

# Challenges Facing China's Financial System

**Nicholas Lardy**  
**Anthony Solomon Senior Fellow**  
**Peterson Institute for International Economics**

**PIIE-CF40 Joint Conference**  
**November 6, 2019**

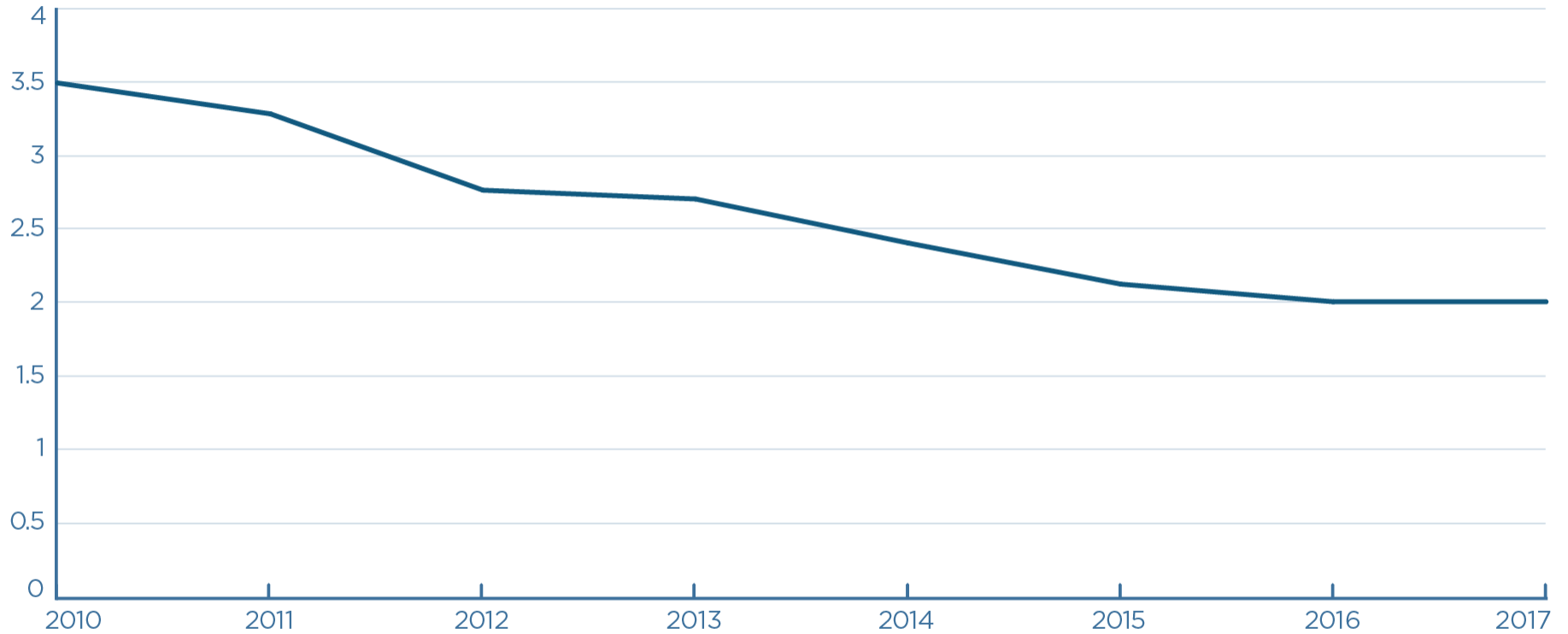


# Explaining China's Slowdown

- Declining external surplus
- Slowing credit growth
- Credit misallocation
- China-US economic frictions

# ROA of SOEs has been falling consistently

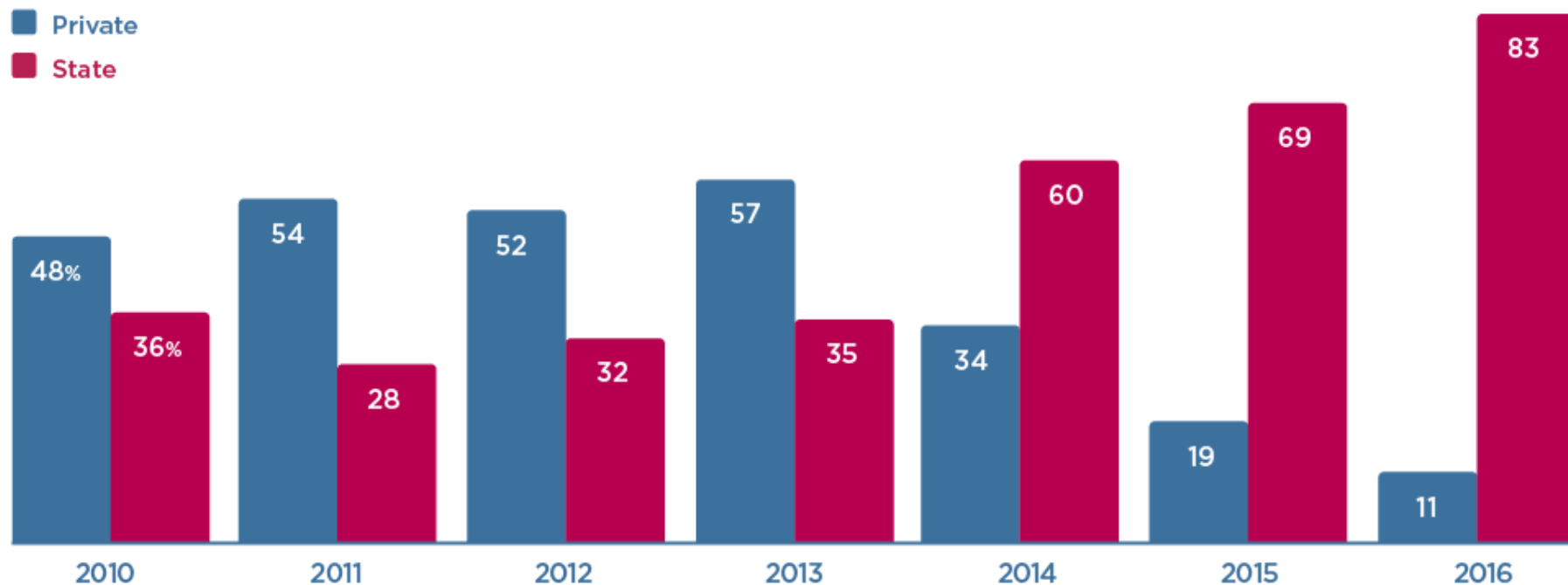
Return on assets of Chinese state-owned enterprises, percent



