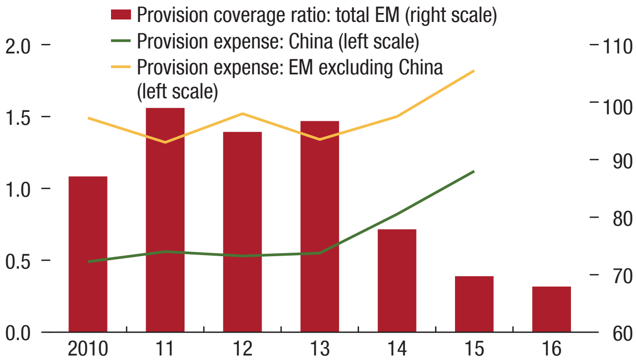
Figure 1.17. Underprovisioning in the Weak Tail of Banks

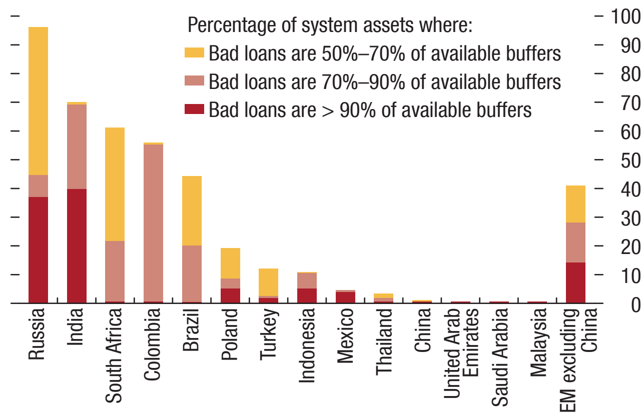
Provisioning has risen but not fast enough, as banks strain to maintain coverage ratios.

1. Provision Expense-to-Gross Loan Ratio and Problem Loan Provision Coverage Ratio
(Percent)



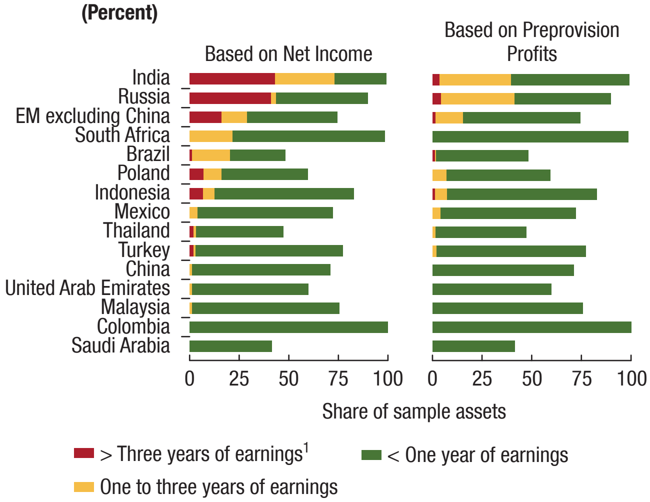
As a result, there is a large weak tail of banks with a high ratio of bad loans to buffers.

2. Percentage of Assets by the Ratio of Nonperforming and Problem Loans over Tier 1 Capital and Loan Loss Provisions, 2016



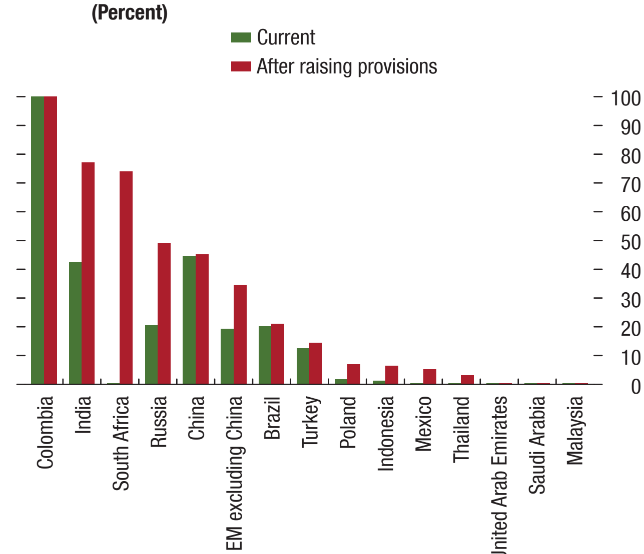
Provision needs exceed annual profits in 30 percent of emerging market banks outside China.

3. Number of Years to Absorb Additional Provisions through Earnings, by Share of Assets
(Percent)



If provisions were deducted from equity, weak banks would jump up to 35 percent of assets.

4. Percentage of Assets with Tier 1 Ratio below 10 Percent
(Percent)



Sources: SNL Financial; and IMF staff calculations.
Note: In panel 3, earnings are based on three-year averages. EM = emerging market.
[1] Banks with losses are included in this category.