21 September 2018 Public Finance

People's Republic of China Rating Report

A+ NEGATIVE OUTLOOK

Credit strengths

- Strong growth within a large and diversified economy
- High external resilience, alongside internationalisation of the FX
- Control over parts of the economy facilitates effective reform

Credit weaknesses

- Significant increases in non-financial sector debt since 2008
- Large public deficits and growing public-sector debt stock
- Higher than potential economic growth creates imbalances

Rating rationale and outlook: The revision of the Outlook to Negative reflects: i) significant public-sector deficits despite recent consolidation efforts and a growing public-sector debt stock; and ii) high levels of total non-financial sector debt. Moreover, Scope is mindful of China's weaker current account balance and international reserve levels. The affirmation of China's ratings at A+ is supported by the economy's strong external resilience vis-à-vis high forex reserves, low external debt and the internationalisation of the renminbi. The affirmation reflects moreover the retention by the government of significant scope to facilitate effective reforms and maintain economic and financial stability responding to longer-standing as well as new economic challenges.

Figure 1: Sovereign scorecard results

Scope's sovereign risk categories	China	Peer comparison	
		Average	Spain
Domestic economic risk			
Public finance risk			
External economic risk			
Financial risk			
Political and institutional risk			
Qualitative Scorecard adjustment (notches)	3		2
Analyst adjustment (notches)	1		0
Final rating	A+		A-

AAA AA A BBB BB B CCC CC C

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown together with one selected country chosen from the entire CVS peer group. The CVS rating can be adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Positive rating-change drivers

- Acceleration of deleveraging
- Significant consolidation of fiscal deficit, restraining public-sector debt
- Yuan increases as reserve currency

Negative rating-change drivers

- Deterioration in public finances
- Resumed rise in non-financial sector debt, threating financial stability
- Weakening of external strengths

Ratings and outlook

Foreign currency

Long-term issuer rating	A+/Negative
Senior unsecured debt	A+/Negative
Short-term issuer rating	S-1+/Negative

Local currency

Long-term issuer rating	A+/Negative
Senior unsecured debt	A+/Negative
Short-term issuer rating	S-1+/Negative

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Domestic economic risk

Growth potential of the economy and economic policy framework

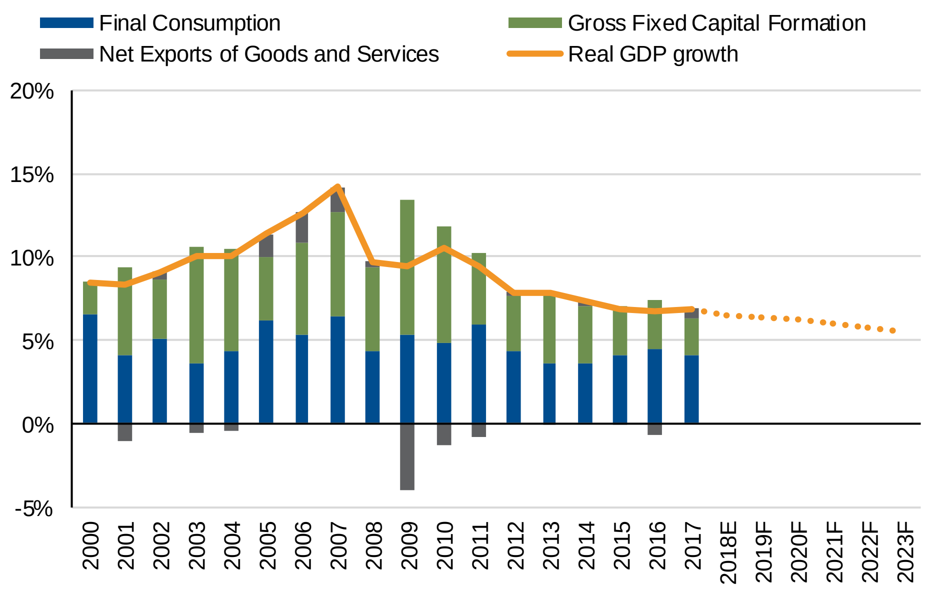
Growth transition continues, despite momentary pick-up in 2017

Real growth accelerated to 6.9% in 2017, up from 6.7% in 2016 – the first annual increase in the growth rate since 2010. The 2017 growth rate was lower, however, compared with a recent peak of 10.6% in 2010. In part, the modest re-acceleration in 2017 reflected the government's interest in stronger growth ahead of last September's 19th National Congress alongside a rebound in global trade.

China will meet 2018 growth target

China's annual rate of growth eased to 6.7% in Q2 2018, after 6.8% in Q1. The growth rate is expected to be supported by: i) a growing global economy, alongside recent yuan depreciation, strong consumer trends and support from policy stimulus. At the same time, growth will resume easing in 2018 after the temporary pick-up in 2017, owing to regulatory tightening of financial conditions, ongoing structural adjustments towards lower growth, and a softening of external demand, including feed-through via ongoing trade tensions with the United States. Scope expects the government nonetheless to meet its 2018 growth target.

Figure 2: Percentage point contribution to real GDP growth, annual change



Source: China National Bureau of Statistics, IMF

High frequency indicators indicate continued slowdown in Q3. Factory output, fixed-asset investment (+5.3% YoY in the first eight months of 2018, the slowest increase on record), and retail sales cooled in July and August. The Manufacturing Purchasing Managers' Index (PMI) ran at near post-Q4 2016 averages in July and August, while the Non-Manufacturing PMI was a touch weaker recently. An index on consumer confidence was modestly weaker in July compared with the second quarter but still near record highs.

The ongoing slowdown will continue, though Scope expects the growth rate to fall only gradually. Official GDP growth targets have been adjusted downwards and government emphasis is shifting towards the quality rather than the quantity of growth. However, this adjustment is unlikely to be rapid as high economic growth is still seen as critical for the maintenance of social and financial stability – implying the use of stimulus to ensure a highly managed decline in growth. This is even as the government does prudently shift focus to other policy areas like addressing the quality of citizens' lives, including reducing pollution, combating corruption, boosting social safety nets and cutting income inequality.

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China launched a nationwide carbon emissions trading system in 2017 for large industrial users, as part of its push to ensure greener and more inclusive economic growth.

Absence of 2020 GDP commitment from Xi's speech does not necessarily mean faster growth reduction

President Xi Jinping silently distanced himself from a commitment made by his predecessor, Hu Jintao, to double the size of China's economy by 2020[1], in Xi's speech at the 19th National Congress last October. While the absence of the 2020 GDP commitment does not mean that China necessarily lowers its growth objectives more rapidly (which if so, would be supportive of China's ratings), it does signal greater flexibility. The IMF has maintained however an elevated baseline expectation for average growth over 2018-20, at 6.4% – reflecting its assumption that China will nonetheless seek to meet stated 2020 targets.

