

MAY 20, 2026

Macroeconomic and banking sector analysis

China Banking Monitor

Executive Summary

- China's banking sector remained resilient in 2025 and early 2026 despite weak domestic demand, property sector stress, and rising geopolitical tensions, thanks to policy easing and ample liquidity.
- Credit growth stayed subdued as weak household and corporate confidence constrained private borrowing, while policy-directed lending increasingly supported strategic sectors.
- Profitability remained under pressure from persistent margin compression and low lending rates, pushing ROA and ROE to historical lows and prompting the government to support large banks' capital replenishment.
- Headline asset quality stayed broadly stable due to strong NPL resolution and provision buffers. Risks are increasingly shifting toward retail lending and LGFV-related exposure.
- Capital and liquidity conditions remained adequate at the system level, but smaller and regional banks continue to face increasing pressure from weaker profitability and concentrated risk exposure.



Agenda

01

Macroeconomic
environment

Growth drivers and
structural challenges

02

Banking sector
performance

Profitability and asset
dynamics

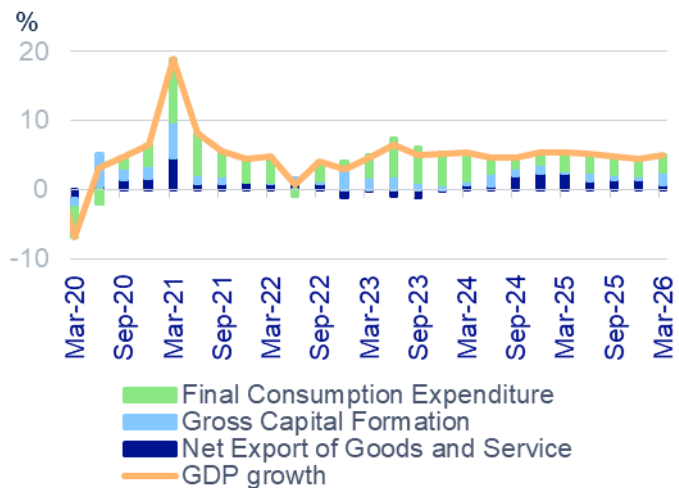
03

Risks and outlook

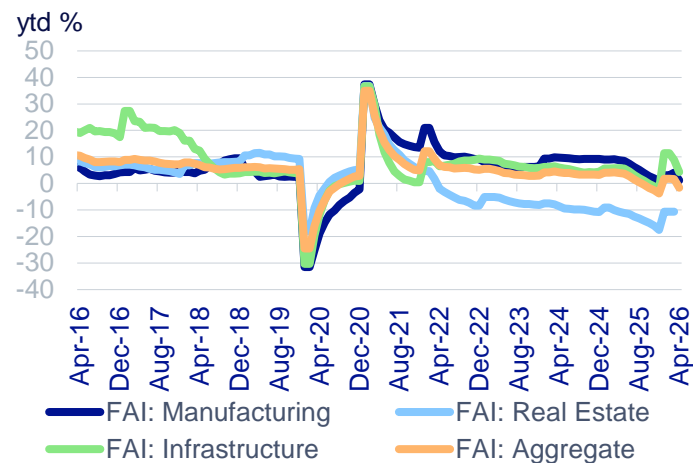
Structural vulnerabilities
and outlook

Growth underpinned by supply side and exports

GDP GROWTH DRIVEN BY STRONGER NET EXPORTS (Q1 2026 GROWTH AT 5.0% SUPPORTED BY EXPORTS)



WEAK REAL ESTATE FAI WEIGHS ON INVESTMENT (PROPERTY SECTOR CONTINUES TO DRAG FAI)

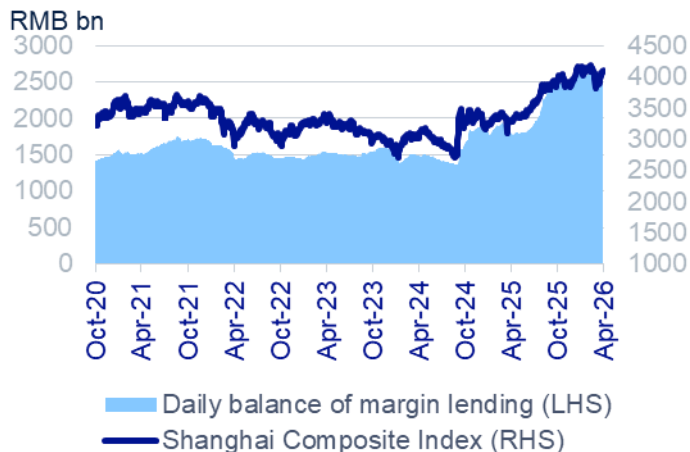


Source: BBVA Research based on data from NBS

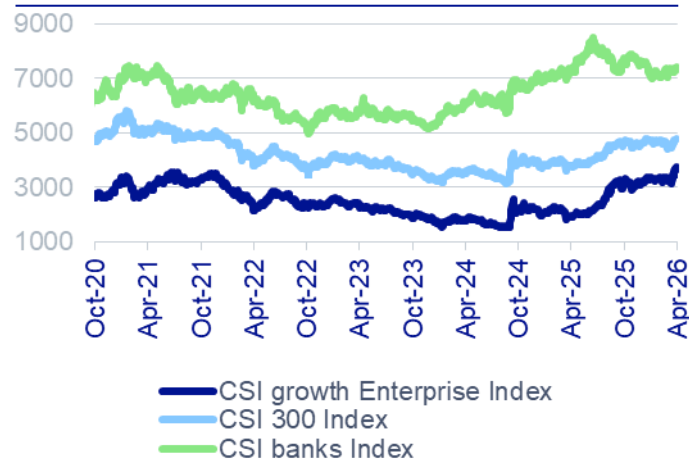
GDP growth accelerated from 4.5% in Q4 2025 to 5.0% in 2026 Q1, driven by stronger exports that have supported domestic manufacturing. Structural weaknesses in real estate continue to drag investment.

Equity markets recovered on policy support and China's tech-sector revaluation

SHANGHAI COMPOSITE AND MARGIN LENDING (INVESTOR SENTIMENT RECOVERED IN LATE 2025 AND EARLY 2026)



CSI 300 AND BANKING INDEX ALSO STRENGTHENED (BROAD-BASED EQUITY RECOVERY OBSERVED)



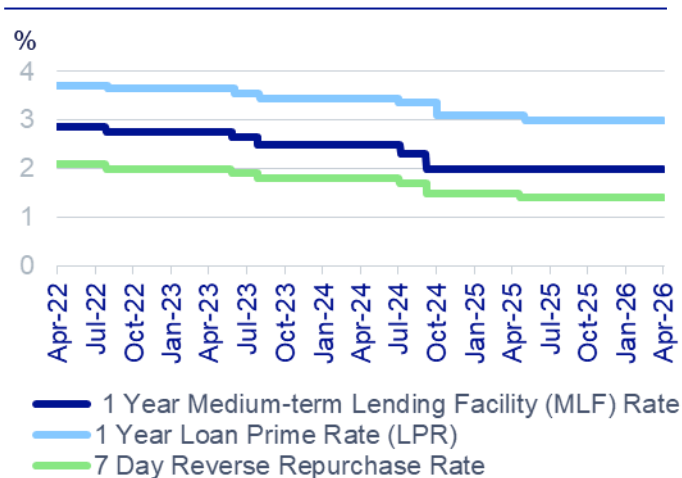
Source: BBVA Research based on data from Wind

Equity markets reflect improving sentiment, driven by policy support, ample liquidity, and a re-rating of technology and AI-related sectors, contributing to a partial stabilization in financial conditions.

