

Rethinking Shadow Banking: Friend or Foe?Ali Tarhan¹**Abstract**

Shadow banking has been held responsible as the chief culprit of financialization and financial crises after the 2008 financial meltdown. Considering the large scale of financial industry of Western countries, especially the United States of America (US) and the United Kingdom (UK), experiences show that the shadow banking has fed these countries' economies during the stagnation, but has been subjected to massive runs on repos during the slumps. It has also become evident that the income gap caused by deindustrialization in these countries filled by the revenues of financial industries. However, the massive volume of shadow banking not only disguised the basic structural problems in the US and the UK economies, but also created further deindustrialization waves among the peripheral countries. On the other hand, more profoundly regulated continental European countries were not affected so largely by the negative outcomes of income fluctuations created by shadow banking. During and after the financial turmoil of 2008 crisis, the positive contributions of shadow banking have been ignored. One important aspect of shadow banking is its capacity to mobilize idle financial resources. This capacity has far greater importance for emerging economies than the developed ones since it could reduce the financial dependence of these countries on foreign funds. Thus, the purpose of this study is to discuss the positive contributions and feasibility of shadow banking for developing peripheral economies.

Keywords: securitization, financialization, shadow banking, periphery.

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