Scope expects medium-run potential growth to decline towards 5%

While China's GDP growth will remain high compared to that of the sovereign's 'bbb'-indicative peer group[2], potential growth is likely to continue falling in the coming years. Scope expects medium-run potential growth in China to move towards 5%. While China's total population is not expected to enter decline until around 2030, the country's working-age population started to decrease in 2015 owing to demographic ageing. The working-age population is projected to average a fall of about 0.2% per annum over the medium term as per UN forecasts (a sharp decline from average working-age population growth of 1.4% over 2000-09)[3]. In addition, Scope's estimate of medium-term potential growth assumes a negative contribution from reductions in labour force participation and a neutral contribution from changes in the employment rate. Implicitly, Scope assumes that labour productivity growth will recede to about 5.5% over the medium run.

Continued debt accumulation drives rating concerns

China's actual growth – even acknowledging adverse impacts from higher tariffs vis-à-vis the United States – will probably exceed Scope's estimate for potential growth for the foreseeable future, which implies continued pro-cyclical policy accommodation. As such, elevated (even if gradually declining) growth in the coming years will pressure further increases in private- and public-sector debt, even though a recent government focus on financial risks will mitigate this in areas of excess. Were growth objectives in the next years to stay elevated (even if slowly declining), this is credit negative in Scope's view. Conversely, were China's policymakers to tolerate growth taking another step down to a nonetheless strong 5% to 6% in the next five years, that would provide greater room to fix structural issues and make growth more sustainable – a potential driver for a stabilisation in the credit outlook, in Scope's view.

Economic rebalancing has moved ahead

China's economy is rebalancing towards services and consumption. Manufacturing's share in the economy declined to 29% in 2017, from 32% in 2010, with a parallel rise in services' share to 52% from 44% in 2010. Total consumption's share of nominal GDP rose to 54% in 2017, from 48% in 2010. Likewise, gross fixed investment's share declined to 43% from 45% in 2010. The transition to a more consumption-based economic model could be credit-positive in the medium term, if it reduces the dependence on debt-financing of economic growth and enhances overall public- and private-sector debt sustainability.

The household savings rate remains very high at 37% in 2015 but is down from peaks of 42% in 2010.

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[1] In 2012, former President Hu Jintao committed China to 'double its 2010 gross domestic product and per capita income for both urban and rural residents' by 2020. In China's existing Five-Year Plan, this dictated average growth of around 6.5% over the 2016-20 period.
[2] Scope's sovereign methodology is composed of its Core Variable Scorecard (CVS), which produces an indicative rating class for the sovereign, and the Qualitative Scorecard (QS), which adjusts the CVS indicative result to arrive at the sovereign's final rating with any analyst adjustments at the Rating Committee level.
[3] UN Population Division's average forecast for annual working-age population change over 2018-2023.

Economic and financial reforms support ratings

Policy makers have concentrated on addressing financial sector risks as part of its “Three Critical Battles” (in combination with eliminating absolute poverty and reducing pollution), resulting in a tightening of financial conditions. More restrictive policies have been implemented, including new rules to reduce regulatory arbitrage, establishment of new government agencies for antitrust and intellectual property rights protection, and inception of the Financial Stability and Development Commission to intermediate between financial supervisors.

The government’s broader reform agenda supports China’s sovereign ratings. Authorities have furthermore initiated changes to reduce overcapacity in the coal and steel sectors, with efforts on track to meet 2020 targets. The government has set up a state enterprise restructuring fund to boost the competitiveness of some lagging state-owned enterprises (SOEs). Since 2015, the share of loss-making SOEs has dropped, from 28% to 24%. In the 2018 Article IV, the IMF showed that, if broadened, such efforts to resolve ‘zombie’ firms and comprehensively raise the efficiency of the economy could increase the contribution of total factor productivity to growth by about 1 pp over the medium run. This could hypothetically allow China to reduce dependence on investment for growth whilst keeping growth levels broadly unchanged.

These reforms have moreover been expanded to include capacity cuts to industries like cement and glass. However, the share of SOEs’ assets has increased nonetheless, with reform efforts so far concentrated on changes *within* the SOE sector rather than forcing the *exit* of many loss-making SOEs. Significant efforts still need to be made also in ‘hukou’ reform – to increase labour mobility – alongside reforms to land use rights in resolving urban-rural development gaps, and to land supply for housing development. At the same time, new engines for growth must be located – in line with China’s “Made in China 2025” strategic plan, based on innovation and industrial upgrading – such as in e-Commerce and e-Government.

Tighter monetary policy necessary

China’s monetary policy framework remains in a transitional phase, with the seven-day interbank reverse repo rate providing a new key instrument. The policy stance remains accommodative, with the seven-day repo rate last raised in two 5 bp hikes to 2.55% in Q4 2017 and Q1 2018[4] shortly following US rate hikes. At the same time, policy *easing* has taken place via 150 bps in reductions in the reserve requirement ratio in 2018, to 15.5% for large institutions and 13.5% for smaller banks – to facilitate bank credit flows to small firms. With consumer price inflation at 2.3% YoY in August 2018 and core inflation at 2.0% YoY, the real short-term rate is only just positive and low compared with China’s real growth profile. This points to the need for meaningfully tighter monetary policy (even if inflation is below target) to complement tougher supervisory controls on the financial system – to control against overheating economic activity, excessive lending practices and asset price imbalances, and to also take pressure off of the renminbi.

Here, the People’s Bank of China (PBOC)’s effectiveness is complicated by the institution’s multiple and competing goals, including stabilising the exchange rate and domestic inflation (at around 3%)[5], while supporting growth and financial sector resilience. While Scope views positively the government’s aim at more *targeted* monetary policies, the multiple window rates and reserve requirement ratios also reduce the transparency of monetary policy and weaken the transition to more market-based processes. In addition, while the central bank has operational independence, the central government – via the State Council – makes the decision in the end regarding the setting of rates. This subjects monetary policy to possible policy mistakes.

[4] The 14-day and 28-day reverse repo rates were similarly raised to 2.7% and 2.85% in 1H 2018. The supplementary 1-year medium-term lending facility loan rate was raised to 3.30% in 1H 2018.
[5] After quantitative monetary targets on M2 growth were dropped.

