Figure 1.13. Bank Performance in a “Cyclical Recovery” Scenario, by Region

Profitability improves but does not return to precrisis levels ...

1. Average Return on Equity (Percent)

Europe 2006–07 15.2
Europe 2015 6.6
Europe cyclical recovery 9.6
United States 2006–07 12.3
United States 2015 9.7
United States cyclical recovery 10.6

... and is not enough to fix Europe’s large tail of weak banks.

2. Average Return on Assets (Percent)

Europe 2006–07 0.64
Europe 2015 0.36
Europe cyclical recovery 0.55
United States 2006–07 1.03
United States 2015 0.88
United States cyclical recovery 1.01

Following a cyclical recovery, 30 percent of European banks remain weak ...

3. Europe: Percentage of Banks Meeting Return on Equity of 8–10 Percent, by Assets (Percent)

- ROE > COE (10%)
- ROE > COE (8%)
- ROE < COE (8%)

Europe 2015: 47 (Healthy), 36 (Challenged), 17 (Weak)
Europe cyclical recovery: 44 (Healthy), 26 (Challenged), 30 (Weak)

4. United States: Percentage of Banks Meeting Return on Equity of 8–10 Percent, by Assets (Percent)

- ROE > COE (10%)
- ROE > COE (8%)
- ROE < COE (8%)

United States 2015: 27 (Healthy), 26 (Challenged), 8 (Weak)
United States cyclical recovery: 67 (Healthy), 47 (Challenged), 25 (Weak)

Europe benefits more from falling provisions.

5. Change from 2015: Key Earnings Drivers as a Percentage of Assets: Cyclical Recovery Scenario (Basis points)

- Net interest income
- Fee income
- Other income
- Provision costs

Europe United States

Sources: Bank financial statements; Bloomberg L.P.; CreditSights; Federal Reserve call reports; Fitch Ratings; Hypostat; SNL Financial; and IMF staff estimates and analysis.
Note: Balls represent individual banks, with size of balls proportional to bank assets. The scenario includes 61 European banks (covering 60 percent of system assets) and 215 U.S. banks (covering 80 percent of system assets). The model treats earnings as instantaneous, not phased in over time and does not consider balance sheet evolution. COE = cost of equity; ROA = return on assets; ROE = return on equity.