Curbing shadow credit slows overall credit growth, especially if other weaknesses are also addressed, and would reduce vulnerabilities only gradually.

Sources: Company annual reports; SNL Financial; and IMF staff calculations.

Note: Shadow credit refers to nonbond, nonloan credit to nonfinancial private borrowers, both on and off balance sheet. For a complete definition, please see footnote 33.

1Credit growth capacity is calculated at the bank level for 32 firms as the maximum net new credit possible given assumptions for growth in shadow credit (on and off balance sheet) and common equity Tier 1 (CET1) capital. Changes in shadow credit affects the CET1 available to support credit growth. New shadow credit is assumed to carry regulatory capital risk weightings of 25 percent, whereas off-balance-sheet shadow credit carries a risk weighting of zero. Assumes firm-level profitability, dividend payout ratio, CET1 ratio, and loan mix from 2016 stay constant.

2Projected credit growth capacity assuming shadow credit growth of 27 percent year over year.

3Projected credit growth capacity assuming shadow credit growth of 0 percent year over year.