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Prepared by: Trevis Gangaya, Analyst I (Research and Analytics)
Trevis.Gangaya@firstcitizenstt.com

Economic Alert: S&P cuts China rating to A+ on higher financial, economic risks

- Today, credit rating agency Standard & Poor's downgraded China's rating to A+ from AA-, while changing its outlook on the world's second-largest economy to *Stable* from *Negative*. S&P also lowered China's short-term rating to A-1 from A-1+.
- S&P said the stable outlook reflects its view that China will maintain robust economic performance and improved fiscal performance in the next three to four years.
- S&P noted that "the recent intensification of government efforts to rein in corporate leverage could stabilize the trend of financial risk in the medium term." But it cautions that it "foresee[s] that credit growth in the next two to three years will remain at levels that will increase financial risks gradually."
- Furthermore, the rating agency notes that:

The downgrade reflects its assessment that a prolonged period of strong credit growth has increased China's economic and financial risks. Since 2009, claims by depository institutions on the resident nongovernment sector have increased rapidly. The increases have often been above the rate of income growth. Although this credit growth had contributed to strong real GDP growth and higher asset prices, S&P believes it has also diminished financial stability to some extent.
- Market reaction to the move, which was released after China's stock markets closed, was muted. The yuan USDCNY, +0.2159% slipped about 0.3% against the U.S. dollar initially. The dollar was broadly higher against all rivals, however, after the Federal Reserve signaled the likelihood for another rate hike in 2017.
- The decision brings S&P's rating on the world's biggest emerging market economy in line with those of its two big rivals, Moody's and Fitch. When Moody's lowered the rating in late May, China criticized the decision, saying that "Moody's has overestimated the difficulties faced by China's economy and underestimated the government's ability to deepen reforms."
- Currently, China is also rated by Moody's with a A1 credit rating and a *Stable* credit outlook while Fitch has placed a A+ rating with a *Stable* outlook.

Key Macroeconomic Data

Economic Indicators	2016	2017	2018	2019	2020
Net FDI/GDP	(0.4)	1.1	0.8	0.5	0.5
Debt/GDP	66.2	64.1	62.7	60.7	58.3
Interest /revenues	1.6	2.4	2.4	2.4	2.3
CPI Growth	2.6	2.3	2.6	2.8	2.8
Real GDP Growth	6.7	6.7	6.3	5.9	5.8
Current Account Balance/GDP	1.8	2.6	3.3	2.9	2.7
Banks' claims on resident non-gov't sector/GDP	182.9	172.1	180.9	181.1	179.6
Foreign currency share of residents' bank deposits	3.3	3.0	3.0	3.0	3.0
Unemployment rate	4.0	4.1	4.1	4.1	4.1

Source: S&P, First Citizens Research & Analytics



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