Monetary policy remains accommodative but increasingly targeted

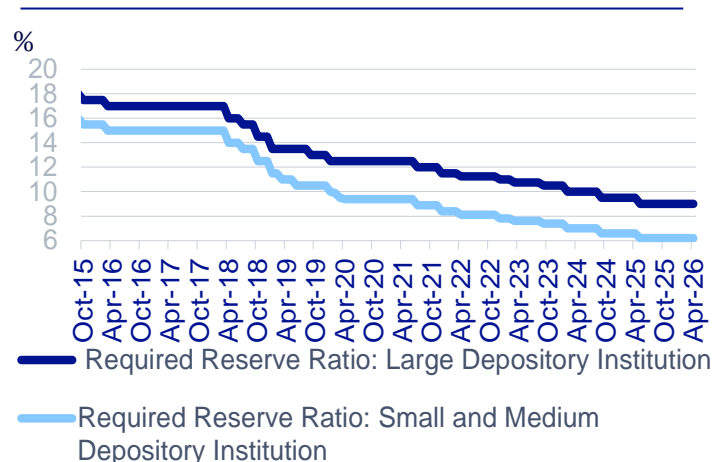
LOAN PRIME RATE CUTS IN 2025 (TWO REDUCTIONS IMPLEMENTED)

(TWO REDUCTIONS IMPLEMENTED)



RRR REDUCTIONS DURING 2025 (LIQUIDITY SUPPORT TO BANKING SECTOR)

(LIQUIDITY SUPPORT TO BANKING SECTOR)

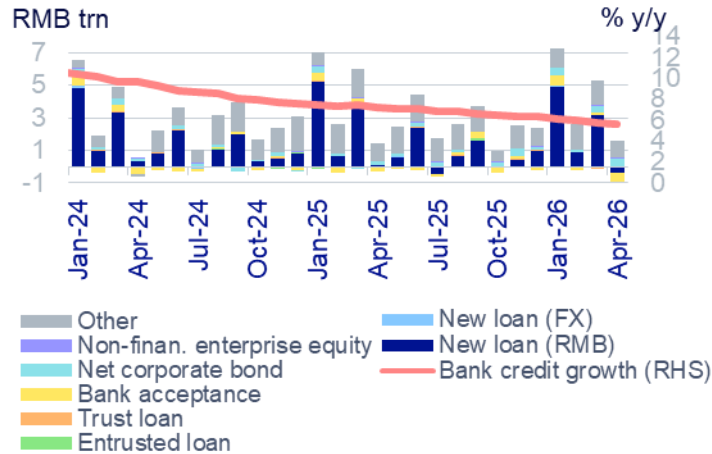


Source: BBVA Research based on data from the People's Bank of China

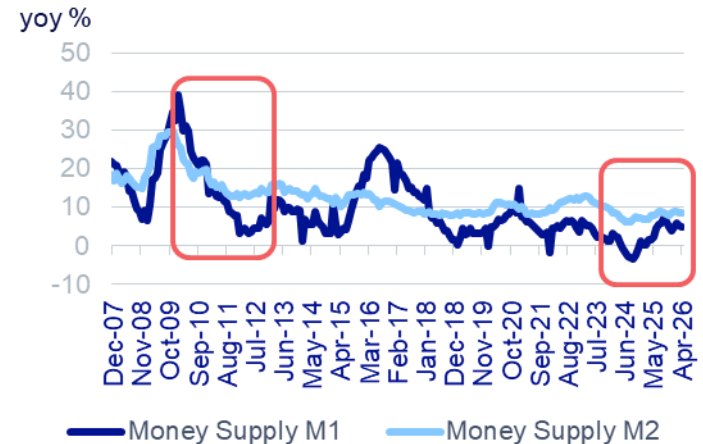
In 2025, the PBoC delivered roughly 10bp in 1-year LPR cuts and about 50bp in cumulative RRR reductions. Further easing is expected in 2026, likely in a more targeted form rather than broad-based.

Policy-related financing partially offsets weak credit demand

TOTAL SOCIAL FINANCING COMPOSITION
(PUBLIC-SECTOR FINANCING GAINED IMPORTANCE)



MONEY SUPPLY M1 AND M2 GAP (WEAK PRIVATE CREDIT DEMAND DESPITE AMPLE LIQUIDITY)

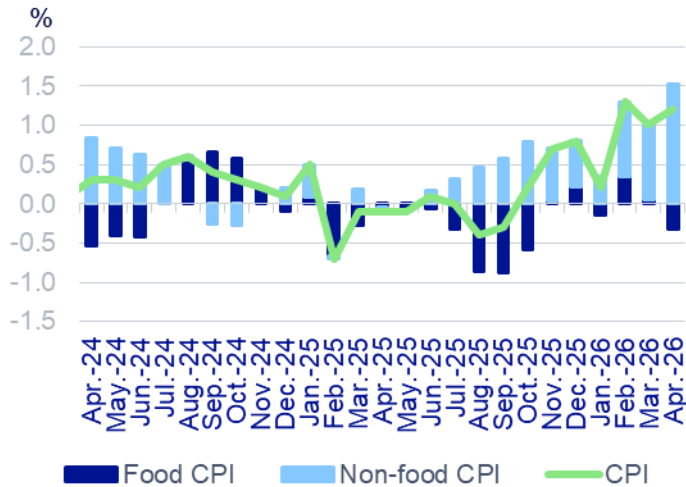


Source: BBVA Research based on data from the People's Bank of China

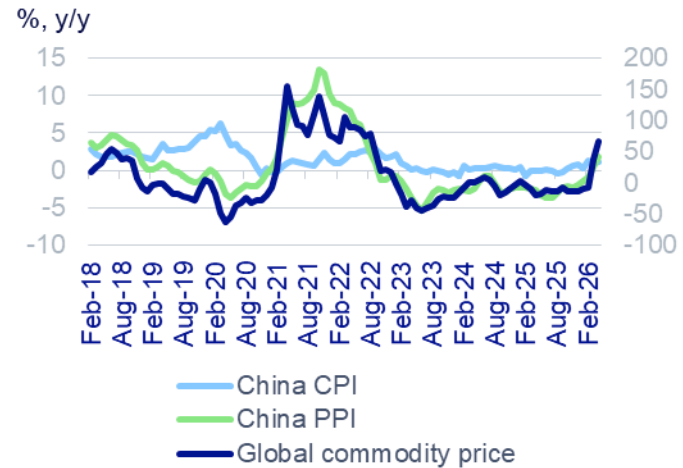
Liquidity remains ample, but weak private credit demand continues to constrain transmission to the real economy, highlighting persistent structural imbalances.

Deflation pressures are easing but not fully resolved

CPI TURNED POSITIVE AFTER NEAR ZERO LEVELS (CONSUMER PRICES REMAINED LOW AND FRAGILE)



PPI RETURNED TO GROWTH IN MARCH (PPI REVERSED ITS 41-MONTH DECLINE)

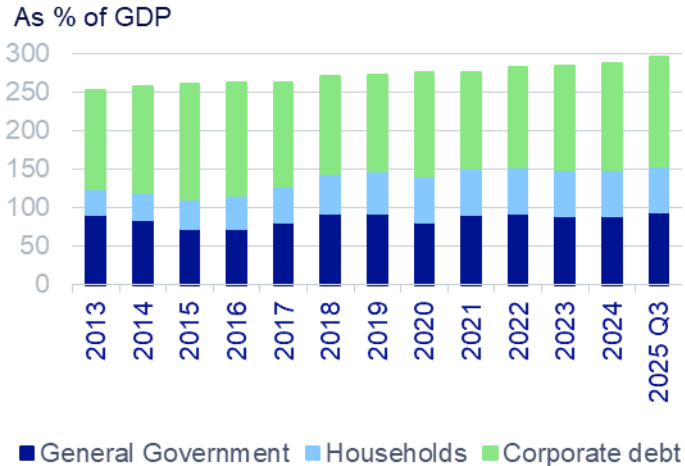


Source: BBVA Research based on data from NBS and Haver

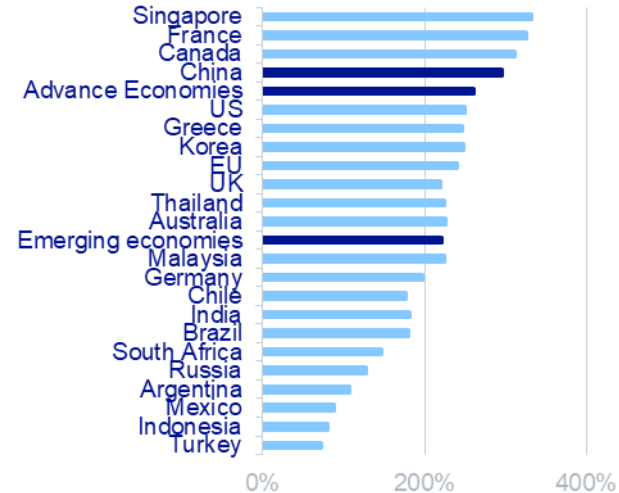
Disruptions in the Strait of Hormuz amid the US–Israel war against Iran have lifted energy and commodity prices, although the impact remains predominantly supply-driven, with limited spillovers to demand.

