. P. McCully determined that shadow banking institutions, on the one hand, are similar to "classic" banks, because they transform the conditions - they receive short-term funds on the money market, and then buy/create assets with longer maturities. However, shadow banks are not regulated like regular banks and cannot use refinancing from the central bank, and generally do not raise funds from deposits. Therefore, they operate "in the shadows" alongside traditional banking institutions, although they perform the same tasks [6].

Z. Pozsar determines that shadow banking is carried out by institutions that he calls parallel banks, which together make up the entire system [7]. In a further study, Z. Pozsar includes financial companies, hedge funds, money market investment funds and state-subsidized enterprises in the shadow banking sector as components of the shadow banking system. Individual institutions are connected to each other by vertical ties, through which loans are transferred not at the expense of

deposits, but at the expense of securitization operations. As a result, the shadow banking system competes with the traditional banking system, being able to offer loans cheaper than classic banks [8].

In April 2011, the Financial Stability Board presented two definitions of the shadow banking system, one broad, the other narrower. A broad definition defines the shadow banking system as credit intermediation, which includes business entities and activities outside the normal banking system. At the same time, a narrower definition states that the shadow banking system is primarily a credit intermediation system that engages business entities and their interaction outside the normal banking system, which raises concerns about systemic risk, in particular due to maturity/liquidity transformation, leverage and improper transfer of credit risk and/or regulatory arbitrage issues, etc. [9]. The Financial Stability Board defines shadow banking as credit intermediation, i.e. the transfer of funds from savers to lenders, covering all divisions and activities outside the regulated banking system. The Financial Stability Board identifies four main categories of this intermediation: maturity transformation, similar transformation of the most liquid liabilities, leverage and the transfer of credit risk associated with loan default creditor to other divisions [10]:

- transformation of repayment terms: obtaining short-term funds for investing in long-term assets;
- liquidity transformation: a concept similar to maturity transformation that involves using cash commitments to buy harder-to-sell assets such as loans;
- leverage: using techniques such as borrowing money to buy fixed assets to increase potential profits (or losses) from investments;
- credit risk transfer: accepting the risk of borrower default and transferring it from the loan originator (or bond issuer) to another party.

Combining these definitions, the conclusion can be summarized and determined that the concept of the shadow banking system is primarily a network of financial intermediaries that carry out the transformation of repayment terms, credit and liquidity, most importantly without being subject to banking regulation, and the shadow banking system does not have official access to liquidity of the central bank or credit guarantees of the public sector.

The components of the shadow banking system are money market funds (MMFs), broker-dealers, financial companies and financial holding companies, investment and hedge funds, as well as structured financial mechanisms. Back in 2012, The Financial Stability Board determined that, globally, the shadow banking system already accounted for an average of 25% of the assets of the financial system, but there are marked differences between jurisdictions, so it is important to conduct research that takes into account the historical and mental characteristics of countries and regions [11].

In 2021, non-bank financial institutions (NBFIs), which include credit unions, insurance companies, investment funds and companies, etc., accounted for 49% of all global financial assets, or \$239 trillion. This is up from 42% in 2008. And as of April 2023, shadow banks accounted for about 14% of global financial assets and, like many non-banking organizations, operate without regulatory oversight and transparency [12].

Shadow banking doesn't pose much of a risk to the financial system as long as investors understand what's going on. Logically, there is nothing inherently shady about taking funds from a number of different investors who may want their money back in the short term, and investing those funds in assets with longer maturities. But the real problems start during global crises, when investors begin to fear whether long-term assets will retain their value in the future, so they withdraw their funds immediately. In order to return funds to investors, shadow banks have to sell assets. These sales generally reduce the value of these assets, forcing other shadow banking institutions (and some banks) with similar assets to reduce the value of these assets on their books to reflect the lower market price, creating additional uncertainty. At the height of the crisis, so many

investors withdraw or do not want to reinvest their funds that many financial institutions - banks and non-banks – will face serious difficulties. If this happened outside the banking system, shadow banks could be isolated and could be shut down in an orderly manner. But real banks also find themselves in the shadows due to such a situation. Some shadow banks are controlled by regular commercial banks and may be rescued by their stronger parent bank. In other cases, because shadow banks will be forced to withdraw from other markets, banks' funding sources will be disrupted. And due to the fact that there is very little transparency, it is often unclear and impossible to track who owes what to whom now and in the future.

