

Wednesday 24th May 2017 – 8:00 am
International

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Economic Alert: Moody's downgrades China to A1 from Aa3, with Stable Outlook

- On May 24th 2017, Moody's Investors Services downgraded China's long-term local and foreign currency issuer ratings citing expectations that the financial strength of the world's second biggest economy would erode in the coming years.
- The ratings agency also changed its outlook for China to "*Stable*" from "*Negative*".
- The downgrade one notch to an "A1" rating from "AA3" comes at a time when the Chinese government is grappling with the challenges of slowing economic growth and soaring debt.
- Additionally the agency said the revision to stable outlook reflected the assessment that risks were balanced, saying it expects that economy-wide leverage will increase further over the coming years.
- Adding that China's reform programme while is likely to be slow, ultimately will not prevent the rise in leverage.
- Moreover, China's potential GDP growth is likely to slow towards 5% in the coming years, but the fall is likely to be gradual due to expected fiscal stimulus
- While the downgrade is likely to modestly increase the cost of borrowing for the Chinese government and its state-owned enterprises, it remains comfortably within the investment grade rating range.
- The news hit China's stock market, with the Shanghai Composite equity index at one point falling more than 1% before recovering to end the trading day at 0.1% gain.
- China is rated AA- (*Negative*) by S&P and A+ (*Stable*) by Fitch.



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