FSB FINANCIAL STABILITY BOARD

Press release

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Rising interest rate environment led to a decline in non-bank financial intermediation in 2022

- ***Annual monitoring exercise saw a decrease in the size of the non-bank financial intermediation (NBFI) sector in 2022 – the first notable decrease since 2009 – largely due to the impact of higher interest rates on asset valuations.***

- ***Similarly, the part of the NBFI sector that may pose bank-like financial stability risks decreased in 2022. This decline can be almost entirely attributed to investment funds. Money market funds were the only fund type to grow in 2022.***

- ***Banks continue to be net recipients of funding from NBFI entities, although this funding has been gradually decreasing as a proportion of bank assets.***

The Financial Stability Board (FSB) today published the Global Monitoring Report on Non-Bank Financial Intermediation 2023. The report presents the FSB's annual monitoring exercise assessing global trends and vulnerabilities in non-bank financial intermediation (NBFI).

The report mainly covers developments in 2022, when most economies experienced a rising interest rate environment in response to inflationary pressures. It describes broad trends in financial intermediation across 29 jurisdictions that account for around 85% of global GDP, before narrowing its focus to the subset of NBFI activities that may be more likely to give rise to vulnerabilities. This year's exercise includes data enhancements on interconnectedness, sources of funding, and vulnerability metrics. The report also includes an overview of policy tools to address vulnerabilities associated with liquidity transformation and use of leverage by collective investment vehicles and a case study of private finance in the euro area, Hong Kong, the United Kingdom, and the United States.

The main findings from this year's monitoring exercise include:

- The size of the NBFI sector decreased in 2022, which is the first notable decrease since 2009 and can be largely attributed to higher interest rates. The total financial assets of the sector declined 5.5% compared to 2021 to $217.9 trillion, mainly reflecting valuation losses in mark-to-market asset portfolios, particularly in investment funds.

- The narrow measure of the NBFI sector – comprising entities that authorities have assessed as being involved in credit intermediation activities that may pose bank-like financial stability risks – decreased 2.9% to $63.1 trillion in 2022, representing 28.9%

of total NBFI assets. This decline can be almost entirely attributed to collective investment vehicles susceptible to runs, such as fixed income, mixed, and credit hedge funds. Money market funds were the only investment fund type to grow in 2022.

- Banks continued to be net recipients of funding from NBFI entities, although this funding has been gradually decreasing as a proportion of bank assets since 2013.
- Most vulnerability metrics of NBFI entities – measuring credit intermediation, maturity transformation, liquidity transformation, and leverage – remained stable. Metrics for maturity transformation in fixed income funds were high overall, while metrics for liquidity transformation were also high across most funds.

Market prices have generally rebounded since the analysis presented in this report, especially following the banking sector turmoil in March 2023. These developments and potential implications for vulnerabilities in the NBFI sector will be assessed in next year's report.

Notes to editors

The FSB created a system-wide monitoring framework to track developments in NBFI in response to a G20 Leaders' request at the Seoul Summit in 2010. The objective of the monitoring exercise is to identify the build-up of vulnerabilities in NBFI and initiate corrective actions where necessary. Complementing this monitoring, the FSB has been coordinating the development of policies to mitigate potential vulnerabilities associated with NBFI.

In November 2020, the FSB published a *Holistic Review of the March Market Turmoil*, which lays out a comprehensive and ambitious work programme for strengthening the resilience of the NBFI sector while preserving its benefits. Progress under the FSB NBFI work programme, which is being carried out within the FSB as well as by its member standard-setting bodies and international organisations, is detailed in the FSB's September 2023 report.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.