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Credit tightening could cause corporate fragility in China: Coface
By Chris Howells | Posted: 30 June 2010 19:22 hrs

SINGAPORE : Experts have said China's economy is likely to grow at 10 per cent this year.

But they warn that growth and corporate profitability could be scaled back next year.

French credit insurer Coface has kept China's country risk rating at A3 in its latest quarterly review.

It added that there are "fragilities" among smaller Chinese companies as credit tightening takes centre stage this year.

Chinese stock markets hit a 14-month low on Tuesday, on news that the authorities have started to review bank lending.

Last year, Chinese banks lent a total of US\$1.4 trillion.

That is on top of the US\$600 billion stimulus package that was implemented by the government last year, to help the economy weather the downturn.

Economists said the move by the authorities to rein in liquidity in the market could put some Chinese companies in a more precarious state.

Tai Hui, Regional Head of Research, Standard Chartered Bank, said: "Policies coming through in terms of real estate market cooling as well as the regulations on local government borrowing...could affect some of the cash flows going into the corporate sector.

"Secondly, we are expecting some degree of economic moderation in the Chinese economy, from 10 per cent this year, to 8 per cent in 2011, and as a result, I think you will also see some slowdown in revenue and profitability."

Coface maintained its A3 rating on China due to concerns over such tightening measures.

This is still in the top band of its ratings, but Coface said no upgrade was warranted in view of the cooling expected in China.

Economists note, however, that Asian corporates are still better off than their Western counterparts.

David Carbon, Director of Economic & Currency Research, DBS Bank, said: "Leverage in Asia by and large is looking very good. I think the point to make here is that Asia has spent the last 10 years deleveraging and is in a very good position to continue on with very strong GDP growth, as we move forward."



Photos 1 of 1 

Central business district in Beijing

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Despite the credit tightening in China, observers said the country will still see a 10 per cent economic growth in 2010. But this is likely to trend down to 8 per cent next year. - CNA/ms