High leverage remains a structural vulnerability

DEBT COMPOSITION BY SECTOR (CORPORATE AND GOVERNMENT DOMINATE)



CHINA'S LEVERAGE REMAINS ELEVATED VS PEERS (CHINA'S LEVERAGE ABOVE EM AND ADVANCED PEERS)



Source: BBVA Research based on data from BIS

High leverage concentrated in the corporate and local government sectors poses structural risks despite household deleveraging trends.

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Risks and outlook

Structural vulnerabilities
and outlook

Bank fundamentals remain stable but face structural pressure

Asset growth slows

Asset growth remains supported by policy-driven lending rather than strong private demand



Profitability declines

Margin compression continues to pressure profitability



Underlying risks shift

Underlying risks are shifting toward retail and real-estate-related exposure



Stable capital position

Capital ratios and liquidity remain broadly stable across the system



A snapshot of key indicators of Chinese commercial banks

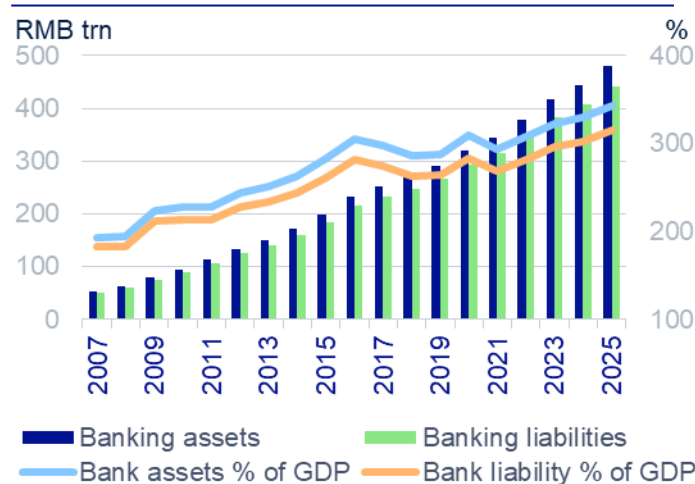
	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Asset quality and credit risk									
Loans/total assets	54.9%	66.8%	67.3%	66.9%	66.7%	67.3%	66.7%	66.0%	65.6%
NPL ratio	1.59%	1.59%	1.56%	1.56%	1.50%	1.51%	1.49%	1.52%	1.50%
(NPL+special-mention loan) ratio	3.78%	3.76%	3.78%	3.84%	3.72%	3.69%	3.66%	3.72%	3.68%
Provisions/NPLs	205.1%	204.5%	209.3%	209.5%	211.2%	208.1%	212.0%	207.2%	205.2%
Profitability & efficiency									
NIM	1.69%	1.54%	1.54%	1.53%	1.52%	1.43%	1.42%	1.42%	1.42%
Cost to income ratio	35.3%	29.0%	30.7%	31.8%	35.6%	29.0%	30.2%	31.8%	35.6%
ROE	8.9%	9.6%	8.9%	8.8%	8.1%	8.8%	8.2%	8.2%	7.8%
ROA	0.70%	0.74%	0.69%	0.68%	0.63%	0.68%	0.63%	0.63%	0.60%
Solvency									
Tier 1 ratio	12.1%	12.4%	12.4%	12.4%	12.6%	12.2%	12.5%	12.4%	12.4%
Core Tier 1	10.5%	10.8%	10.7%	10.9%	11.0%	10.7%	10.9%	10.9%	10.9%
Leverage ratio	6.8%	6.8%	6.8%	6.8%	6.8%	6.6%	6.7%	6.7%	6.6%
NPLs/ Capital	9.9%	10.0%	9.8%	9.7%	9.3%	9.7%	9.3%	9.6%	9.4%
Liquidity and funding									
Deposits/Total assets	81.7%	81.9%	81.5%	81.5%	81.0%	84.1%	83.0%	82.0%	81.9%
Non-deposits funding (Central bank, bonds, NCDs, ...) / Total assets	37.8%	37.1%	37.3%	37.4%	38.1%	37.5%	38.3%	38.8%	38.9%
Loan to deposit ratio	78.7%	78.8%	80.6%	80.8%	80.3%	80.0%	80.3%	80.5%	80.1%
Liquidity coverage ratio	151.6%	150.8%	150.7%	153.3%	154.7%	146.2%	149.3%	149.7%	158.0%

Source: BBVA Research based on data from National Financial Regulatory Administration and China's Depository Corporations Survey

Bank assets growth ticked up in 2025 supported by policy-driven credit expansion

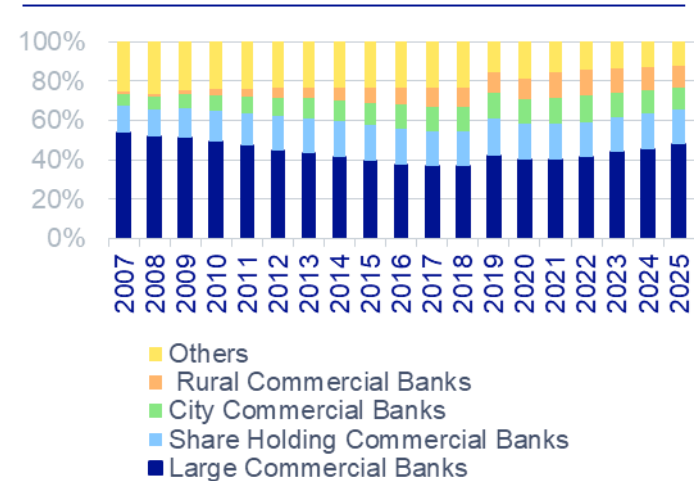
TOTAL BANKING ASSETS GROWTH

(GROWTH ACCELERATED TO 8.0%)



BANK ASSET COMPOSITION

(LARGE BANKS DOMINATE SYSTEM)



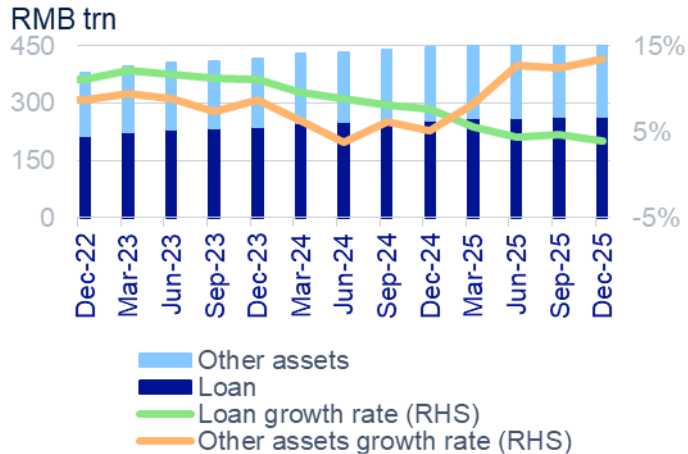
Source: BBVA Research based on data from National Financial Regulatory Administration and NBS

Asset growth increased to 8.0% to reach RMB 480 trillion, up from 6.5% in 2024, supported mainly by policy support measures and non-loan asset expansion.

