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

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

1. Contribution to Bank Asset Growth
   (Percent, year-over-year growth)

   - Claims on financial sector
   - Claims on nonfinancial sector
   - Other assets

   2014 15 16 17 18

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

   2. Net Increase in Credit
      (Trillions of renminbi)

   Big 5

   Small and medium-sized

   2013 14 15 16 17 18H1 2013 14 15 16 17 18H1

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

   3. Wealth Management Product Yield and Three-Year Corporate Bond Yield
      (Percent, basis points)

   WMP yield 3-year AAA corporate bond yield

   Jun. Dec. 14 15 16 17 18

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

   4. Investment Vehicle Borrowing in Interbank Market and from Sponsor Banks

   Net borrowing Selected banks’ lending to own WMPs (right scale)

   2015 16 17 18 18H1

   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.