Regional initiatives to enhance China's economic and political clout

On the economic agenda, as part of China's entry into a 'new era' and President Xi Jinping's vision of China as a global power by 2050 in innovation, influence and military prowess, the 'Belt and Road Initiative' underlines an objective to define a China-centred trading network focusing on connectivity and cooperation between Eurasian countries. This initiative could enhance multinational cooperation in trade, investment and finance, with the aim of creating new markets for Chinese goods in the long term and enhancing the country's influence in the region – though greater attention on the indebtedness of partner countries must be paid and a clearer framework resolving non-repayments is needed. China will also play a greater role in regional economic and trade matters after the institutionalisation of the Asian Infrastructure Investment Bank alongside negotiations over the Regional Comprehensive Economic Partnership – a proposed multilateral trade agreement between 16 nations in the Asia-Pacific centred on China, following the withdrawal of the United States from the Trans-Pacific Partnership trade agreement.

Macro-economic stability and sustainability

Most significant risk to ratings remains high debt

The most significant risk to the sovereign ratings remains China's large private debt stock and rising public debt levels. Household debt remains moderate despite recent rapid growth, and though China's corporate sector debt ratio has reversed its trajectory and fallen under regulatory scrutiny, the ratio remains among the highest in major economies in the world. The necessity to reform China's economic model is apparent. However, there is still no clear consensus on the overall strategic approach: some party factions advocate further liberalisation; others argue for greater state control. The result has been the oftentimes convoluted policy mix (with simultaneous tightening and loosening, and concurrent increases in administrative involvement whilst liberalisation occurs in other sectors), representing the competing visions of China's future. Moreover, China has still yet to demonstrate a stalwart capacity to maintain momentum on reforms even in the face of an economic slowdown. And, specific data limitations on China's economy restrict the rating, increasing uncertainty on current conditions and risk assessments – although there have been meaningful efforts made to improve China's data.

Risks also stem from ongoing trade tensions with the United States

Risks to China also stem from the new US administration's protectionist policies – including the escalation of a trade war with China on the grounds of China's surplus with the US and theft of intellectual property. Initial US tariffs on Chinese solar panels and washing machines in January 2018 were followed by tariffs of up to 25% on one another's steel and aluminium products in March, and 25% tariffs of USD 34bn on a broader basket of one another's goods in July. Further 25% tariffs on another USD 16bn of one another's goods became effective in August. China has filed multiple complaints at the World Trade Organisation (WTO), relating to damages to China's trading interests. However, even so, the US administration is implementing 10% tariffs on another USD 200bn in Chinese goods, which step up to 25% starting 1 January 2019, and threatening tariffs on a further USD 267bn – virtually hitting all Chinese goods exports to the United States at that point, if carried out. China has promised to retaliate against additional tariffs of USD 200bn with additional counter-tariffs of up to 10% on USD 60bn of US exports. The United States has also imposed sanctions on China's military owing to purchases of Russian military equipment. Escalating tariffs and investment restrictions could disrupt supply chains and represent a significant risk, especially if accompanied by continued financial market stresses. Moreover, Scope notes its concern that a steeper economic slowdown facilitated by trade conflicts could bring responsive policy easing in China – which could exacerbate existing macro-economic imbalances.

China maintains significant credit strengths

China maintains significant credit strengths through its large and well-diversified economy (with a nominal GDP of USD 12.0trn in 2017, second largest in the world; in addition, China's economy is the world's largest in purchasing power parity terms). China's economy is the largest single contributor to global growth (accounting for about 27% of global growth in 2017).

China's ratings are also underpinned by a macro-economic track record that has seen the transformation of China's economy since market-oriented reforms began in 1978 and the economy's resilience in the face of various financial crises. However, as China's growth moderates and pockets of financial vulnerability increase, the risks should not be understated. In addition, China's income level (GDP per capita of USD 8,643 as of 2017) is comparable with the median for 'bbb'-indicative sovereigns[6]. This per capita income level has nonetheless increased tenfold over a 20-year period (compared with USD 781 in 1997). The strengths in China's credit profile, including scope for effective and rapid reform afforded by the government's partial control of the economy and financial system, allow for resilience to shocks in the near term, giving the government the breathing room to pursue further reforms in stemming prevailing imbalances.

Public finance risk

Fiscal policy framework

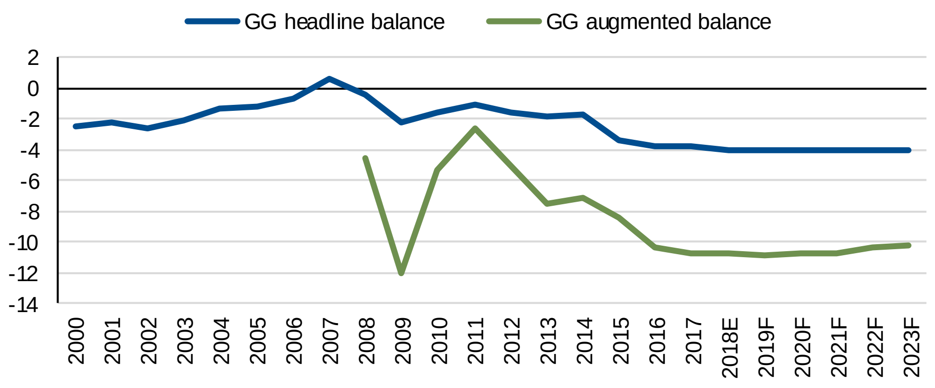
Higher fiscal deficits

China's official deficit (2.9% of GDP in 2017) met its target of 3% of GDP. However, China's government accounting allows it to transfer unspent money from previous years and funds from a central government budget stabilisation fund to the general budget, permitting it to report a final deficit in line with the target. Such transfers have been used to comply with budget targets between 2015 and 2017.

Excluding fund transfers to the general budget, China's general government deficit was relatively unchanged at 3.8% of GDP in 2017, the same level as in 2016, but significantly up on 1.8% of GDP as of 2014. The higher deficit was driven by slowing revenue growth and an increase in expenditures since 2014 – partly to support economic activity. The 2017 deficit was also buoyed by spending ahead of the 19th National Congress in October 2017.

The general budget, however, also excludes specific off-balance sheet activities of local governments. To tackle this, the IMF has calculated an 'augmented net lending/borrowing' measure for China including infrastructure investments financed by local government financing vehicle (LGFV) debt, and also including the spending of off-budget special construction funds and government-guided funds. This augmented deficit estimate amounted to a significant 10.8% of GDP in 2017, an increase on an augmented deficit of 10.4% of GDP in 2016 and 7.2% of GDP as of 2014.

Figure 3: General government balance and augmented definition, % of GDP



Source: IMF (with latest Article IV forecasts to 2023)

[6] Some coastal Chinese provinces like Beijing, Shanghai and Jiangsu have already achieved advanced-income levels.