Non-loan asset growth picked up while loan growth continued weakening

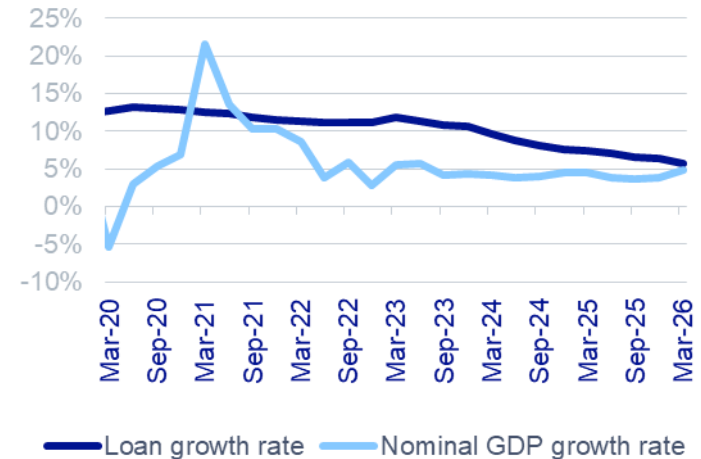
LOAN GROWTH TREND

(GROWTH DECLINED FURTHER IN 2025)



LOAN ASSET GROWTH TREND

(STILL EXCEEDS THE NOMINAL GDP GROWTH RATE)



Source: BBVA Research based on data from National Financial Regulatory Administration, NBS and PBOC

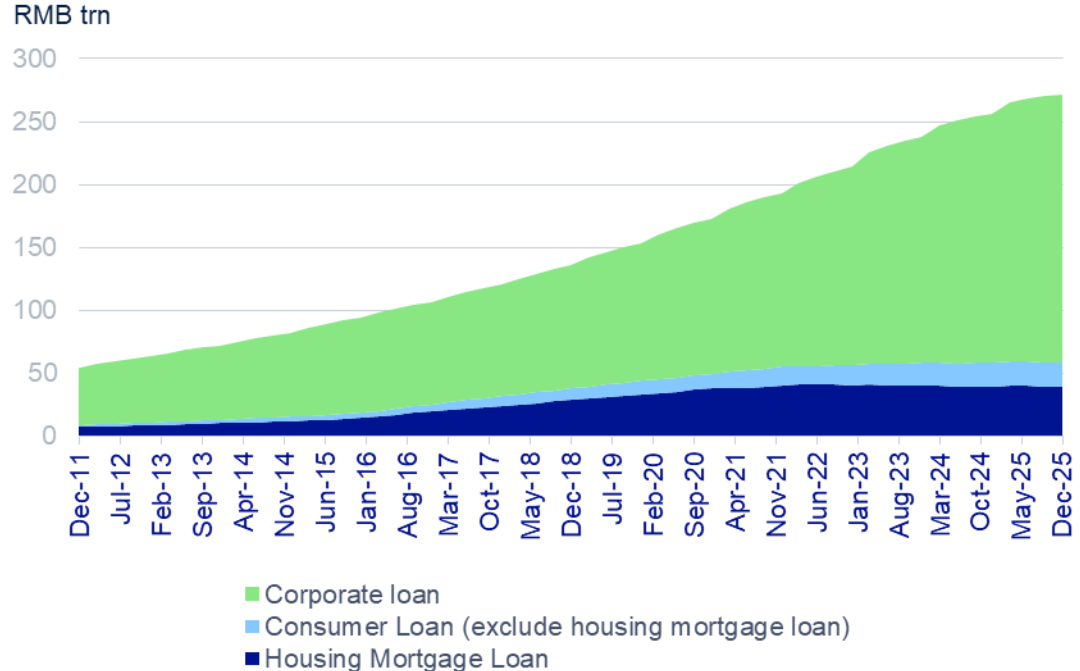
Loan growth remained weak due to subdued corporate and household demand, while non-loan assets increasingly supported balance-sheet expansion.

Banks continue reducing exposure to real estate amid industry weakness

Corporate lending remained supported by policy-driven priority sectors.

Retail lending weakened further amid subdued housing and consumer demand.

LOAN GROWTH BY SEGMENT (CONSUMER AND CORPORATE SLOWED)



Source: BBVA Research based on data from the People's Bank of China

Broad-based weakness across corporate and retail lending

The share of mortgage and developer loans declined to 19.1% in Q4 2025 from 20.7% a year earlier.

The reduction reflects cautious risk management amid prolonged real estate downturn.

MORTGAGE LOAN GROWTH (NEGATIVE SINCE 2023)



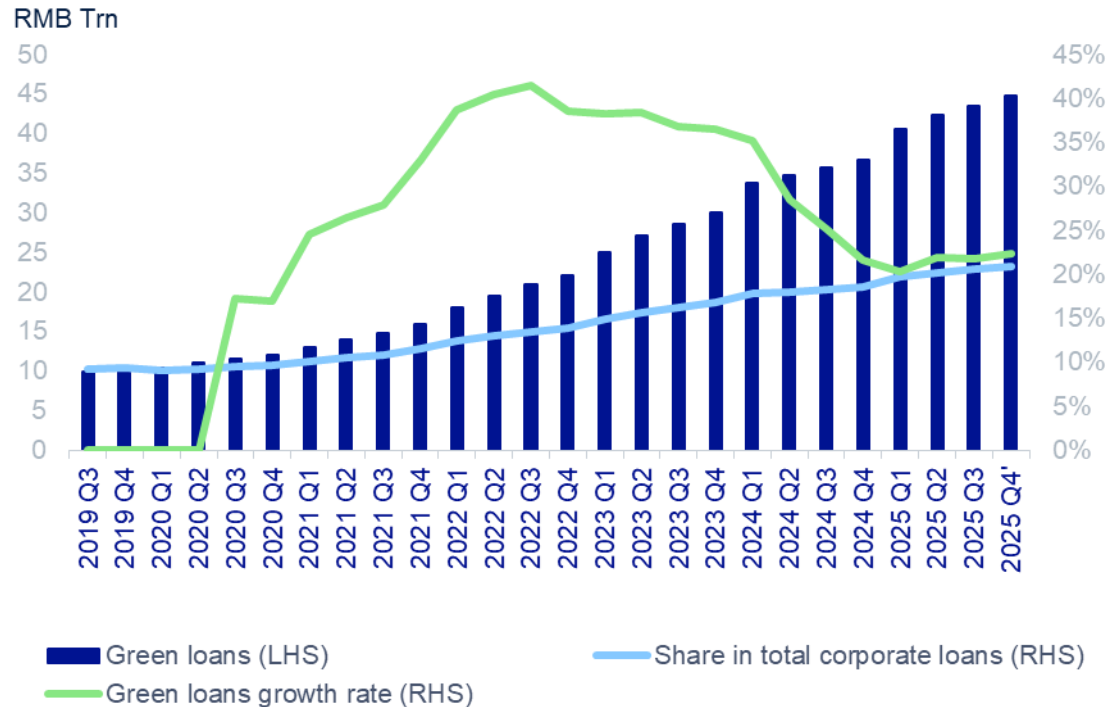
Source: BBVA Research based on data from the People's Bank of China

Risks in the housing sector prompted banks to rebalance portfolios and limit new exposure.

Green loan growth moderated but remained a key area of policy-supported lending

Banks continued to channel credit toward policy-supported sectors including advanced manufacturing, technology and innovation, and green finance.

