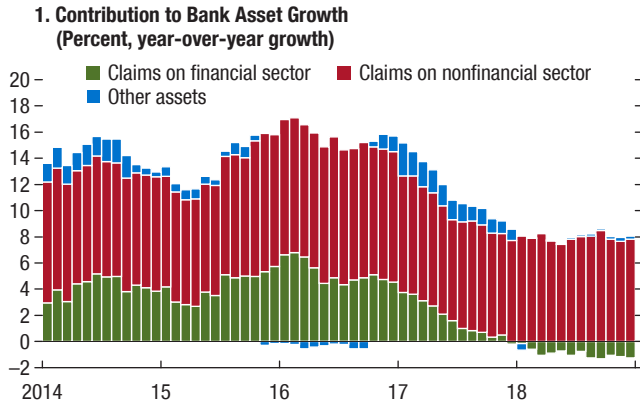
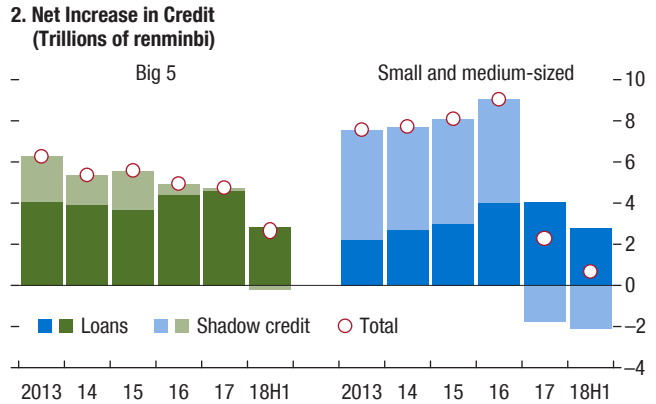


**Figure 1.25. China: Impact of Regulatory Tightening on Credit Expansion**

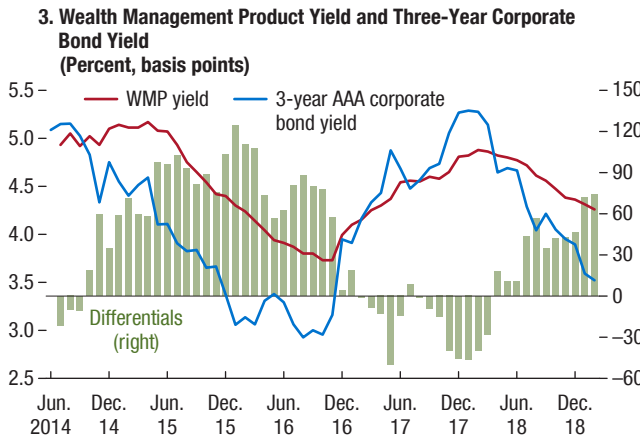
Regulatory tightening has succeeded in reducing linkages between financial institutions ...



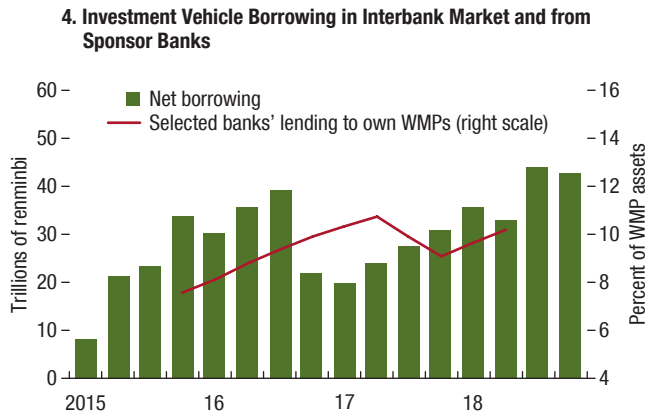
... and curbing shadow credit, especially from smaller banks ...



... but yields on wealth management products remain high, indicating continued use of leverage and risky assets to boost returns.



Investment vehicle short-term borrowing continues to rise, suggesting reforms have yet to reduce risks.



Sources: Bank annual reports; CEIC; Haver Analytics; SNL Financial; Wind Information Co.; and IMF staff calculations.

Note: In panel 2, shadow credit includes both bank-reported on-balance sheet investment vehicles (disclosed holdings of unconsolidated structured entities) and off-balance sheet investment vehicles. The latter is estimated as 65 percent of disclosed off-balance sheet wealth management products, which roughly deducts the proportion of assets that are claims on financial or public sector counterparties; as reported in China Bank Wealth Management Market Annual Report 2017. In panel 4, selected banks' lending to own WMPs based on banks with available disclosures, including for four Big 5 banks and two mid-sized banks that accounted for 43 percent of off-balance sheet WMPs as of 2018:H1. WMP = wealth management product.