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“What Triggers Systemic Risk in the European Financial System? The Role of Shadow Banking”

Abstract. The identification of systemic risk determinants in the worldwide financial system has played an important role in the scientific, policy making and financial industry communities, especially in the aftermath of the Global Financial Crisis. However, the contribution of shadow banking entities has not been properly assessed yet. In this paper, we focus on the corporate features triggering systemic risk in the European financial system, using a unique dataset of 476 listed traditional and shadow banking entities, belonging to 24 different European countries, over the period 2006:1-2015:4. We find that larger institutions increased systemic risk over the long run, but size decreased the contribution to financial turmoil during the worst phases of the crisis. While shadow entities generally increase systemic risk, higher level of maturity mismatch may mitigate losses.