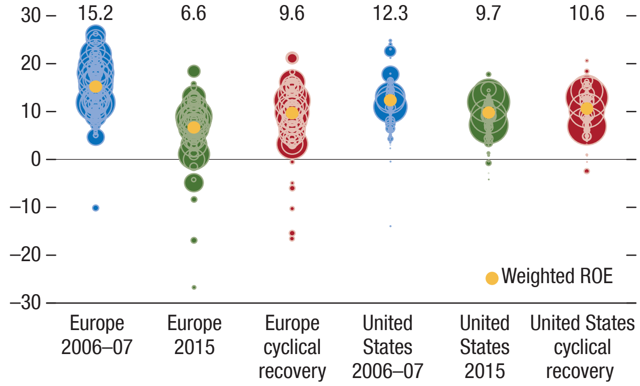
Figure 1.13. Bank Performance in a "Cyclical Recovery" Scenario, by Region

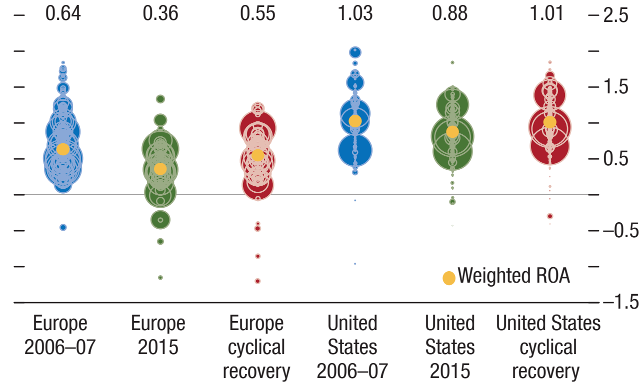
Profitability improves but does not return to precrisis levels ...

1. Average Return on Equity
(Percent)



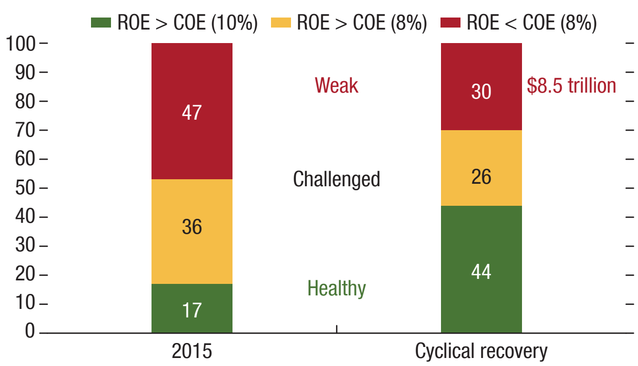
... and is not enough to fix Europe's large tail of weak banks.

2. Average Return on Assets
(Percent)



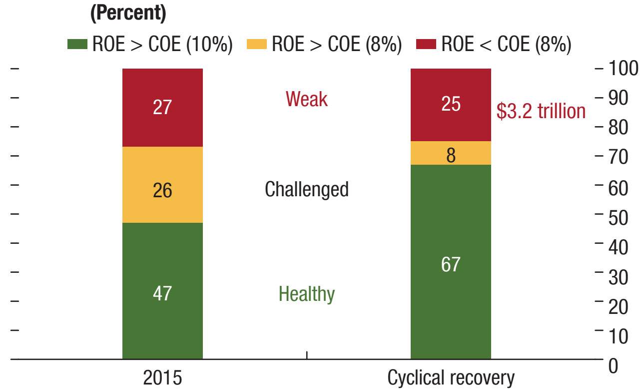
Following a cyclical recovery, 30 percent of European banks remain weak ...

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



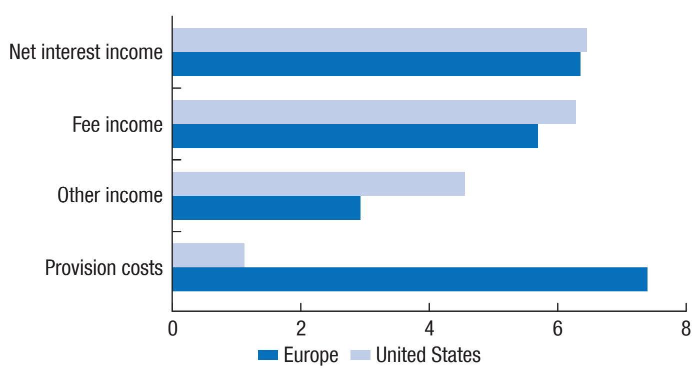
... as do one-quarter of U.S. banks.

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



Europe benefits more from falling provisions.

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



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.