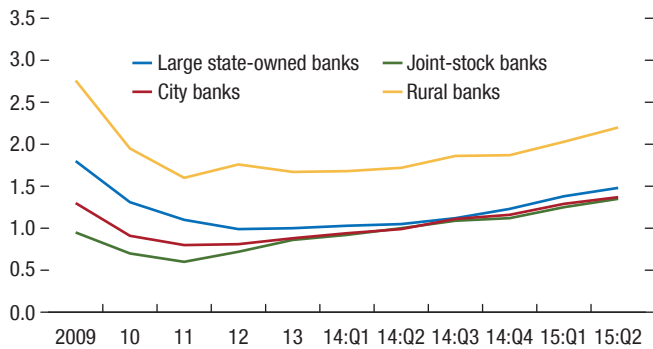


Figure 1.12. Chinese Banks: Asset Quality Challenges

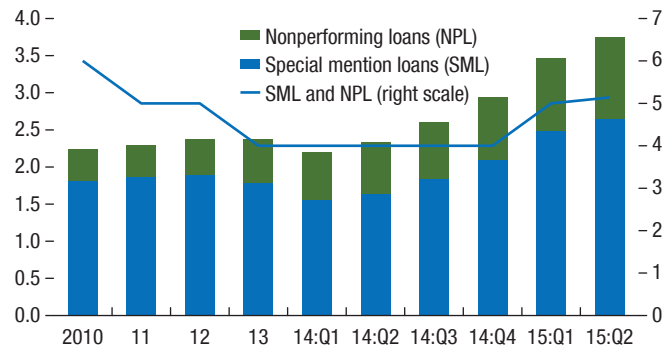
China's slowing economic and credit growth reveals a gradual deterioration in asset quality, albeit from low levels...

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

1. Nonperforming Loans (Percent of gross loans)



2. Special Mention and Nonperforming Loans (Trillions of renminbi, unless specified otherwise)



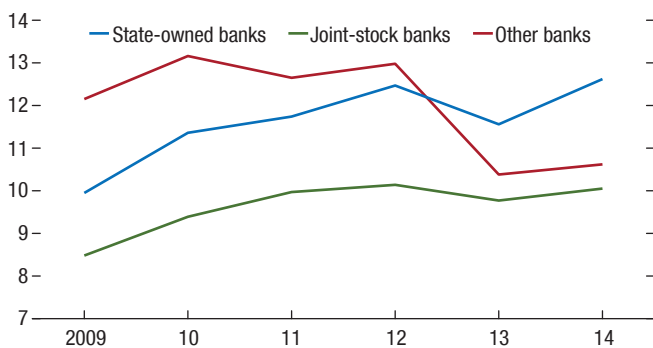
Sources: CEIC; and China Banking Regulatory Commission.

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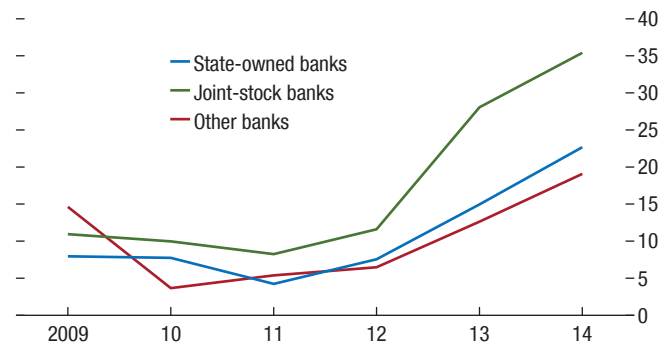
Deteriorating asset quality will contribute to an erosion of loss-absorbing buffers.

Banks are selling an increasing proportion of nonperforming loans.

3. Listed Bank Capital Buffers (Percent of risk-weighted assets)



4. Listed Bank Charge-Offs and Disposals (Percent of gross nonperforming loans)



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

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

Note: Capital buffers are defined as Tier 1 capital plus provisions less nonperforming 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.

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.