## Losses of state-owned enterprises are large and rising

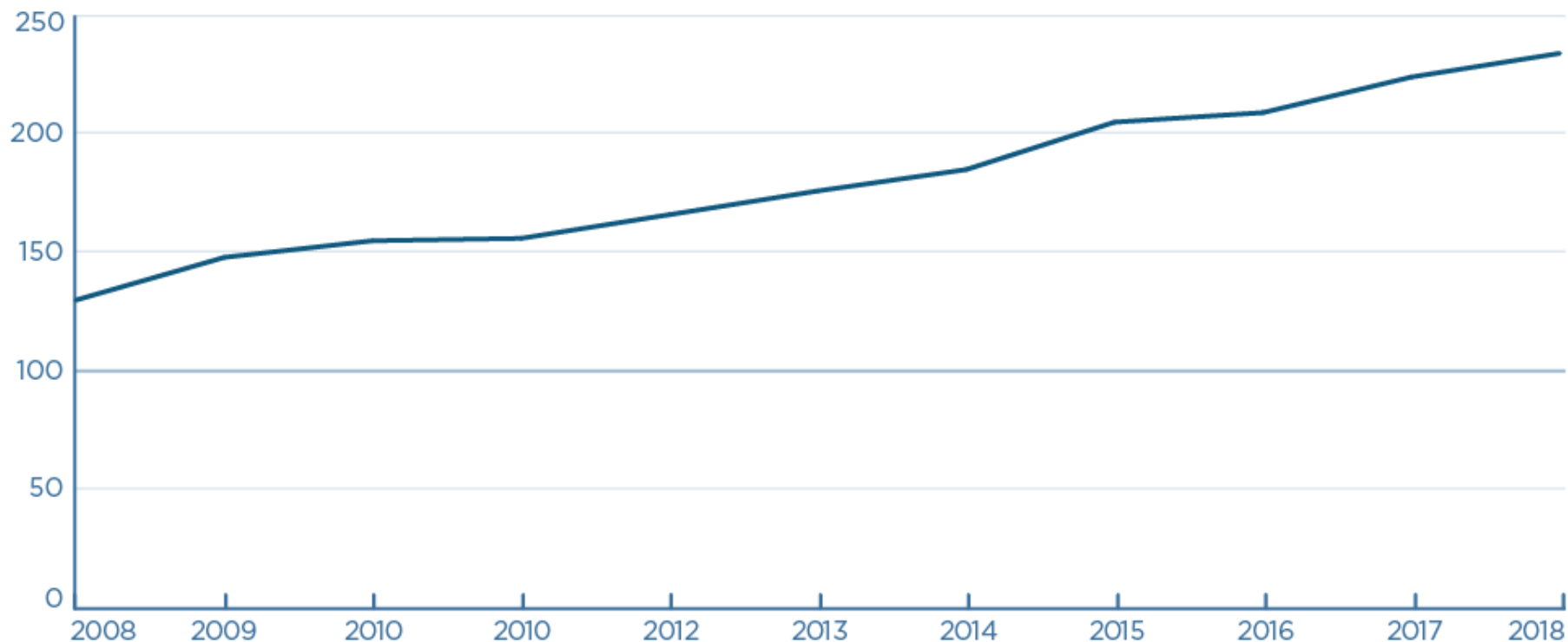
Year	Loss-making share (percent)	Number of loss-making enterprises (Hu)	Losses	
			Amount (billions of RMB)	As a share of GDP (percent)
2008	39.5	43,500	507	1.6
2009	37.1	41,200	394	1.1
2010	35	39,900	392	1.0
2011	35.1	47,700	613	1.3
2012	35.5	52,200	855	1.6
2013	35.6	55,200	860	1.5
2014	36.1	58,100	1,086	1.7
2015	37.2	62,100	1,342	2.0
2016	37.1	64,600	1,466	2.0
2017	36.9	69,000	1,445	1.8

## Flow of loans to nonfinancial enterprises by ownership, 2010-16



## Growth of China's state assets has sped up since 2012

State nonfinancial assets as share of GDP, percent





**Thank you!**