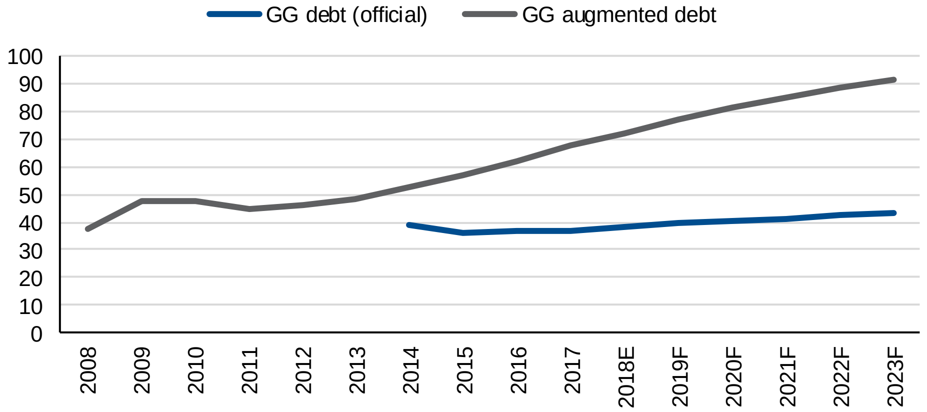
During March 2018's National People's Congress, the annual work report from Premier Li Keqiang announced a cut in the official budget deficit target to 2.6% of GDP in 2018. This normalisation was a statement of direction (to address compounding debt issues). So far, the general government balance has shown some reduction. The general government balance for the first eight months of this year amounted to -1.3% of GDP (lower than 2017's figure but comparable with 2016's -1.2% of GDP through eight months). With deficits typically being much higher in the second half of the year, Scope considers there to be risk however that the general government deficit for 2018 will nonetheless again exceed 3% of GDP (before stabilisation fund transfers). As the economy has cooled, temporary VAT cuts for banks to encourage lending to small and private businesses have been rolled out, while corporate taxes and fees have been cut.

Debt sustainability

Public debt ratios rising

Under a narrower definition, China's general government debt totalled 36.9% of GDP in 2017 – which is low compared to that of many sovereign peers. However, including the debt of LGFVs and additional debt from entities like special construction funds and government-guided funds, the IMF's estimate of the government's 'augmented debt' stood at 67.5% of GDP in 2017 (of which central government debt accounted for only 16.6% of GDP, however). Given continued primary deficits over the medium term, offset partly by a highly favourable growth-interest rate differential, China's debt ratio under the narrow definition is projected to rise gradually to 43.2% of GDP by 2023. However, given larger augmented deficits (if local authorities retain high investment levels), augmented debt is projected to rise more significantly to 91.6% of GDP by 2023, according to the IMF. Scope considers this unfavourable trajectory of public debt – under either the narrow or augmented definitions – to be a core area of concern. In view of rising debt ratios even under conditions of a global economic expansion, Scope notes more significant risks to the debt trajectory in the event of a future global economic downturn.

Figure 4: General government debt and augmented definition, % of GDP



Source: IMF (with latest Article IV forecasts to 2023)

Multiple initiatives have attempted to solve the LGFV debt issue

Before 2015, local governments were required to maintain balanced budgets, without the option of debt financing. This rule was circumvented with the creation of off-budget LGFVs. Under a programme launched in 2015, local governments and provinces were granted the power to issue bonds and use the money to pay down LGFV debt. However, LGFV debt has continued to increase, even after the government has banned off-budget borrowing via LGFVs, public-private partnerships and government-guided funds. The government's initiatives to disentangle LGFVs from the public-sector balance sheet resulted in several new guidelines restricting local governments from extending direct support to LGFVs[7], increasing penalties for government officials that violate rules, and stating the government's desire for LGFVs to be treated by creditors as separate from the government balance sheet. However, the continued implicit support for LGFVs means that Scope considers augmented debt metrics in its assessment of China's creditworthiness. Scope note that there's been one notable incident of the conversion of LGFV debt from off-balance-sheet to on-balance-sheet in the 2014 recognition of 22% of GDP in LGFV debt through a swap for local government bonds.

The fact that local governments in China cover a significant share of national spending yet have limited revenue autonomy results in funding shortfalls. This remains a key challenge. Greater revenue-raising capacities for local governments (like through a property tax), transfer of spending responsibilities to the central government, reduction of off-budget local government investment and continuing to raise official debt quotas to reduce reliance on off-budget borrowing should be part of any long-run solution. There is a gradual push with reforms in this direction.

Demographic ageing will become a fiscal issue

Given China's rapid ageing, the ratio of the elderly to the working-age population is forecast to rise from 15% in 2015 to 50% in 2050. While China still enjoys a sizeable life-cycle surplus, rapid ageing alongside increasing consumption habits will begin to erode this. Assuming China increases its social spending benefit level (by around 2050 to the average in OECD countries as of 2009), the share of social spending on education, healthcare and pensions will rise to 20% of GDP in about two decades, and to 30% by mid-century[8], requiring significant reform efforts in the coming decades.

Market access and funding sources

Debt structure sound at central level, but weak at local level

China's debt structure is sound at the central government level. Central government debt has an average remaining maturity of over seven years, with almost all central government debt domestically issued in local currency. Debt at the local level, however, is more subject to rollover risk and market volatility: explicit local government debt has an average remaining maturity of 4.5 years, with the level of foreign currency LGFV issuance rising from low levels. Despite initiatives to enhance the transparency of outstanding local government debt, and better financing terms through a debt swap programme started in 2015, the shorter maturity of China's local government debt remains a concern.

China's benchmark 10-year yield rose slightly to 3.7% at the time of this writing, from August lows of 3.5%, however this remains relatively muted compared with the stress seen in other emerging markets during recent financial market turmoil.

China has significant assets, but much of these are illiquid

The Chinese Academy of Social Sciences (CASS), a government think-tank in Beijing, estimated in a report[9] that Chinese government assets stood at about RMB 125trn (USD 19trn) in 2015, or about 182% of 2015 GDP. CASS therefore estimated that government net assets amounted to more than 80% of GDP, concluding that these assets offset rising debt risks. However, many of the assets included in CASS's review – including buildings, cars, land and oilfields – cannot be easily liquidated. Consequently, the metric overestimates the utility of such assets at assumed values in a stressed scenario. China holds a more modest amount of liquid assets, however, including cash held in government deposits, the social security fund, and financial institutions.

[7] Under the Budget Law, the debt of LGFVs should be paid by the state-owned enterprises themselves, with the government stating that local governments should not cover the liabilities.
[8] Feng, W., K. Shen and C. Yong. 'Fiscal implications of aging and economic change in China'. Paper prepared for presentation at the PAA 2017 annual meeting.
[9] http://www.cass.cn/keyandongtai/xueshuhuiyi/201709/t20170901_3627142.html

The government think-tank's research, however, also pointed out risks owing to 'implicit debt' – including obligations that have an implicit state guarantee[10] – with China's total gross debt liabilities, including these implicit liabilities, standing at around RMB 70trn (102% of GDP) in 2015.