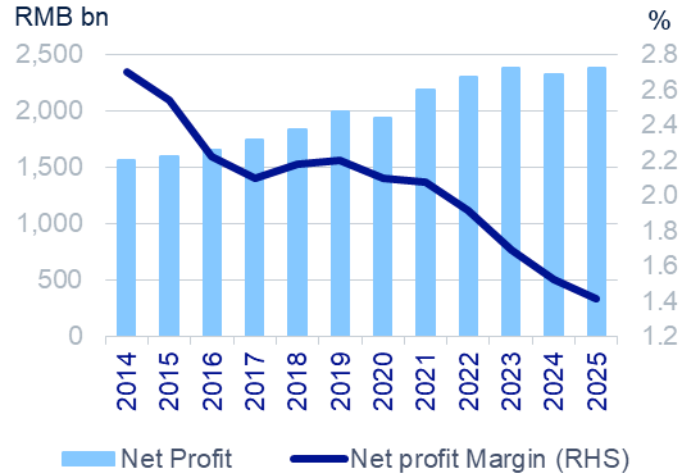
GREEN LOAN GROWTH



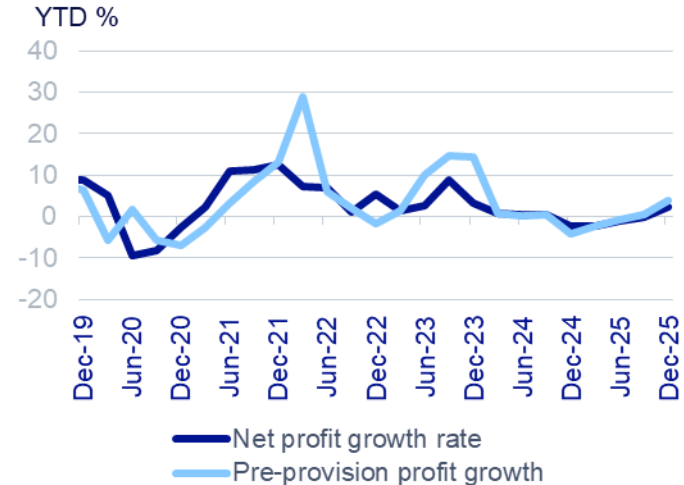
Source: BBVA Research based on data from the People's Bank of China

Profitability pressure persists despite stabilization signs

NET INTEREST MARGIN TREND (REACHED RECORD LOW LEVELS)



NET PROFIT POSTED POSITIVE GROWTH IN 2025 (REACHED RECORD LOW LEVELS)



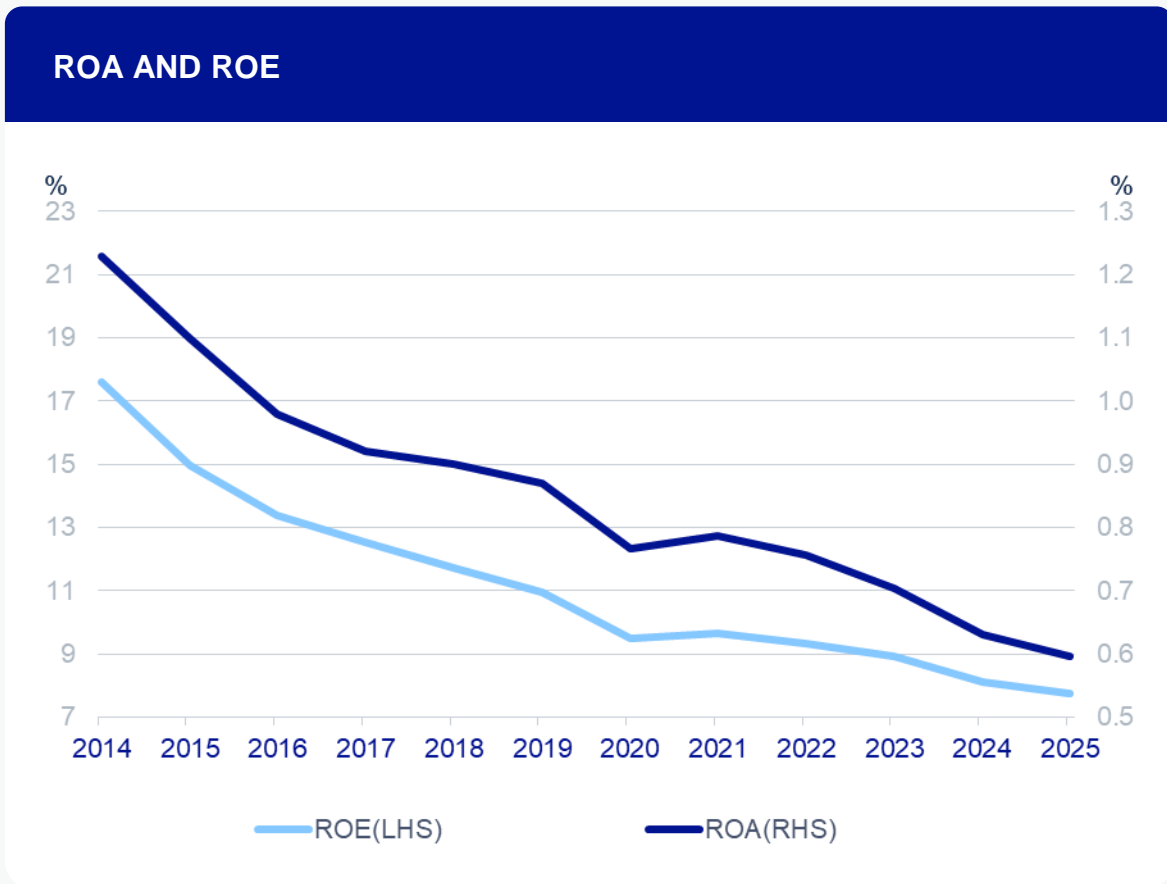
Source: BBVA Research based on data from National Financial Regulatory Administration

Lower lending rates continue to pressure NIMs. Deposit repricing and lower provisioning intensity partially supported earnings. Profitability remains structurally weaker despite stabilization signs.

ROA and ROE declined to historical lows

Earnings were constrained by margin compression and still-elevated credit costs.

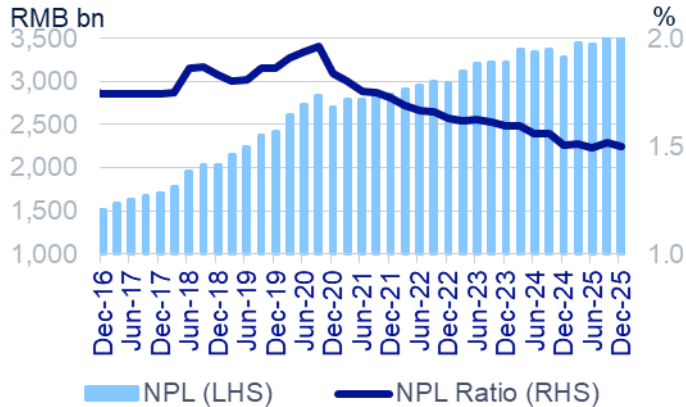
Fee income provided partial support.



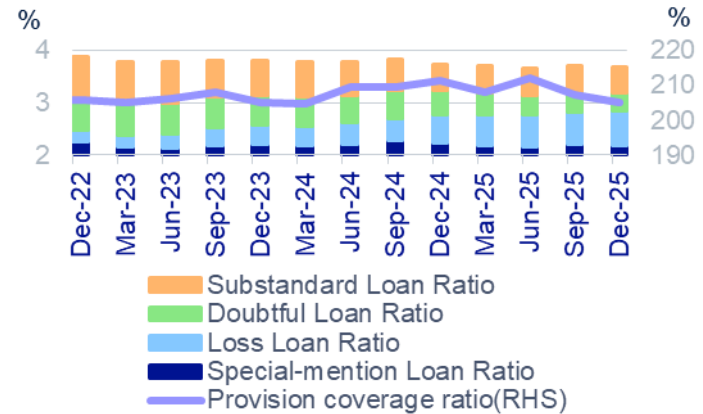
Source: BBVA Research based on data from National Financial Regulatory Administration

Headline asset quality remains stable, but underlying risks continue to evolve

NPL RATIO TREND
(DECLINED DUE TO RESOLUTION)



SPECIAL MENTION LOANS (SLIGHT DECREASE SIGNALS DECLINING RISKS)