Consequently, shadow banking institutions are characterized by a lack of disclosure and information about the value of their assets; have non-transparent management and ownership structures between other shadow and classic conventional banks; have virtually no reserve capital to cover losses or cash for redemptions; and have no access to official liquidity support (such as central bank funds) to help prevent chain distress selling.

Shadow banking in European countries. The financial crisis of 2007 caused the greatest coverage of shadow banking in Europe. During this crisis, the existence of a completely parallel system of financing outside the normal banking service, the shadow banking system, was revealed. However, the main research on shadow banking has focused on the US, due to the lack of data in Europe. Currently, European financial institutions question the existence of shadow banking in Europe, but recently more and more studies of this phenomenon are appearing in various European countries.

In European countries, the level of shadow banking was consistently lower than in the USA and Ukraine. European classic banks continue to be the main financial intermediaries in the Eurozone, where they outnumber shadow banks. Therefore, the total amount of shadow banking capital was "only" 28% of the total amount in the Eurozone. In other words, European countries have a peculiarity of the financial system in that their economy continues to be financed by classic banks much more than by shadow ones. Classical banks in Europe, due to their versatility, continue to combine market intermediation, as well as securitized intermediation and securitized banking. European universal banks have a large, hierarchical branch network and provide a variety of services and service packages, and have different requirements for companies (including capital and debt). In the classic version, universal banks carry out credit and deposit operations, as well as all forms of operations with securities (issuance, brokerage operations and deposits of securities). Among other things, the organization of national banking systems in Europe differs from one country to another with regard to the role of the government according to the traditions and mentality of the population.

So, the main features of shadow banking in European countries are:

- Cyclicity. Shadow banking in European countries has a cyclical structure due to its relationship with growing real GDP. The cyclical nature can be described as follows: in good times, shadow banking flourishes, providing short-term liquidity to financial markets, and in bad times, it begins to decline sharply, increasing risk and destabilizing the market. This phenomenon creates a large excess risk for financial regulatory and supervisory institutions, which must maintain financial stability in the economy.

- Interrelatedness. Shadow banking in Europe is interconnected with the sphere of insurance and pension funds: with the increase in the price of assets of pension funds and insurance corporations, the volume of operations that take place in the shadow increases. In other words, for example, pension funds can invest in securities that are issued in securitizations that are backed by assets, as well as debt obligations that are also secured. And insurance corporations can combine classic insurance services with shadow operations to guarantee secured debt obligations for further investment of their money.

- Difference. Since different EU members joined the union at different times and have different foundations, there are differences between countries in determining the components and signs of shadow banking and its size. Historically, such a phenomenon was formed that in the countries that are the first/old members of the EU, there is a strong regulatory arbitrage incentive, which was formed under the strict regulation of the classical activity of the banking system over time.

- Interchangeability. In European countries, the classic banking system is highly developed, while shadow banking serves as its complement. But during a market downturn, shadow banking substitutes some classic banking products from traditional banks, for example, some shadow organizations provide financial leasing and buy-to-let services, while other entities engage in securitization [13].

European news, conferences and economic forums are increasingly calling for the reduction of the shadow sector, so that is a moment the EU is beginning to recognize that shadow banking exists not only in the US and other countries, so this topic remains promising for future research by scientists from around the world. In June 2023, the head of the European Central Bank, Andrea Enria, said that shadow banks have begun to grow rapidly throughout the Eurozone and the EU and pose a growing risk to the entire financial system of Europe.

Shadow banking elements, primarily investment funds and insurance companies, now account for \$33.9 trillion in assets, equal to 80% of the regulated banking sector, yet they are less and more loosely regulated and cause greater risk pressures. This systemic risk will increase even more, as inflation is regulated to the target level in the EU, so monetary policy will be stricter. With growing leverage among shadow institutions, a large discrepancy in the duration of their assets and liabilities appears, and with a great demand for liquidity, the shadow banking system may not withstand the load. The main problem is that shadow banks have become poorly regulated, and systemic risks are constantly growing. As a result, shadow banking, which is highly connected to the classical banking system, can cause unnecessary risk and stress in the markets of classical traditional lenders. Therefore, the best precaution for classic banks, etc. there is full awareness of the risks of cooperation with shadow banking, their minimization and risk management [14].