External economic risk

Current account vulnerability

Weakening current account balance

China's current account surplus fell to 1.3% of GDP in 2017, down from 1.8% of GDP in 2015 (and from a peak surplus of 9.9% of GDP in 2007). The drop in the current account surplus is primarily due to a fall in the trade-in-goods surplus, which stood at 3.9% of GDP in 2017, down from 8.5% of GDP in 2007. This fall has, in turn, been caused by: i) overall tepid global trade growth since 2012 impacting Chinese goods exports; ii) significant rises in China's real effective exchange rate over the past decade (about +29% since 2007) alongside rising wage levels – hurting competitiveness; and iii) China's reorientation towards consumption-centred growth accompanied by a declining household savings rate, driving higher import demand. Moreover, the services balance deteriorated to -2.2% of GDP in 2017, from +0.1% of GDP in 2007, owing in part to higher tourism outflows, a result of the spending preferences of an increasing middle-class[11]. While reductions in China's current account support global rebalancing and reduce global risks, they are a risk at the same time to China's external strengths.

In the first two quarters of 2018, China's current account fell into a deficit of 0.3% of GDP seasonally-adjusted – due to a decline in China's goods surplus. If China's current account is moving more rapidly than anticipated into a balanced position, this would represent a major structural change in the global economy after China recorded the world's largest surplus in nominal terms as recently as 2015. However, with relation to trade conflicts with the United States, which were started on the basis of reducing the United States' trade deficit with China, it does *not* appear as if China's weakening current account owes to a lower goods surplus with the US – instead, China's surplus with the US in 2018 has increased through August.

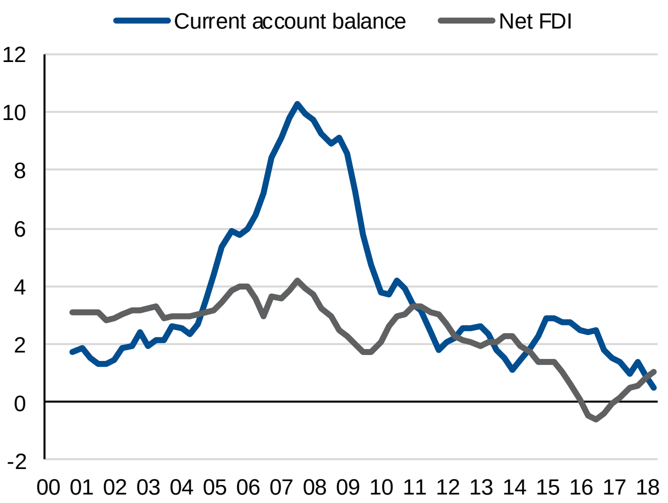
Despite disputes with the United States, Scope notes that China has championed greater trade openness and multilateralism, including the continued lowering of tariffs on consumer goods and autos and increasing of imports, loosening of restrictions on foreign direct investment (FDI), including into its domestic financial institutions and automotive industries, and seeking to enhance intellectual property rights of foreign companies.

However, higher net FDI inflows are a recent offset against the weaker current account

While the 2018 current account data is a concern, in Scope's view, recent improvements in net FDI flows – both tied to a slight rebound in inward FDI as well as reductions in outward FDI as China has clamped down 'irrational' overseas mergers and acquisitions – have resulted in an offset to the weaker current account (**Figure 5**). The current account balance plus net FDI stood at 1.5% of GDP in the rolling four-quarters to Q2 2018, roughly unchanged on the four-quarters to Q2 2017.

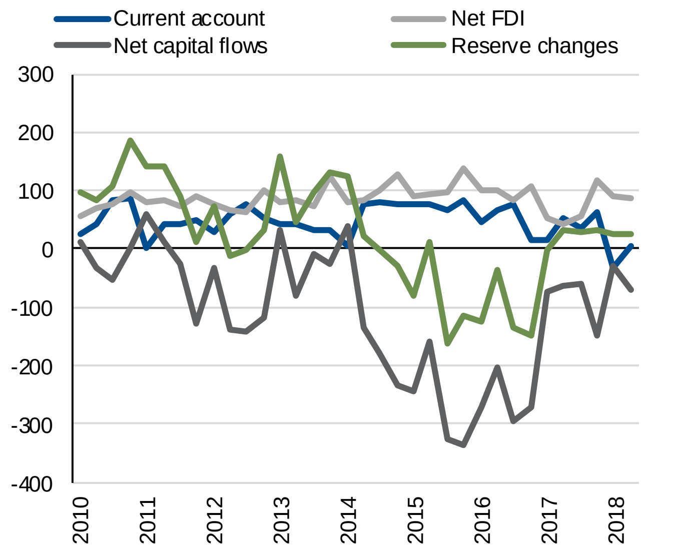
[10] This includes bond issuance by quasi-governmental organisations like policy banks, state railway debt, contingent local government liabilities, non-performing loans held by state-owned financial institutions, hidden foreign debt, and a potential shortfall in the country's pension fund.
[11] Though due to data limitations, tourism imports may be somewhat overstated, reflecting misclassified capital outflows.

Figure 5: Current account balance and net FDI, rolling four-quarters, % of GDP



Source: State Administration of Foreign Exchange (SAFE), Scope Ratings GmbH calculations

Figure 6: Quarterly drivers of changes in reserves, USD bn



Source: SAFE, Haver Analytics, Scope Ratings GmbH calculations

Capital outflows have stayed at bay despite FX volatility

There has been a significant pick-up in FX market volatility in 2018 precipitated by fears over trade conflicts with the United States, China's economic slowdown and a tightening of global financial conditions. After the renminbi appreciated 7% in nominal effective terms between 2017 and 2018, it has depreciated 5% since June 2018 (and devalued more than 8% against the US dollar since 2018 peaks). This renewed FX weakness has however *not* been met with significant capital outflows to date, unlike earlier episodes of exchange rate weakness. Tighter enforcement of capital controls remains in place – including restrictions on access to foreign currency and cross-border financing ceilings – even while the PBOC has refrained from *direct* interventions in the currency market. Instead, the central bank has used indirect policy levers to support the currency, including reinstating a 20% reserve requirement on FX forward positions – making it costlier to short the FX.

Given the gradual slowdown in China's growth rate, Scope notes the high risk that capital outflows resume at a later stage. Capital controls – while important for affording time to redress underlying issues – are not alone a panacea, given the likelihood that methods to circumvent controls are found long term. For example, during 2015 and 2016, after access to hard currency was made difficult, Chinese companies adapted by moving money offshore in renminbi.