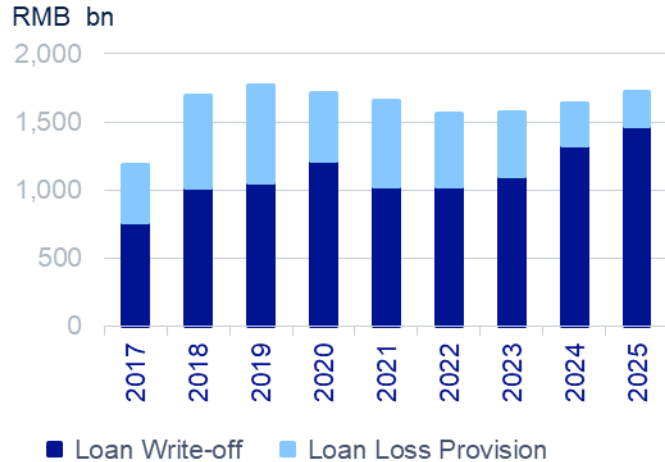


Source: BBVA Research based on data from National Financial Regulatory Administration

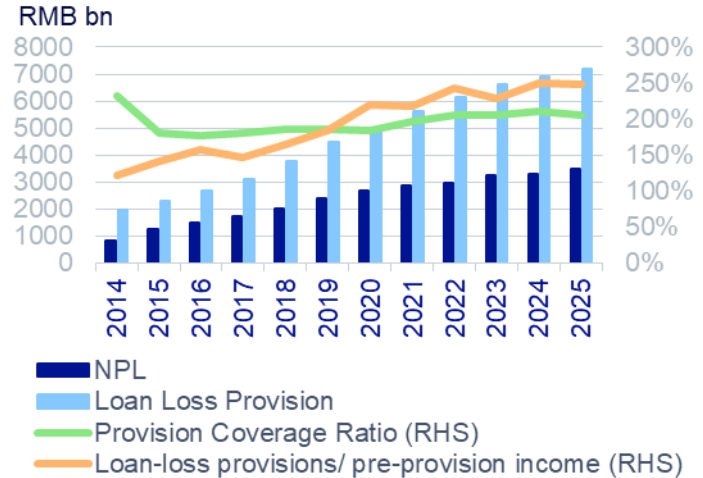
Headline NPL ratios remain broadly stable due to continued loan resolution and strong provision buffers. However, new NPL formation is increasingly concentrated in retail, real estate, and personal business lending.

Sustained NPL resolution supports stable headline ratios

BAD LOAN RESOLUTION VOLUME (SIGNIFICANT INCREASE IN 2025)



LOAN LOSS PROVISIONS VS NPL (PROVISION COVERAGE REMAINS HIGH)



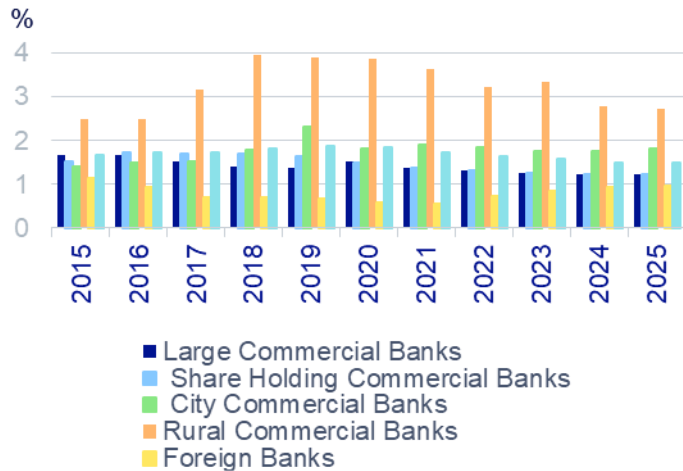
Source: BBVA Research based on data from National Financial Regulatory Administration

Aggressive NPL resolution and strong provision coverage ratios (>200%) helped stabilize reported asset quality and reduce near-term balance-sheet risks.

Asset quality for regional banks improved after consolidation efforts

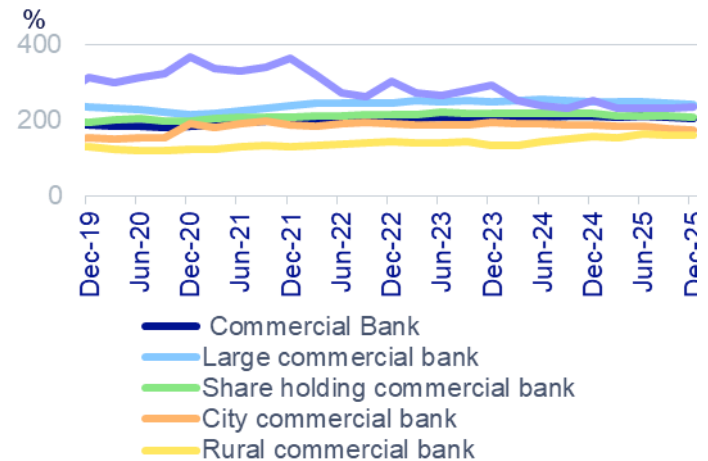
RURAL BANKS NPL RATIO

(DECLINED SIGNIFICANTLY)



PROVISION COVERAGE RATIO

(EXCEEDED REGULATORY THRESHOLD)



Source: BBVA Research based on data from National Financial Regulatory Administration

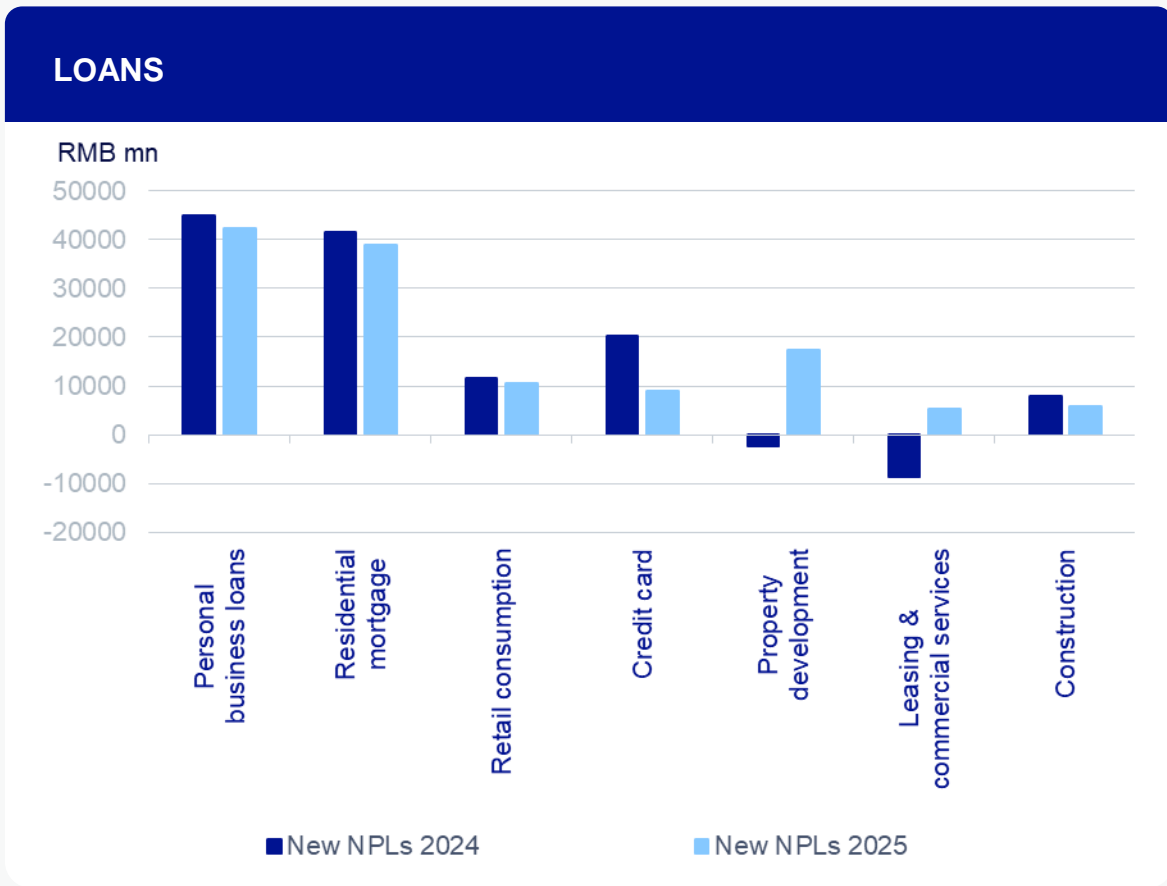
Consolidation strengthened smaller banks, improving resilience and strengthening compliance with regulatory requirements.

