



## 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**

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.



### Top 5 Most Read

1. Fitch: China Banks Face Multi-Year Resolution of Problem Credit
2. Fitch: 1H16 Global Banks Rating Trend Still Negative
3. Fitch: China's Housing Demand to Stay Resilient Through 2030
4. Fitch: HSBC's Result Shows Growth Challenges as Capital is Returned
5. Fitch: More NPLs to Drive China Asset Management Company Growth

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

### Sovereigns

Fitch: Mongolia's Refinancing Risks Deepen as Currency Plummet

### Financial Institutions

Fitch: China Banks Face Multi-Year Resolution of Problem Credit

Fitch: 1H16 Global Banks Rating Trend Still Negative

Fitch Assigns Final 'B' to Notes Issued by Fenghui Leasing's SPV

Fitch: HSBC's Result Shows Growth Challenges as Capital is Returned

### 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

Fitch: Positive Rating Action Unlikely from Chinese Homebuilders' Strong Sales

Fitch: High Asset Turnover, Low Leverage Support Vanke's Rating

Fitch: Jinmao's Land Banking Raises Risks; May be Offset by Strong Sales

Fitch Upgrades Modern Land to 'B+' from 'B'; Outlook Stable

Fitch Assigns Modernland's USD57m Notes 'B' Final Rating

Fitch: Aoyuan to Continue Strong Contracted Sales in China

Fitch: Sino-Ocean Group's Reduced Leverage Supports Rating

Fitch: Longfor's Strategic Land Bank Acquisitions Support Rating

Fitch: Yueshi Property Deleverages On Strong Sales, Prudent Land Replenishment

Fitch: Xinyuan's Land Bank Adequate; Higher Replenishment Risk

Fitch: Country Garden Bullish On Growth; Adds Land Aggressively

Fitch: China Overseas Land Turns Net Cash Positive; Poised for CITIC Acquisition

Fitch: China Overseas Land Stays Prudent as Land Cost Escalates

Fitch Rates Greenland's Proposed USD Notes 'BB+(EXP)'

### Corporates - Others

Fitch: China's Debt-for-Equity Swap Plan Faces Challenges

Fitch Downgrades Hua Han to 'B+'; Maintains Watch Negative

Fitch Downgrades Honghua to 'CCC'

Fitch: Hengdeli's Financial Profile Stable Despite Profit Fall

Fitch: Cheung Kong Property's Plans for Investments Abroad Offer Diversification

Fitch: Foreign Polyamide Resin Players Threaten China Locals

Fitch: Wanhua Chemical's Deleveraging On-Track

Fitch Assigns Gansu Power Investment First-Time 'BBB-' Rating

Fitch: Chinese Independent Industrial Gas Providers' Risks Remain High

Fitch: Yingde Gases' Cash Collection Risk Remains High

Fitch Affirms West China Cement at 'B+'; Outlook Stable

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

Fitch: Expected Positive Shift in China's Corporate Credit Profiles Looks Optimistic

### International Public Finance

Fitch: More NPLs to Drive China Asset Management Company Growth

Fitch Rates Jiangsu NewHeadLine's Proposed USD Notes 'BB+(EXP)'

Fitch Publishes Chongqing Western Modern Logistics Industry Zone Development Construction 'BBB'

Fitch Rates Chongqing Nan'an Urban Construction & Development's USD Notes at Final 'BBB+'

Fitch: Rating Affirmed on Upsized China Orient MTN Programme

Fitch Rates Tianjin Rail Transit Group's USD Notes Final 'A'

Fitch Assigns China Railway Group's USD Notes Final 'A'

### 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

HSBC buyback sparks rise in share price, despite 29pc slump in interim profit

Didi Chuxing to acquire Uber's China operation

China Steps Up Campaign to Curb Rising Financial Sector Risks

Fitch says Chinese companies credit will improve over next two years

What's propping up Macau's gaming sector? (Video interview)

Mongolia jacks up interest rates in effort to halt currency's plunge

## Contact

### Dan Martin

Fitch Wire

Tel: +65 6796 7232

[dan.martin@fitchratings.com](mailto:dan.martin@fitchratings.com)

### Joyce Thorpe

Greater China BRM

Tel: +852 2263 9955

[joyce.thorpe@fitchratings.com](mailto:joyce.thorpe@fitchratings.com)

### Henry Hung

Greater China BRM

Tel: +86 21 5097 3080

[henry.hung@fitchratings.com](mailto:henry.hung@fitchratings.com)

### Wandy Hon

Investor Development

Tel: +852 2263 9915

[wandy.hon@fitchratings.com](mailto:wandy.hon@fitchratings.com)





ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE. Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. 160146