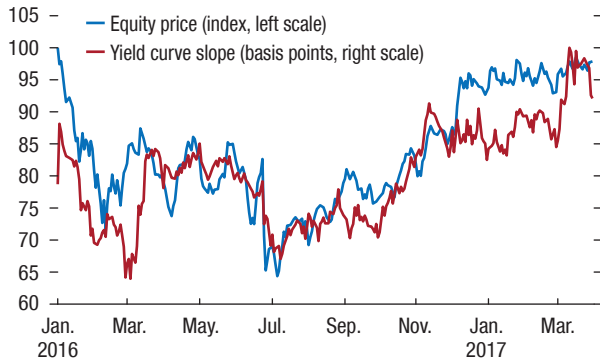


Figure 1.22. Banking Sector Market Valuations and Return Performance

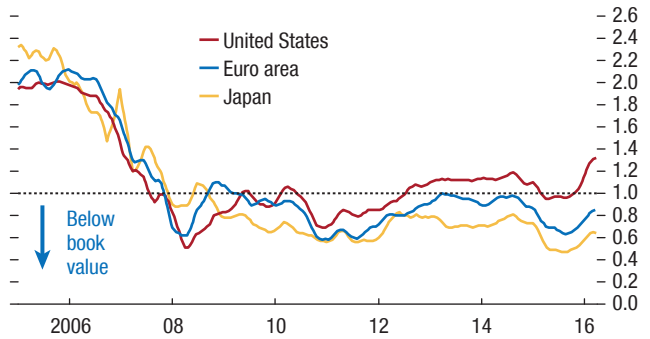
Bank equity prices have increased ...

1. European Bank Equity Prices and the Slope of the Yield Curve



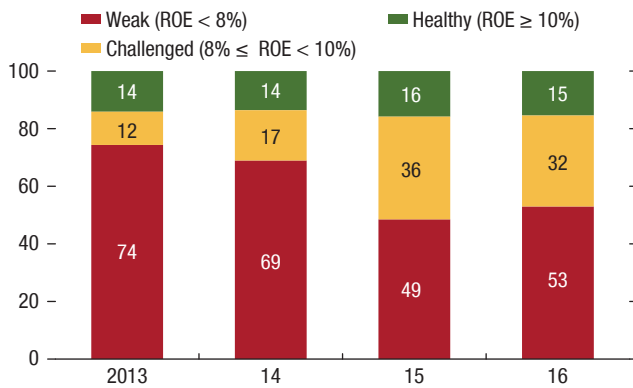
... but European equity valuations remain low.

2. Bank Price-to-Book Ratios (Multiple)



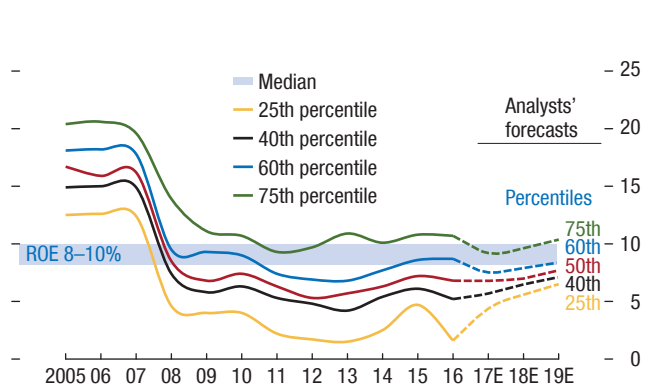
A significant proportion of banks have weak profits ...

3. European Banks, by Return on Equity Thresholds over Time (Percent of sample, by assets)



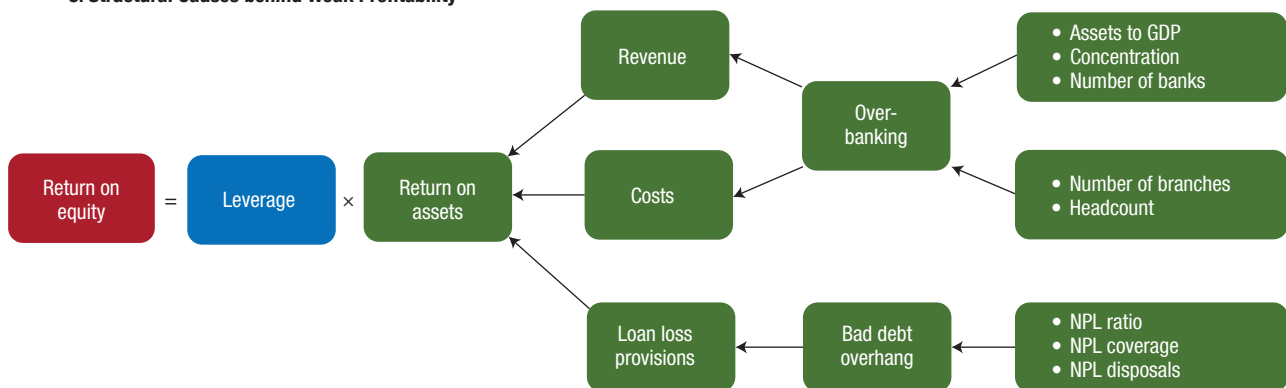
... and analysts do not expect this to change quickly ...

4. Selected European Bank Return on Equity (Percent)



... in the face of significant structural challenges.

5. Structural Causes behind Weak Profitability



Sources: Bloomberg L.P.; SNL Financial; and IMF staff estimates.

Note: In panel 1, the yield curve slope shows the difference between the three-year euro swap rate and the overnight euro rate. Panel 3 is based on a sample of 172 of the largest European banks. Panel 4 is based on about 80 European banks with analysts' forecasts. E = estimate; NPL = nonperforming loan; ROE = return on equity.