Economic Alert iQ

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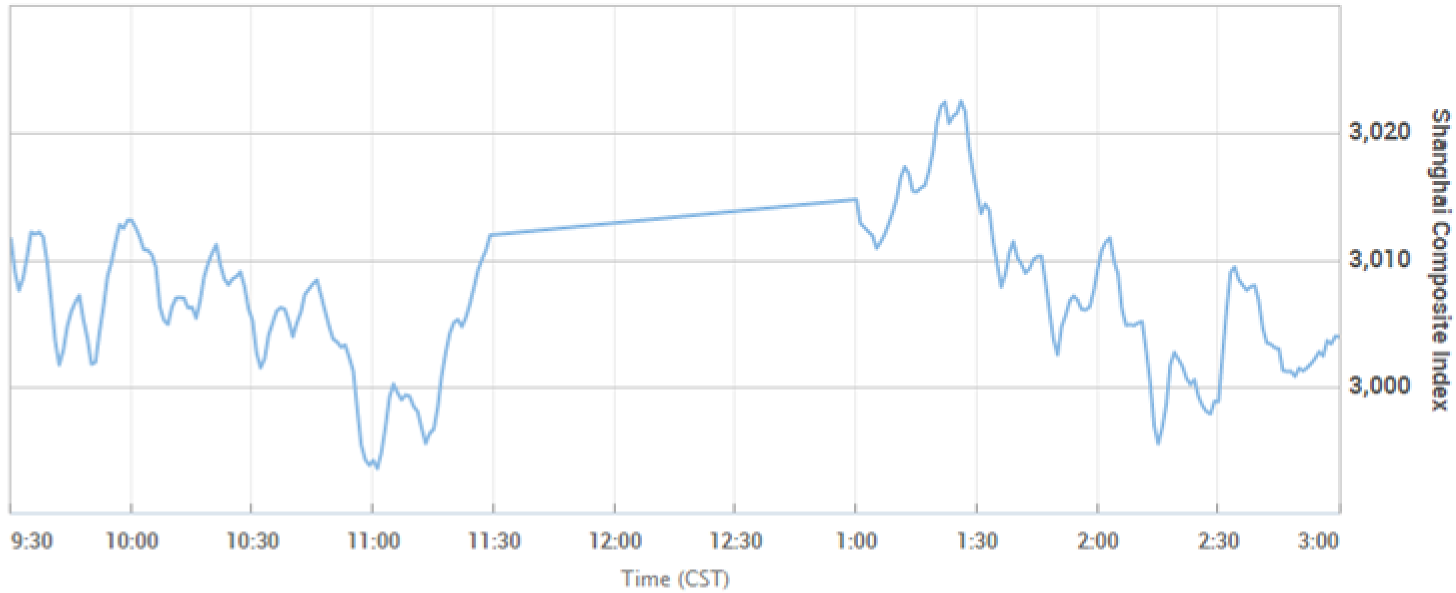
China's Credit Outlook Revised To Negative From Stable; 'AA-/A-1+' Ratings Affirmed

- On 31st March 2016, Standard & Poor's Ratings Services revised the outlook on the People's Republic of China to Negative from Stable, while affirming the 'AA-' long-term and 'A-1+' short-term sovereign credit ratings on China. The downgrade for China's outlook follows a similar move by ratings agency Moody's Investor Services in early March.
- This action by S&P reflects the credit rating agency's expectation that the economic and financial risks to the Chinese government's creditworthiness are gradually increasing which could result in a downgrade this year or early next year.
- A downgrade could be forthcoming if there is a higher likelihood that China will seek to stabilize growth at around 6.5% by increasing credit at a significantly faster rate than nominal GDP growth, such that the investment ratio is above 40%. This could further weaken the Chinese economy's resilience to shocks, limit the government's policy options, and increase the likelihood of a sharper decline in the trend growth rate.
- Moreover, it is expected that over the next five years, China will show modest progress in economic rebalancing and credit growth deceleration. It is expected that economic growth will remain above 6% over the next three year, however, government and corporate leverage ratios are likely to see further deterioration according to S&P.
- The agency further stated that China's average income was lower than similarly rated countries and while the government and financial industry was less transparent with a more restricted flow of information.
- The Chinese government has grown increasingly active in trying to control the perception over its economic outlook both at home and abroad, concerned that negative sentiment could encourage capital flight that would disrupt attempts to revive growth through investment
- China is currently rated Aa3 (Negative) by S&P and A+ (Stable) by Fitch.

- Initial market reaction showed the yuan currency weakening slightly after the S&P news but later settled. The Shanghai Composite Index SHCOMP, closed the day up 0.1% at 3,003.92.



Source: MarketWatch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