Figure 1.26. China: Bank Balance Sheet Weaknesses

Banks’ ability to extend loans to the corporate sector is limited by low profitability ...

1. Return on Assets (Percent)

- Big 5
- Small and medium-sized

Banks outside the Big 5 face a trade-off between improving resilience or extending new credit.

3. Estimated Aggregate One-Year Loan Growth Capacity with Balance Sheet Strengthening, by Bank Type (Percent)

2. Core Tier 1 Capital Ratio (Percent)

- Big 5
- Small and medium-sized

Higher credit growth will come at a cost of delaying bank balance sheet repair.

4. Small and Medium-Sized Banks: Share on Track to Strengthen Balance Sheets, by Time Required and Credit Growth Pace (Percent of small and medium bank assets)

Sources: Haver Analytics, SNL Financial, and IMF staff estimates.

Note: In panels 3 and 4, balance sheet strengthening assumes banks maintain common equity Tier 1 (CET1) ratios equivalent to higher of current ratio or the industry average (10.5 percent), and except in the green bars of panel 3, that banks must hold adequate capital against 50 percent of on-balance-sheet shadow credit and 30 percent of off-balance-sheet shadow credit (wealth management products). In both panels, bank internal capital generation is increased by a 50 percent reduction in the dividend payout ratio and data are based on a sample of Big 5 banks and 25 small and medium-sized banks representing RMB 160 trillion in assets.

RMB = renminbi.