Asset quality risks are increasingly shifting toward retail and quasi-SME segments

Personal business loan and mortgage-related NPL formation remained elevated.

Some households increasingly used personal business loans to finance property purchases, masking underlying property-related exposure.

Risks related to property development and leasing remain elevated.



Source: BBVA Research based on data from the People's Bank of China

Capital levels remain stable, but regulatory pressure is increasing

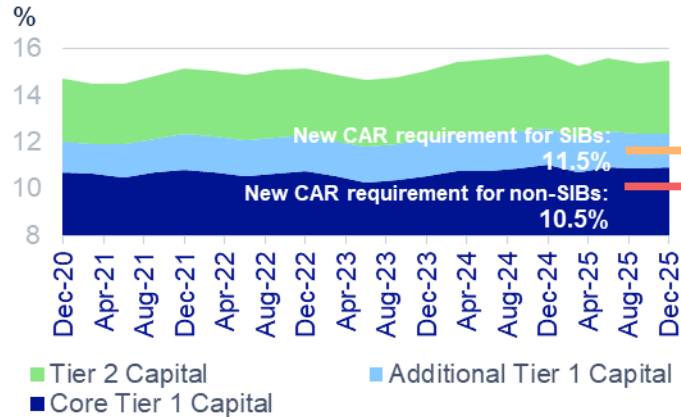
Capital ratios remained broadly stable across the system



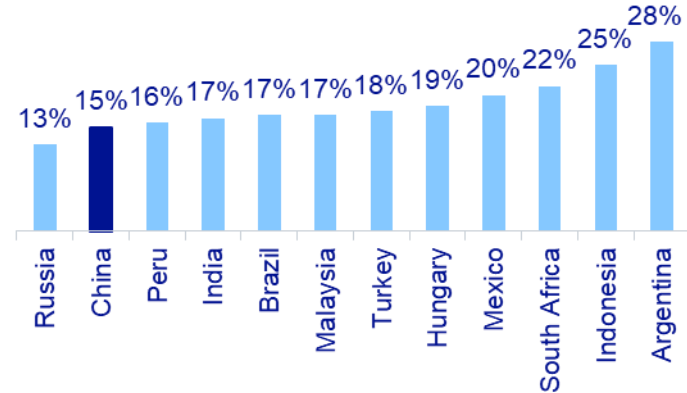
- Banks continued issuing **subordinated debt and perpetual bonds** to replenish capital.
- TLAC requirements continue to **increase reliance** on TLAC-eligible debt issuance for SIBs.
- Smaller banks remain vulnerable due to **weaker profitability and concentrated risk exposure.**

Capital levels remain stable, but regulatory pressure is increasing

CAPITAL ADEQUACY RATIOS BY BANK TYPE (LARGE BANKS BETTER POSITIONED)



COMPARISON WITH PEERS (CHINESE BANK CARS STILL LAG BEHIND REGIONAL EM PEERS)



Source: BBVA Research based on data from National Financial Regulatory Administration and Haver

Moderate asset growth and government capital injections support overall capital, although weaker internal capital generation continues to constrain capital accumulation compared with regional peers.

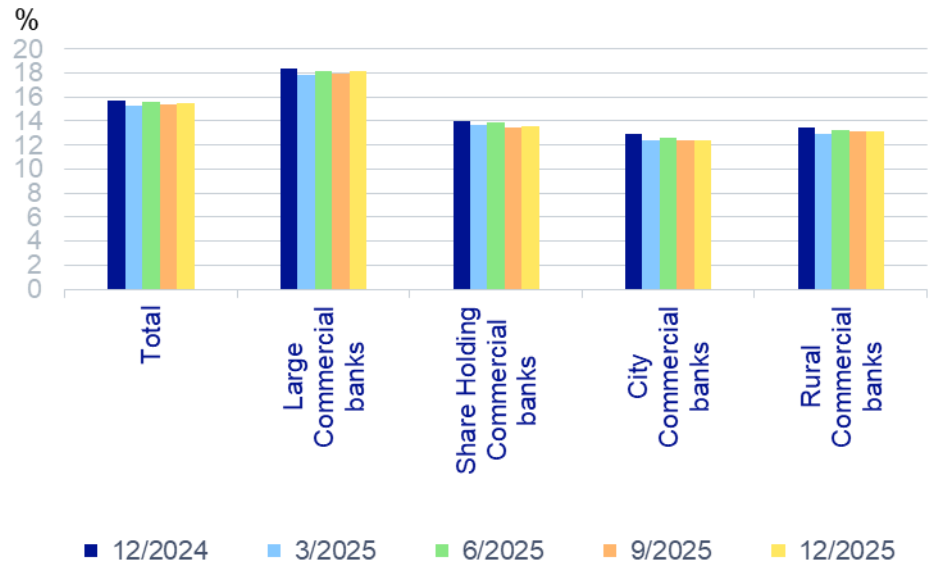
Diverging capital positions across large and small banks

Chinese SIBs are expected to rely increasingly on subordinated debt, perpetual bonds, and TLAC-eligible senior debt issuance to meet regulatory requirements. This may gradually raise funding costs and further pressure profitability.

While large state-owned banks benefit from stronger funding access and policy support, smaller and regional banks remain more vulnerable to weaker profitability, concentrated risk exposures, and higher funding sensitivity.

COMPARISON WITH PEERS

(STRUCTURAL DIFFERENCE BETWEEN BIG AND SMALL BANKS)

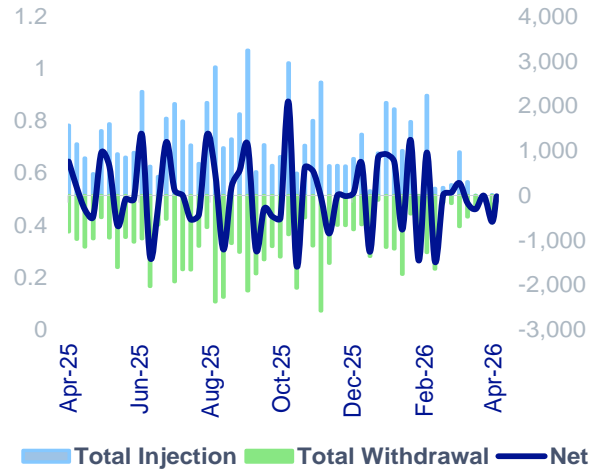


Source: BBVA Research based on data from National Financial Regulatory Administration

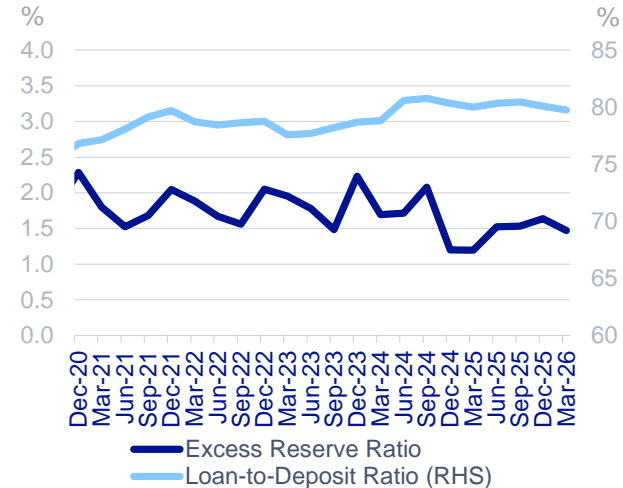
Smaller and regional banks remain more vulnerable to weaker profitability and concentrated risk exposures.

