Deteriorating asset quality will contribute to an erosion of loss-absorbing buffers.

Banks are selling an increasing proportion of nonperforming loans.

Nonperforming loans (NPL) • Special mention loans (SML) • SML and NPL (right scale)

Large state-owned banks • Joint-stock banks • City banks • Rural banks

China’s slowing economic and credit growth reveals a gradual deterioration in asset quality, albeit from low levels...

...reflected in rising nonperforming and special mention loans.

Sources: CEIC; and China Banking Regulatory Commission.

Banks are selling an increasing proportion of nonperforming loans.

Sources: CEIC; and China Banking Regulatory Commission.

Deteriorating asset quality will contribute to an erosion of loss-absorbing buffers.

Sources: CEIC; and IMF staff calculations.

Note: Capital buffers are defined as Tier 1 capital plus provisions less non-performing loans. The sample of listed banks refers to 22 listed banks with combined assets of 55.8 trillion renminbi at the end of 2015:Q1, which accounts for 79 percent of the commercial banking system’s gross loans.

Sources: Wind Info Co.; and IMF staff calculations.

Note: Gross nonperforming loans are calculated as the sum of previous nonperforming loans and gross flows (net increase and charge-offs). The sample covers 18 listed Chinese banks.