Shadow banking in Ukraine. In addition to the global crisis of 2007, which caused the growth of shadow banking in the USA and Europe, 2014 was another shocking year for Ukraine. In 2014, the Russian Federation annexed Crimea, and the war in Eastern Ukraine began. This year, the National Bank of Ukraine began a tough cleaning of the financial sector from conversion structures. Such actions led to the emergence of a separate shadow banking, which is still difficult to stop, since its users are the largest enterprises of the country. In the non-banking financial market, there was a regulatory conflict, which led to the fact that the market of insurers, credit unions, financial companies, factoring, etc. remained completely without state management. During that period, Ukraine experienced a number of difficult events: a revolutionary change of power, an anti-terrorist operation in the east of Ukraine, a two-fold devaluation, the outflow of about 30% of individual deposits from banks – UAH 60 billion and \$9 billion, the occupation of a part of the territory of Ukraine where it is impossible to conduct banking activity. The external crisis conditions of 2014 greatly increased the internal imbalance of the financial sector. Such external factors include the restrictions of external world financial markets on work with Ukraine, which limits the work of banks of the first world countries with such risky territories as Ukraine, as well as due to sanctions against the Russian Federation.

In 2020, a quarter of the official GDP of Ukraine, or 846 billion hryvnias, was accounted for by shadow transactions. These are the results of the study of the state of the shadow economy in Ukraine, conducted by Ernst & Young within the framework of the signed Memorandum of Cooperation with the Ministry of Economic Development, Trade and Agriculture of Ukraine, the

National Bank of Ukraine and the State Statistics Service of Ukraine. This study structured the shadow economy of Ukraine into "consequential" and "passive", depending on who benefits and wins from it. If we consider the "consequential shadow economy", then two parties to the transaction benefit from it, for example, when paying in cash, the customer does not require an invoice and receives a discount, and the supplier, by not registering the transaction, saves on tax costs. In the second "passive shadow economy", the main benefit and profit from it is received only by the seller of this product or service, who, for example, sells the product for cash without a check and does not pay taxes. The results in Ukraine show that more than a quarter (26.2%) of the volume of the "shadow economy" of cash money (this is 5.3% of GDP or 190 billion hryvnias) is the "consequential shadow economy", where the initiators of cash settlement are both parties – and seller and buyer. And the rest (73.8%) of the total volume of the Ukrainian shadow economy (or 14.4% of GDP – UAH 512 billion) is a "passive shadow economy" initiated by the seller. The conclusions showed that the promotion of cashless electronic payments should have a significant impact on reducing the level of the "passive shadow economy" [15].

With the beginning of the Covid-19 pandemic, the shadow economy of Ukraine began to gradually decrease in general. In 2021, the economy of Ukraine began to recover from the crisis caused by the global pandemic, and continued to develop in 2022, even against the background of the excessive increase in energy prices and the reality of the military threat from Russian Federation. In Ukraine, the level of the shadow economy in January-September 2021 decreased by 1 p.p. up to 31% of GDP. The reduction of the "shadow" was interpreted as a sign of business adaptation to unforeseen quarantine restrictions, as stated in the report of the Ministry of Economy. The level of the shadow economy has decreased thanks to the growth of demand for products in the domestic market and favorable conditions in foreign markets. But the level of shadow activity has decreased in all sectors except the financial sphere and insurance activity, as well as construction. In the field of construction, the share remained unchanged and amounted to 28% due to the increase in the price of building materials. The shadow market grew only in the financial sector - there was an increase of 3 points to 30% due to a 442% increase in sector losses compared to the corresponding period of 2020 (up to UAH 22.5 billion in January-September 2021) [16].