External debt sustainability

Very low external debt

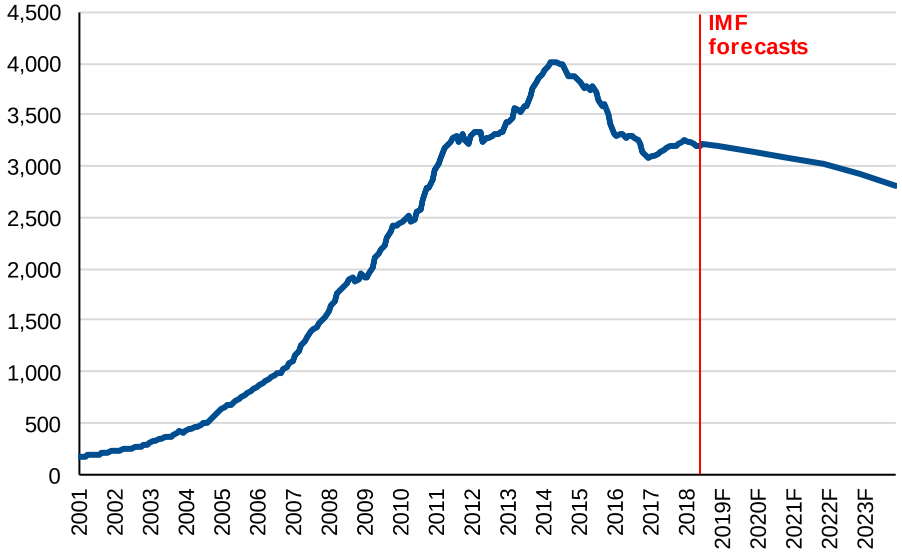
China's net international investment position peaked in 2007 and has eased to +12% of GDP as of Q1 2018. Total external debt remains low at 14% of GDP in Q1 2018 – though levels have increased from 12% of GDP as of Q1 2016.

Vulnerability to short-term external shocks

Reserves remain at a very high level, but have fallen since 2014

Amid greater stability in the financial account, pressures on China's forex reserves have eased since 2017, though levels have dipped slightly from a January 2018 high to USD 3.11trn as of August. China's reserve stock, while still accounting for 27% of all global FX reserves (global FX reserves totalled USD 11.5trn as of end-July), is substantively lower compared with a peak at USD 4trn (in June 2014), as the PBOC sold dollars aggressively to support the renminbi. While China's still-sizeable arsenal of reserves remains a significant credit strength, giving the PBOC an abundant resource to preserve macro-economic stability and stem balance-of-payment issues, the weaker level alongside possible further future drops (in an environment of a more balanced future current account and possible resumption of capital outflows) weakens coverage ratios (gross reserves to debt maturing in the next year stood at a still-high 294% at end-2017).

Figure 7: Official reserve assets, USD bn



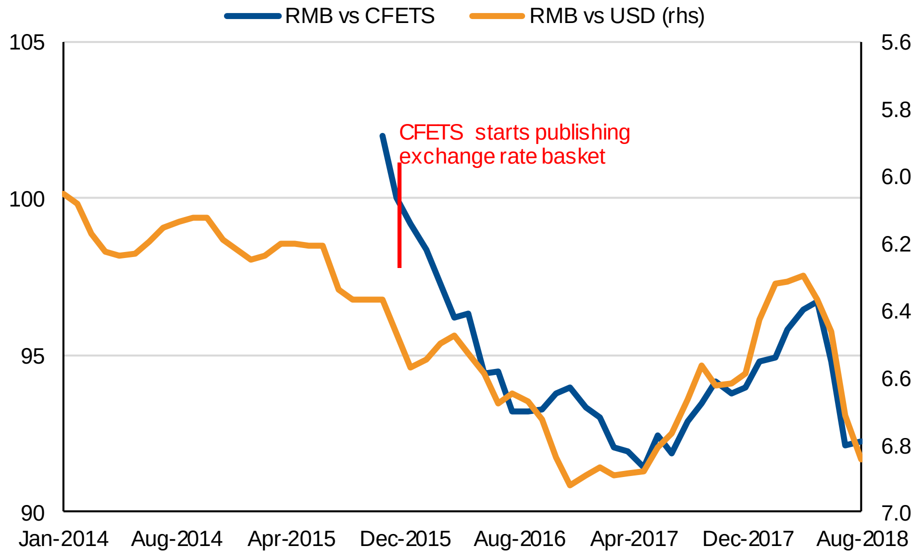
Source: SAFE, IMF

FX liberalisation has taken a step backwards

China officially maintains a managed floating exchange rate, with a policy objective of gradually increasing exchange rate flexibility. In December 2015, the China Foreign Exchange Trade System (CFETS) started publishing an RMB Effective Exchange Rate Index (CFETS basket), with the PBOC's daily RMB/USD central parity fixing[12] assuming adjustments in the new basket of currencies. Though the new CFETS basket has not fully replaced the dollar (as the reference), it has increased the FX's linkage to a nominal effective exchange rate. In May 2017, CFETS requested, however, that banks further include a 'countercyclical adjustment factor' in yuan quotes with the objective of reducing irrational depreciation expectations and market herd actions, enforcing an adjustment for economic fundamentals. This counter-cyclical factor was loosened in January 2018 before being reintroduced this August amidst currency weakness. This on-again-off-again use of the adjustment factor marks a step backwards in increasing the role of market forces in forex setting but signals also a proactiveness in ensuring renminbi stability.

[12] The renminbi is allowed to trade within a band of ±2% of the daily central fixing.

Figure 8: RMB parity setting, vs USD (rhs), and vs CFETS basket (Dec/2015=100)



As of end-August 2018. Source: Bloomberg, SAFE.

Greater use of RMB in global reserves

The increasing use of the renminbi in global markets enhances China's external resilience. The internationalisation of the renminbi has seen its inclusion in the IMF's Special Drawing Rights basket of currencies (now with five currencies) since October 2016 and the establishment of a new renminbi-denominated Shanghai oil futures market in March 2018, challenging the international, post-war order. Presently, the share of yuan claims in total global FX reserves stands at 1.4% as of Q1 2018, up from 1.1% in Q1 2017 though still a significant distance from the shares for the US dollar and the euro. In Scope's view, the internationalisation of the RMB and its future increasing use in global reserves is credit-positive. However, further internationalisation of the currency may require greater liberalisation of China's capital account, which could increase China's exposure to international investor sentiment and bouts of foreign capital outflows. This could increase the volatility of the economy and financial system.

Greater openness to global investors in the domestic bond market

Ongoing initiatives to increase foreign participation in China's domestic bond market include the launch of the Bond Connect scheme and opening to international ratings companies in 2017, reflecting the objective of enhancing foreign access to renminbi-denominated assets. While capital account liberalisation and greater convertibility further the renminbi's internationalisation, China should pace and tailor such changes as domestic financial systems and regulations are improved and made ready to cope.

