



P R E S S R E L E A S E

Hong Kong / Paris, March 20, 2017

Coface China Outlook:

Impact of Monetary Policy and Currency Depreciation on Chinese Corporates

The potential depreciation of the renminbi (RMB) and the implementation of capital flow measures are longstanding concerns for China, according to a Coface [economic study](#) published today. China's position of being "prudent and neutral" regarding monetary policy, reiterated during the National People's Congress, is now an additional focus of attention according to Coface.

Most Chinese corporates are expected to have a challenging year ahead, with higher borrowing costs and stronger market competition. Some companies may also face higher import costs due to the RMB's depreciation. These factors are likely to weigh on the profitability of Chinese corporates, although a recovery in external demand could provide a buffer, assuming it is not interrupted by trade protectionism.

Going forward, the People's Bank of China (PBoC) will probably adopt a wait-and-see approach when reacting to the real interest rate differentials between the US and China, particularly as the Fed's monetary policy will be subject to the Trump administration's actions regarding tax policy, trade policy, and infrastructure investment.

Notwithstanding the impact from the US, the PBoC is expected to gradually tighten its monetary policy by shifting the expected interest rate corridor up by 20 to 30 basis points in 2017, mainly to contain financial risks and asset bubbles. This would mean **higher borrowing costs for Chinese corporates** and possibly the kick-start of long-expected corporate deleveraging. This would imply higher credit risks for Chinese corporates, especially for those with weak financials.

With the prudent monetary policy and capital flow measures implemented by the Chinese authorities, the RMB is likely to continue its depreciation at a slightly slower pace, of 3% to 5% by the end of 2017. Capital outflows from China will likely persist.

The PBoC's stronger emphasis on the RMB indices probably indicates higher tolerance on the volatility of the RMB/USD exchange rate, which therefore moderates the positive impact of the RMB's depreciation on boosting China's export volumes. At the same time, **import costs are expected to gradually increase**. This is likely to impact the Chinese corporates that rely heavily on imported products for production.



P R E S S R E L E A S E

NORTH AMERICA MEDIA CONTACT:

Sue Hinton – T. 212 389 6484 sue.hinton@coface.com

About Coface

Coface, a world-leading credit insurer, offers 50,000 companies around the globe solutions to protect against the risk of financial default of their clients, both on domestic and export markets. The Group, which aims to be the most agile global credit insurer in the industry, is present in 100 countries, employs 4,300 people, and posted consolidated turnover of €1.411 billion in 2016. Coface publishes quarterly country and sector risk assessments based on its unique knowledge of company payment behavior and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors.

www.coface.com

Coface SA. is listed on Euronext Paris – Compartment B
ISIN: FR0010667147 / Ticker: COFA

