

Tuesday 2nd March 2016 – 9:25am

International

Prepared by: Trevis Gangaya, Analyst (Research and Analytics)

trevis.gangaya@firstcitizenstt.com

Moody's downgrades China's credit outlook on Aa3 government bond rating from "Stable" to "Negative"

- On 2nd March 2016, rating agency Moody's downgraded its outlook on Chinese government debt to "negative" from "stable". The agency took this action citing uncertainty over authorities' capacity to implement economic reforms, rising government debt and falling reserves.
- This move comes mere days before the National People's Congress (NPC) is due to vote on China's 13th five year plan, a closely held development blueprint for the next five years, which policymakers began formally drafting in 2015.
- It is believed that China's fiscal strength will continue to decline, as well as the fall in its foreign exchange reserves which have shrunk by \$762 billion over the last 18 months according to Moody's estimates.
- Interventions in the equity and foreign exchange markets over the past year suggest that ensuring financial and economic stability is also an objective, but there is considerably uncertainty about policy priorities.
- Moody's retained China's Aa3 rating, noting the country's sizeable reserves gave it time to implement reforms and gradually address economic imbalances.
- The agency noted that it could revise the rating outlook to stable if government policy was seen to be successful in balancing competing priorities and thereby address the deterioration in China's fiscal metrics and reduce contingent liabilities for the sovereign most likely through effective restructuring of small and microenterprises at municipalities government level.
- However, there could be a further downgrade on China's rating if the agency saw slowing down of reforms needed to support sustainable growth and to protect the government's balance sheet.

- The drivers highlighted include local government debt, capital outflows, falling reserves and concerns on the progress of reforms as the key indicators that may warrant a further downgrade.
- China is rated AA- (Stable) by S&P and A+ (Stable) by Fitch.
- Initial market reaction to the outlook change was muted, although the cost of insuring Chinese government debt against default rose slightly.

China	Q1 15	Q2 15			Q3 15			Q4 15			Q1 16		
Indicators	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
National Accounts													
Real GDP (yoy %)	7.0	--	--	7.0	--	--	6.9	--	--	6.8	--	--	
Real GDP (yoy %, yearly)	--	--	--	--	--	--	--	--	--	6.9	--	--	--
Nominal GDP (CNY bn, cumulative)	14789	--	--	31395	--	--	48734	--	--	67671	--	--	
Consumer Prices													
Consumer Price Index (yoy %)	1.4	1.5	1.2	1.4	1.6	2.0	1.6	1.3	1.5	1.6	1.8		
Retail Price Index (yoy %)	0.0	0.1	-0.1	0.0	0.2	0.4	0.1	0.0	0.2	0.4			
Foreign Investment (yoy %)	3.3	2.9	3.0	4.5	2.6	2.8	2.7	3.6	5.2	3.5			
Regulated Reserve Ratio (%)	19.5	18.5	18.5	18.5	18.5	18.5	18.0	17.5	17.5	17.5	17.5	17.5	17
Official Foreign Exchange Reserves (USD bn)	3730.0	3748	3711	3694.0	3651	3557	3514.0	3526	3438	3330.0	3231		
Financial Sector													
10-Year Gov't Bond Yield (%)	3.6	3.4	3.6	3.6	3.6	3.4	3.3	3.1	3.1	2.9	2.9	2.9	2.9
Equity Market (Shanghai Stock Exchange Index)	3748	4442	4612	4277	3664	3206	3053	3383	3445	3539	2738	2688	2733
CNY/USD Exchange Rate	6.1	6.1	6.1	6.1	6.1	6.4	6.4	6.4	6.4	6.5	6.6	6.6	6.5
CNY Nominal Effective Exchange Rate	126.0	125.8	124.8	125.9	127.4	126.3	126.2	125.5	127.3	125.9	124.9		
CNY Real Effective Exchange Rate	130.6	129.7	128.0	128.9	130.8	130.2	130.1	128.9	130.9	130.2	129.6		



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