Financial stability risk

Banking sector performance and financial imbalances/financial fragility

Deleveraging in the size of China's banking system

China's banking sector assets totalled 301% of GDP as of Q2 2018, an increase from the 192% of GDP as of Q3 2008, though deleveraging has brought this down on peaks of 313% of GDP in Q1 2017. The size of China's banking system is above the advanced economy average and much higher than an emerging market average.

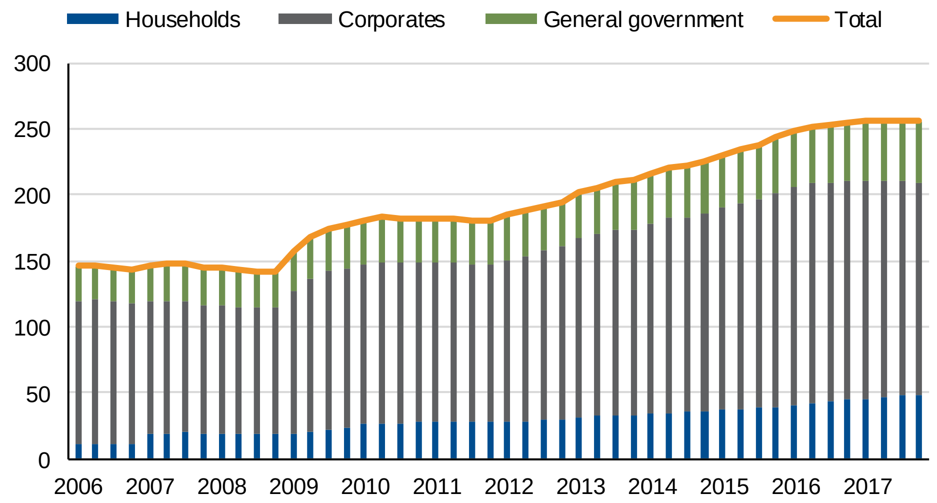
Higher non-financial sector debt is a major concern

Positively, economy-wide non-financial sector debt has plateaued at 256% of GDP as of Q4 2017 – roughly unchanged on the level at end-2016, according to data from the Bank for International Settlements (BIS), although still sharply higher on the 141% of GDP level as of Q4 2008. Although general government sector debt stocks continue to rise, non-financial corporate debt has dipped to 160% of GDP in Q4 2017 from 167% of GDP at a Q2 2016 peak (with much of this debt tied to the SOE sector). However, household debt has continued to increase rapidly to 48% of GDP in 2017, from a low base of 18% of

GDP as of 2008 – as generational changes and financial innovation have increased the usage of mortgage and consumer loans. Tighter macroprudential rules should be considered in addressing rising household debt.

In the latest Article IV, the IMF estimated total non-financial sector debt (which under its definition stood at 253% of GDP at end-2017) to resume rising to 290% of GDP by 2023. Debt levels will under this scenario increase despite initiatives to tackle segments of the problem, due to a continued importance still attached by officials to economic growth. However, the IMF outlined that if credit efficiency improves by about 5% each year through 2023, China's non-financial sector debt ratio would be kept stable. This necessitates continued progress on SOE reform and allocation of credit only to the most efficient companies.

Figure 9: Non-financial sector debt by sectoral contribution, % of GDP



Source: BIS, Scope Ratings GmbH calculations

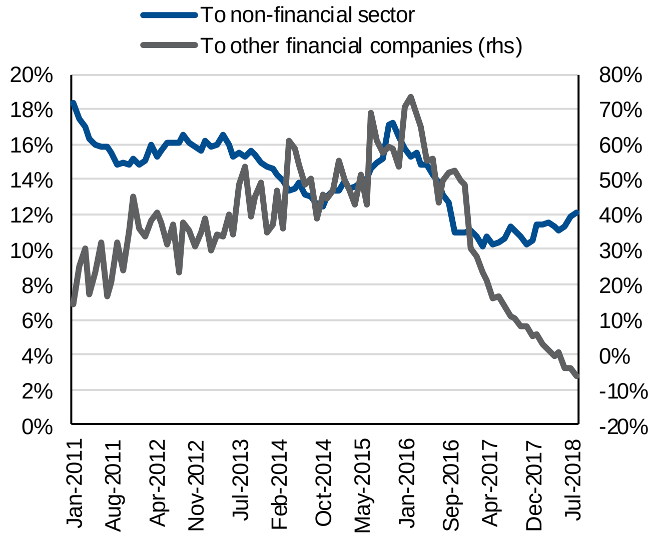
Significant debt increases over a short time such as in China's case since 2008 have been associated with sharp growth slowdowns and, frequently, financial crises. Scope's view is that only segments of the main debt challenge are being tackled with lingering questions over the comprehensiveness of deleveraging efforts. The high level of public- and private-sector debt (and consequently, of direct and contingent state liabilities) and areas of rising debt represent concerns. While China's debt levels are not uncommon in highly rated countries, they are less frequent in countries with China's per-capita income and financial market depth.

In Scope's opinion, if economic and financial reforms accelerate significantly, including continued moves away from 'hard' growth targets (which drive leverage), with these reforms reducing financial imbalances, Scope could affirm China's rating at A+ and revise the Outlook to Stable. Conversely, Scope identified that if nonfinancial-sector debt ratios resume rising meaningfully, threatening financial stability, this could be one trigger for a rating downgrade.

Credit growth has edged higher in 2018, while property price growth has cooled

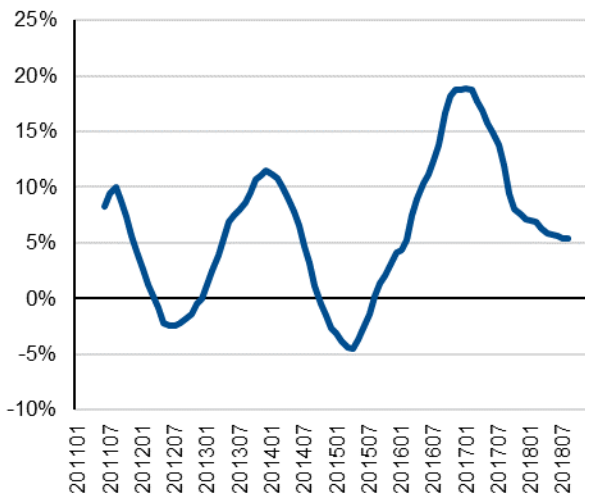
Total lending in China to the non-financial sector rose a strong 12.1% YoY in August 2018, slightly up on lows of 10.2% YoY in late 2017 after previously falling from over 17% as of late 2015. However, the property market boom has recently showed signs of cooling: average new house price growth has eased to around 5.3% YoY as of August 2018, from 18.9% YoY in January 2017. Domestic equity indices have meanwhile dropped since January – with the Shanghai Composite now around January 2016 lows. Intra-financial system lending also dropped sharply to -6.0% YoY in August, from more than 70% YoY in early 2016.

