Bloomberg Intelligence

China Property Contagion Risk For Banks



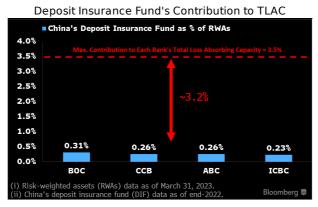


China Property Crisis May Cut Tiny Deposit Insurance Fund, TLAC

(Bloomberg Intelligence) -- The bail-in debt issuance needs of China's large state-owned banks could increase if the crisis in the property sector spreads to smaller lenders in rural and lower-tier cities and pressures the minuscule deposit insurance fund. The fund's balance, just 55 billion yuan at the end of last year, is included in the large banks' bail-in debt ratios. (08/14/23)

1. Deposit Insurance Fund Not Much Help for TLAC

Chinese bail-in rules specify that the value of China's deposit insurance fund (DIF) is credited to each bank's total loss absorbing capacity (TLAC) amount, for up to 3.5% of their risk-weighted assets. This lowers the lenders' bail-in debt issuance needs and supports credit spreads. The country's four global systemically important banks (GSIBs) have also referred to this DIF credit as a key offset against their bail-in debt issuance needs. But China's DIF balance was just 55 billion yuan in the fourth quarter of 2022, amounting to only 0.21-0.31% of the GSIBs' risk-weighted assets, compared with a maximum allowed limit of 3.5%. (08/14/23)



Source: PBoC, Company Filings, Bloomberg Intelligence

2. Contagion Risk for China's Biggest Banks

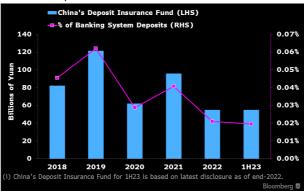
Chinese banks' bail-in debt issuance needs for TLAC purposes could increase if the country's already-inadequate deposit insurance fund is further pressured and may be reduced by the turmoil in the property sector. The DIF dropped to a paltry 55 billion yuan last year due to the costs associated with bank failures in Liaoning Province and covered just 0.02% of domestic deposits. If property sector woes spread to smaller lenders in rural and lower-tier cities, that would further drain the deposit insurance fund, increasing the bail-in debt needs of the four largest banks as the fund's balance is credited to their TLAC numbers.

The fund might also be inadequate to absorb a potential increase in bank failures and efforts to rebuild it through insurance premiums could drag the banking sector's profitability. (08/14/23)

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Deposit Insurance Fund Needs a Boost



Source: PBoC, Bloomberg Intelligence

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