During the full-scale invasion of Russia against Ukraine, a large part of the territory of Ukraine was occupied. Of course, the conduct of hostilities, large migration and other factors of the population negatively affect the economic situation of the country. Many financial institutions were forced to move to other regions or to stop their activities altogether. In such conditions, it is difficult to conduct an accurate calculation of statistical data on the activities of financial institutions, enterprises and the life of the population. Unlike European shadow banking institutions, which are closely intertwined with classic banking and help simplify some procedures or operations for enterprises, etc., or provide them with reserve funds and passive income, Ukrainian shadow banking is used not only for the purpose of facilitating work, etc., but also for the purpose of personal enrichment for political figures, enterprises, etc. even during the war. In the news of Ukraine, you can often see how such events are covered, such as: "Another Ukrainian bank was exposed, which helped the gambling business in the organization of shady schemes". However, even though the level of the shadow economy in Ukraine began to grow with the beginning of the war, in order to fulfill the requirements of joining the EU in Ukraine, we should probably expect an intensification of the fight against the shadow economy in the near future. Recently, President Volodymyr Zelenskyi stated that during the war, and after its end, the work of business in the "shadow" is unacceptable. Currently, in Ukraine "The battle with the shadow" is ongoing. The "Shadows" resist, organize various provocations and anti-government companies. Even to the point of war. But the process of detinization cannot be stopped. It is not a matter of choice, it is a matter of the survival of the country. Moreover, it is a mandatory condition accession to the EU. Therefore, any discussion

about detinization in society should be stopped as such, and I call on those who are still in the shadows to urgently switch to the side of the white economy," said the head of the parliamentary committee on finance, tax and customs policy Danylo Hetmantsev [17].

So, the main features of Ukrainian shadow banking are:

- Lack of transparency and money laundering. The Ukrainian financial market has a large number of banks with limited capitalization and market share. Such banks very often belong to large figures in the industrial sphere for direct financing of their corporate activities. Such activity was as opaque as possible, bank owners used their customers' savings thoughtlessly and without control, laundering money. At the same time, with the strengthening of the NBU's regulation of shadow activities, most of these banks did not comply with the legislation and were closed.

- Arbitration. Being in the shadow banking system, banks can implement the so-called "arbitrage". The sense is that some banks give up their banking licenses to enter another type of market with easier rules and less control, such as the non-bank financial market. Such markets consist of new small structures such as pawnshops, microcredit institutions, etc.

- Cash culture. In Ukraine, it is becoming easier to track cash flows. The accurate collection of information by banks due to the transparency of payments prevents the development of the shadow economy and corruption. Hence, the current boom in electronic transactions has had a positive impact on banking. But despite the fact that there are a lot of applications in Ukraine that allow you to comfortably pay with a phone and even a smart watch, and electronic payments are introduced almost everywhere, the cash culture remains strong. For example, some banks, enterprises, etc. still pay a portion of wages to workers in cash or individuals and legal entities pay landlords in cash [18].

- Distrust. In Ukraine, one can almost always observe a tendency of distrust of citizens towards the state and financial institutions. Due to mistrust, citizens do not want to interact with official financial intermediaries, because they are not sure that the state will protect their own savings. On the other hand, it is possible to single out a list of factors that have a negative impact on the accumulation of savings of the population and on the formation of its income. for example: sharp differentiation of the population by income; low level of wages of citizens; low living wage of the population. In order to form a high level of trust, the country needs to implement a number of special programs from the state with mechanisms for solving existing problems, for example: introduce an increase in the responsibility of employees of financial institutions, other subjects of the financial market, whose actions reduce the financial stability and economic reliability of the institutions managed by them; ensuring transparency of the formation and use of cash flows; preservation of new forms of state guarantees regarding the protection of the rights of consumers of financial services, their timely and complete receipt of these services. The first real step in solving these problems was the adoption of the Strategy for the Development of the Financial Sector of Ukraine until 2022 [19].

Of course, the Ukrainian shadow economy and shadow banking need further regulation. But often in conditions of a low level of social security and high taxation, the shadow sector helps the population with little wealth to survive. Despite the fact that the "shadow" reduces budget revenues, in extreme situations it helps to solve problems with a shortage of goods or services, thus restraining inflation.

State regulation of shadow banking detinization. The shadow banking system needs regulation because of its size, which is 25–30% of the overall financial system, as well as its close ties to the regulated financial sector, but most importantly, the systemic risks it creates. It is also important to prevent the use of shadow banking for regulatory arbitrage.

