## Abstract

**This paper analyzes empirically what explains the low profitability of Chinese banks for the period 1997-2004. We find that better capitalized banks tend to be more profitable. The same is true for banks with a relatively larger share of deposits and for more X-efficient banks. In addition, a less concentrated banking system increases banks profitability, which basically reflects that the four state-owned commercial banks –China's largest banks- have been the main drag for system's profitability. We find the same negative influence for China's development banks (so called Policy Banks), which are fully state-owned. Instead, more market oriented banks, such as joint-stock commercial banks, tend to be more profitable, which again points to the influence of government intervention in explaining bank performance in China. These findings should not come as a surprise for a banking system which has long been functioning as a mechanism for transferring huge savings to meet public policy goals.**

**JEL classification:** G21, G28

**Key words:** China, Bank profitability, Bank reform.