China has Changed Tack, for Now

"More easing aimed at boosting credit growth is unlikely to deliver sustained support for the economy."

Dan Martin | Senior Analyst | Fitch Wire

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The Chinese government is turning its attention back to reform and economic rebalancing now that growth has stabilised. However, its commitment to short-term growth targets remains strong, and policy easing is likely to come back on to the agenda if there is renewed softening in the data.

For now, the authorities appear comfortable with the economy's recent performance. The easing cycle is on pause, with the reserve requirement ratio last cut in February and the policy rate on hold since October 2015.

Modest attempts to cool the overheating property market are in place. The authorities have tightened lending restrictions in some Tier 2 cities, and are reported to be considering restrictions on mortgages and loans to developers in Shanghai.

Chinese officials are also revising broader reform efforts. Government has intensified pressure on state-owned steel and coal producers to reduce over-capacity. Furthermore, plans were revealed in August to cut foreign-ownership limits in a range of sectors, and to level the playing field for private firms bidding against state-owned enterprises for infrastructure projects.

This change of tack is positive for long-term economic sustainability, but we have doubts over how long it will last. In particular, monetary policy could be eased again later in the year as the effects of earlier stimulus start to fade.

More easing aimed at boosting credit growth is unlikely to deliver strong or sustained support for the economy. Fitch estimates that each CNY1 in new credit generated almost CNY0.8 in new GDP in 2005-2008, but has only generated CNY0.3 since. Fading credit productivity is one reason why Fitch still expects real GDP growth to fall to 6.3% in 2017 and 5.8% in 2018, even with another round of policy easing.

Monetary easing will escalate stress in the financial system over the long run by allowing leverage to rise further. Fitch already estimates that the asset quality stress in the system far exceeds the official NPL ratio of 1.8% at end-1H16 given the presence of non-loan credit and regulatory forbearance in China's financial system. This asset-quality problem will take years to resolve, and rapid credit growth will continue to add to the challenge.

Video

China's growing debt problem and Chinese banks' risks

Jonathan Cornish (Head of Bank Ratings North Asia) discusses China's rapid build-up of credit and the resolution of the debt problem.

Press Releases

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Corporates – China Property

Fitch: China's Housing Demand to Stay Resilient Through 2030

Fitch: China's Strong Housing Sales to Decline to More Sustainable Level

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Fitch: China Overseas Land Stays Prudent as Land Cost Escalates

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Fitch Downgrades Honghua to 'CCC'

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Fitch: Anhui Conch's Outperformance in 1H16 Supports Ratings

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Insurance

Fitch Assigns PICC Life IFS Rating of 'A+'; Outlook Stable

Fitch Affirms Yingda Taihe Property Insurance at 'A-'; Outlook Stable

Fitch Affirms ABCI Insurance at 'A-'; Outlook Stable

Fitch: Asian Regulatory Reforms to Increase Appetite for Reinsurance

Fitch in the News

- Fitch's Outlook for Chinese Banks (Video interview)
- Is China's Housing Market Heading for a Correction? (Video interview)
- China's Home Builder Country Garden Constructs A New Strategy
- China property oversupply dampens growth outlook
- Luxury's Pain as Others Gain in Hong Kong and China
- Noble Group's Liquidity Crunch to Be 'Temporary,' Fitch Says
- China: it's got so big it changes everything
- Lifestyle sees no quick end to retail gloom in city
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Contact

Dan Martin
Fitch Wire
Tel: +65 6796 7232
dan.martin@fitchratings.com

Joyce Thorpe
Greater China BRM
Tel: +852 2263 9955
joyce.thorpe@fitchratings.com

Henry Hung
Greater China BRM
Tel: +86 21 5097 3080
henry.hung@fitchratings.com

Wandy Hon
Investor Development
Tel: +852 2263 9915
wandy.hon@fitchratings.com