The Great Recession of 2008–2009 showed that the traditional set of tools of the Central Bank may not be effective enough to overcome the crisis and unstable situation in the state. Instead,

over the past 10 years, central banks have developed new methods and approaches to combat shadow banking, from unconventional monetary policy tools to macroprudential supervision. In Europe, already after the financial crisis in 2007–2008, conclusions were drawn regarding the regulation of shadow banking. In 2009, after the London Summit, where measures were adopted to bring the world economy out of the crisis, the G20 member countries created the Financial Stability Board (FSB). This international body consists primarily of central banks and organizations that are responsible for developing standards for various industries that are intended to be used in monitoring the stability of the financial system. The Financial Stability Board advises and recommends best practices that are subsequently implemented in local jurisdictions. In addition, individual countries are becoming increasingly effective in their efforts to combat tax evasion at the local and international level, as evidenced by the implementation of regulations such as the Common Reporting Standard (CRS) in the European Union. Also there were introduced some rules to minimize offshore and banking secrecy. Among them, it was also decided to introduce sanctions against those countries and territories in the world that provide opportunities for other countries to avoid paying taxes and launder money. States considered the possibility of introducing much stricter restrictions on the financial system, including the activities of then-unregulated investment funds. After the crisis, the commission implemented a comprehensive reform of the financial services sector in Europe.

In 2012, the European Central Bank (Eurosystem) created the Report – Green Book of the commission on shadow banking in Europe. The report considered shadow banking as one of the threats to financial stability in the world economy. The two most important negative consequences of shadow banking are: risks to financial stability due to the impossibility of full regulation and a high probability of regulatory arbitrage. After realizing the increase in systemic risk due to the spread of shadow banking, in cooperation with international standard-setting bodies, the Financial Stability Board (FSB) began to develop a framework of recommendations that considered increased monitoring as well as strengthened regulation of shadow banking. In this way, the ECB has formed a Green Paper that examines the main problems caused by shadow banking and how the shadow banking system and activities can be fully monitored, tracked and controlled in Europe [20].

Also, the European Commission published a report in September 2013, which outlined the definition of a gradual road map for limiting the occurrence of risks in the shadow banking sector, in particular, the most important risks of a systemic nature. These risks include the possible spillover of problems due to Europe's strong connection of shadow banking with the regular banking system.

In 2022, the European Central Bank determined that the main ways of interaction of creditors from the Eurozone with shadow banking activities are loans, securities, derivative contracts, resulting in dependence on financing, which exposes classic banks to liquidity risks, as well as market and credit risks. The highest risk is that any stressful fluctuations or upheavals in the shadow banking sector will have a ripple effect on larger, more complex and systemically important traditional banks due to the concentration of assets, funding relationships and risks of various operational instruments. On the other hand, shadow banking acts as a channel of money inflow to classical banking, during general crises or shocks in the economy, as shadow banks keep their assets/liquidity buffers in most cases in the form of deposits and very short-term repo operations (repurchase agreements).

At the end of 2022, the Supervisory Board of the European Central Bank conducted a "targeted horizontal review" of the management and regulation of counterparty credit risk in 23 banks engaged in transactions with derivatives, as well as securities financing with non-bank counterparties. After these events, the Chairman of the Supervisory Board of the European Central Bank, Andrea Enria, presented several recommendations:

- When working with shadow banking, client verification procedures at the adaptation stage must be strengthened on a permanent basis, after which the verification results must be taken into account when forming credit decisions and contract terms.

- If the bank is willing to accept a counterparty with a significant prior risk, it should record this risk completely transparently in the reporting in order to form a wide range of risk indicators in the bank's system.

- Banks should develop the ability to conduct stress testing of credit risks of counterparties in all areas of business, so that the results of the tests can be taken into account in monitoring and form risk limits [21].

In general, in all European countries, officials hold the opinion that shadow banking should be controlled and regulated, but much less than traditional classic banking. Also, all opinions agree that the regulation of shadow banking should not be a national local initiative, but should be a global balanced program.

In order to reduce the amount of shadow banking in Ukraine, it is necessary to reduce the level of the entire shadow economy with comprehensive measures. It is necessary to rethink the relationship and trust between the state and the population and change the worldview of the population, aimed at paying taxes and conducting official activities, as well as reducing corruption, etc. from business, financial and government institutions. Since shadow activity in Ukraine takes place at all levels and covers many areas of the economy. The main factors forming the shadow economy of Ukraine are the tax burden, regulatory pressure and monopolization. In addition, the low level of protection of property rights, including intellectual property, the stock market, as well as the imperfection of the judicial system and corruption are deepening problems in Ukraine. It is bringing order and introducing regulation and monitoring in all these areas that can lead to the creation of comfortable working conditions for banks, the population and business with a satisfactory level of profitability. Currently, the level of the shadow economy in Ukraine is more than 41%. In developed countries, reducing this indicator by 10% would be considered a revolutionary step. But in Ukraine, such a change may not give a tangible result, because, for example, the habit of optimizing business is deeply rooted, and it is still more profitable to conduct it "in the dark".