Liquidity conditions remain adequate

PBOC OPEN MARKET OPERATION (LARGE BANKS BETTER POSITIONED)



IMPROVED UTILIZATION OF FUNDS (DECLINING EXCESS RESERVES AND STABLE LOAN-TO-DEPOSIT RATIOS)



Source: BBVA Research based on data from the People's Bank of China

The PBOC continued using reverse repos and other open market operations to smooth short-term liquidity fluctuations and stabilize interbank funding conditions.

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01

Macroeconomic
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Growth dynamics

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Banking performance

Financial metrics

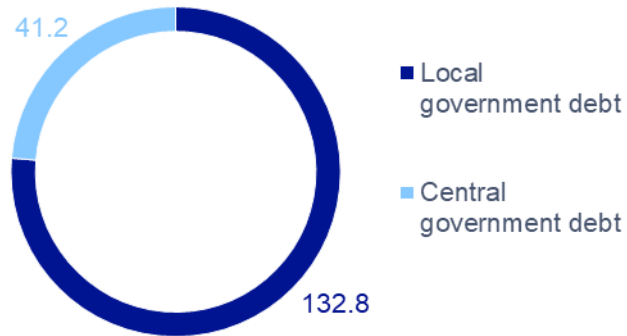
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Risks and outlook

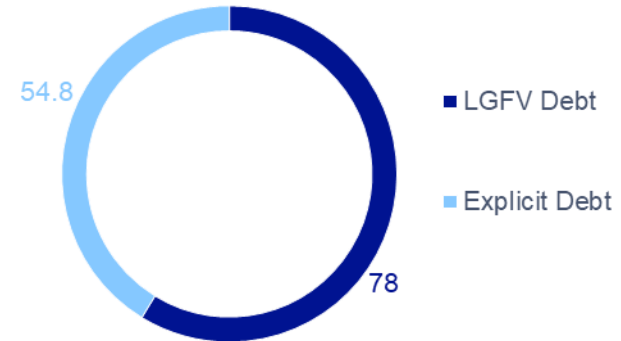
Structural vulnerabilities
and outlook

Property market weakness continues to weigh on LGFVs and local government finances

GOVERNMENT DEBT BREAKDOWN (CENTRAL VS LOCAL GOVERNMENT DEBT)



LGFV VS EXPLICIT DEBT (HIDDEN DEBT DOMINATES)



Source: BBVA Research based on publicly available information

Banks have significant exposure to LGFVs, exceeding their direct exposure to the housing sector. Local governments remain highly dependent on LGFVs despite ongoing debt-swap programs, while weak land-sale revenues continue to pressure fiscal sustainability.

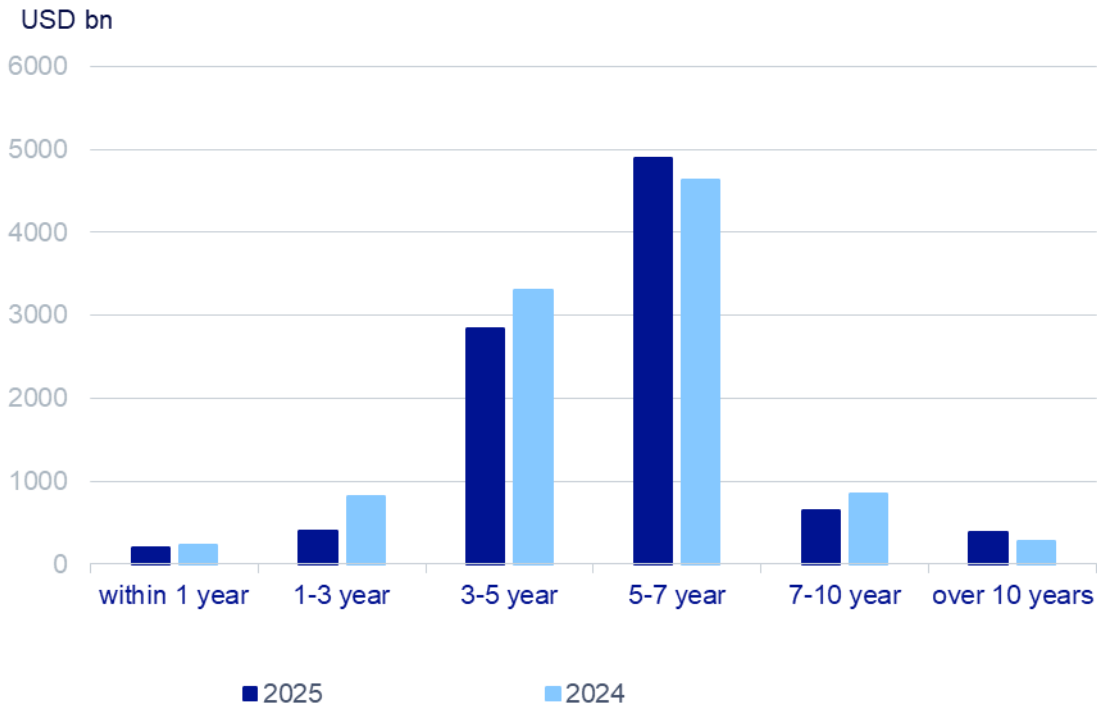
LGFV debt refinancing pressure is easing but remains selective

2026 LGFV maturities are lower than the 2025 peak.

The RMB10 trillion debt-swap program has reduced near-term refinancing pressure.

However, weaker regions continue facing structural fiscal and refinancing challenges.

DEBT REFINANCING



Source: BBVA Research based on data from Wind

Key drivers shaping banking sector outlook in 2026

Moderate asset growth

Weak credit demand constrains asset growth



Persistent asset risks

Risks remain concentrated in retail lending and LGFV-related exposure



Alleviating margin pressure

Margin conditions improve, but profitability recovery remains gradual



Stable capitalization

Capital ratios remain broadly stable, supported by policy measures and slower risk-weighted asset growth



Policy support continues to underpin system stability, but profitability and capital efficiency remain under pressure.

Asset growth will be policy-supported but demand-driven recovery is weak

Balance-sheet expansion remains increasingly driven by policy-directed lending rather than broad-based private demand.



- Banks remain cautious amid **weak domestic demand**.
- Policy lending continues supporting **manufacturing, technology, and infrastructure**.

Headline asset quality is likely to remain broadly stable, although underlying risks continue to evolve

The main risk is not a sharp deterioration in headline NPL ratios, but a gradual erosion of profitability and capital efficiency.



- Risks remain concentrated in retail lending and LGFV-related exposure.
- Policy support and debt restructuring measures continue containing systemic risks.
- Higher energy prices may weaken borrower cash flows and increase credit stress in energy-intensive sectors, although the overall banking-system impact is likely manageable.

Margin pressure eases, but profitability recovery remains gradual

Profitability recovery remains constrained by weak credit demand and elevated credit costs.



- Rising oil prices linked to the Hormuz disruption may help stabilize loan yields and NIMs.
- Imported inflation may support margins, although higher energy costs could increase credit stress in energy-intensive sectors.
- Deposit repricing and lower funding costs partially support profitability.

Capital levels remain stable but divergence across banks persists

System-level capitalization remains stable, although divergence across banks continues to increase.



- Slower loan growth and government capital injections support system-wide capitalization.
- Large state-owned banks benefit from stronger funding access and policy support.
- Smaller and regional banks remain more vulnerable to weaker earnings generation, concentrated risk exposures and refinancing pressure.

Key takeaways from China's banking sector analysis

Macro environment remains weak

Growth remains externally supported while domestic demand stays weak.



Risks are manageable but are shifting

Risks remain concentrated in retail lending and LGFV-related exposure.



Bank fundamentals face structural pressure

Weak credit demand, low interest rates, and policy-directed lending continue weighing on profitability.




Policy support remains critical

Policy support continues to underpin financial stability.



China's banking sector remains resilient despite growing structural challenges, supported by continued policy intervention.

A photograph of a modern building with a distinctive curved, ribbed facade, illuminated at night. The BBVA logo is visible on the upper part of the building. The image is overlaid with a semi-transparent blue rounded rectangle containing white text.

China banking sector remains resilient despite mounting macroeconomic, structural, and external pressures, supported by strong policy backing and ongoing financial system adjustments.

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