The list of main factors affecting the growth of shadow banking in Ukraine includes:

- Reduction of the intermediary role of classic banks as a result of strict regulation and as a result of intensifying competition with specialized non-banking financial institutions (disintermediation of banks);

- Unavailability of legal financial services from classic banks for certain categories of the population (financial exclusion);

- Low level of financial literacy of the population in Ukraine;

- Inability of the banking system after "cleaning" and under the conditions of the current monetary policy and legal regulation to perform the lending function.

- Rejection of a number of categories of potential borrowers from the possibility of obtaining a loan, including due to shadowing of client incomes and strict regulatory requirements of the National Bank for credit risk assessment.

- Weak monitoring and almost no regulation of shadow banking in Ukraine.

- The transfer to shadow creditors of the reputational risks of classic banks, which may arise due to the work of collectors, as a result of which it is profitable for traditional banks to take a number of business lines outside the boundaries of banking institutions.

As a result of these factors, the need for credit resources in Ukraine is met outside of classical banking institutions. Under these conditions, shadow financial institutions perform the

functions of classic banks, only mainly providing loans not only to entrepreneurs, but also in many cases to the consumer needs of the population.

So, in order to regulate and reduce the level of shadow banking in Ukraine, it is necessary to solve a number of problems of overcoming the shadow economy. A low level of 10-15% of shadow banking can be harmless, and even useful for the Ukrainian economy and population, but for this it is necessary to introduce radical changes in the monitoring of shadow banking by the National Bank, and to build a system of adequate control and regulation of shadow banking in Ukraine.

Conclusions. Therefore, the definition of the concept of shadow banking includes a system of organizations that carry out financial intermediation outside the boundaries of the classical regulated banking system. The mechanism of operation of shadow financial institutions is as follows: shadow banks receive funds from customer-depositors, then use short-term deposits to finance long-term loans, which transforms repayment terms, as well as transformation of liquidity with the help of liquid instruments to finance illiquid assets. Shadow financial institutions cover a wide range of services and instruments: securitization, repo operations, securities lending, crowdfunding, intra-corporate loans, etc. Entities operating in this shadow market include money market funds, private investment funds, securitization vehicles, private equity funds, hedge funds, credit guarantee organizations, consumer loans, microloans and virtual currency platforms. The system of shadow financial institutions is difficult to control due to the very wide range of activities, the diversity of the organizations involved, the complexity of the structures and the large number of parameters. In contrast to the classical financial system, the current approach of regulatory bodies to shadow banking enables only fragmentary monitoring and regulation, resulting in a lack of transparency. As a result, many areas of shadow banking remain unregulated.

Classic banks in Europe, due to their versatility, continue to combine market intermediation, as well as securitized intermediation and securitized banking. Shadow banking exists in parallel with traditional banking in the role of its auxiliary reflection. The nature of shadow banking in Europe is not determined by the poor standard of living, or low literacy of the population, etc., shadow financial institutions perform primarily the role of transferring funds in times of crisis on the market of traditional financial institutions. So, it was established that the main features of shadow banking in European countries are: cyclicity, interconnection with classical banking, diversification of the level of shadowing depending on the EU state, interchangeability with classical banking. It was found that, in general, in all European countries, officials are of the opinion that shadow banking needs to be monitored and regulated, but much less so than traditional classic banking.

The nature of shadow banking in Ukraine is determined by many factors, such as: low level of financial literacy of the population, inaccessibility of legal financial services for certain segments of the population, weak monitoring of shadow banking, in contrast to strict regulation of classic banking, etc. The Ukrainian shadow financial system is characterized by a lack of transparency and money laundering, distrust of the population in classical financial institutions, cash culture and arbitration. Of course, in order to overcome shadow banking and reduce it to an acceptable level, Ukraine must deal with many internal problems related to the shadow economy and regulation of the economy. But with the goal of joining the EU and fulfilling the "homework" from the European Commission on economic reform, Ukraine will have every chance to rise to the regulation of such problems of shadow banking, which are globally and jointly solved by European countries.

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