Figure 10: Lending to non-financial sector and to other financial sectors, % YoY



Source: People's Bank of China, Scope Ratings GmbH calculations

Figure 11: Average house price annual growth, 100-city average



Source: China Index Academy, Soufun, Scope Ratings GmbH calculations

Banking sector oversight and governance

The government is tackling some areas of excess

Ongoing supervisory and regulatory actions being taken to contain financial sector risks are critical. The government's commitment and ability to reform, in this respect, represent credit strengths. China aims to boost coordination among financial regulators – including via the merger of the financial and insurance sector regulators – to counter systemic risks. Moreover, oversight of shadow banking and FinTech and new rules on the liquidity risk management of commercial banks have been announced.

The tightening in financial conditions has sharply cut intra-financial sector credit, a key channel that financial institutions use to raise leverage while avoiding regulatory oversight. In addition, growth in bank claims on non-bank financial institutions and off-balance-sheet wealth management products has slowed after booming in recent years, and tweaks to loan provisioning requirements have encouraged non-performing loan (NPL) recognition and disposal. New guidelines have been announced to harmonise supervisions on all asset management products, with these products having been used to exploit regulatory loopholes. These guidelines will now force the relocation on-balance-sheet of some previously off-balance-sheet credit instruments.

Reforms have also included those in the corporate bond market, in which market mechanisms have been dysfunctional due to the government's guarantees on the debts of SOEs alongside the latter's preferential access to credit. The government has taken steps to contain the rise in SOE debt and discourage some SOEs from investment, particularly in overcapacity sectors. Another reform is a programme of debt-equity swaps that aims to lower leverage in parts of the SOE sector, transferring the risks to the banking system.

Importantly, the Chinese government has moved towards a policy of allowing selective defaults, and the number of corporate bond defaults has risen sharply since the start of 2016[13]. This financial tightening is welcome; however, given the size of growing imbalances, the depth of reforms remains inadequate. Although official NPLs are very low

[13] Seki, S. 'Moral hazards in China from the Perspective of the Corporate Bond Market'. RIM Pacific Business and Industries Vol. XVII, 2017 No. 63.

– at 1.9% of total loans in Q2 2018 (up on 0.9% in 2012), debt-at-risk[14] rose to over 12% of total liabilities in 2016, from about 4% in 2010. Against this, banks have raised core tier 1 capital ratios only slightly, to 10.7% as of Q2 2018, from 10% at end-2013.

Financial system regulation still progressing

The supervision of China's financial system remains in a development phase and the capital account remains largely closed, with investors in the bond market mostly being domestic institutions. While this shields the economy from global financial volatility, it also restricts the development of domestic markets. However, the government's still-pervasive ownership and influence across the financial system broadens the scope and effectiveness of available policy options to mitigate more adverse scenarios.

Institutional and political risk

China is a semi-presidential socialist republic run by a single party, the Communist Party of China. President Xi Jinping is the head of state, while Premier Li Keqiang is the head of government, overseeing the State Council – China's cabinet. The National People's Congress is the national unicameral legislature. As a one-party state, the General Secretary of the Communist Party of China – President Xi – holds ultimate power and authority over the state and government.

China has routinely scored weakly in the World Bank's Worldwide Governance Indicators, with governance standards below that of 'bbb'-indicative sovereigns. However, under the Rule of Law indicator, China scored in the 46th percentile of countries in 2016, an improvement from the 31st in 2006. Under Government Effectiveness, China's ranking stood at the 68th percentile in 2016, from the 57th in 2006. China's Control of Corruption score stood at the 49th percentile, from the 37th in 2006.

Recent events and policy decisions

Removing presidential term limits holds far-reaching implications

In March 2018, the reform to repeal the constitutional term limit[15] on the President (a barrier set in place since China's 1982 Constitution) will technically allow President Xi to remain in office indefinitely (past 2023). The move removes even the symbolic need to step away from power, and exemplifies a continued centralisation of control – reflected moreover in the bypassing of informal institutions in China's governance transition (like the failure to anoint a successor for a once-per-decade power transition), a new Politburo Standing Committee absent rivals to the President, the empowerment of the national anti-corruption commission (used moreover to crack down on dissidents), and the revision of the Party Constitution (to elevate Xi's doctrines to the status of paramount leader).

The term limit change potentially makes Xi, to an extent, akin to 'Party Chairman', a position formally abolished in 1982 in favour of a more consensus-driven leadership model. Since then, the Communist Party General Secretary – the position held by Xi, and which replaced the Chairmanship – has been technically first among equals in the Standing Committee under a collective leadership model designed to avoid one-man rule, following the lessons of China's history. Power without conditions raises the risk of personality-driven politics lacking checks and necessary debate.

Scope notes, in addition to this, the increased role of the party in the state and economy, with the party intervening in the technocratic style of government of past decades.

Consolidation of power could be credit positive in the near- to medium-term, but credit negative in the long run

It has been argued in China that power consolidation is needed so that a unified leadership can push ahead with critical reforms resisted by vested interests, including measures to expand productivity-enhancing transformations, a move away from 'hard'

[14] Defined as the ratio of the borrowings of listed companies with interest coverage ratios of below 1 to the borrowings of total listed companies (for methodology, see the IMF's April 2016 Global Financial Stability Report).
[15] The Constitution had formerly required a President to step down after two five-year terms.

GDP growth targets, and measures to boost deleveraging and crack down on China's financial sector. Indeed, such reforms are critical to economic stability, and in areas in which they have been accelerated, that is an important credit-positive element affecting the near- to medium-term outlook.

However, Scope's view is that significant consolidation of power, even if it bolsters important reforms in the near term, holds credit-negative implications over the long run, potentially undermining the delicate collective leadership structure underpinning the decades of China's economic miracle, and reducing the quality of governance and economic policy making over the longer term, exposing China to the risk of policy mistakes and weaker rule of law.

Geopolitical risk

Geopolitical risks remain

There remain geopolitical risks, even if the danger of conflict on the Korean Peninsula has been reduced by the recent rapprochement. Ongoing tensions in the South China Sea and other neighbouring island conflicts, and the trade conflict with the United States are examples. Scope is monitoring these risks closely in its ongoing assessment.

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Rating history

Date	Rating Action	Outlook
21 September 2018	Affirmation at A+	Negative
29 September 2017	Downgrade to A+ from AA-	Stable
05 May 2017	Under Review	Developing

Source: Scope Ratings GmbH

I. Appendix: Factoring of Environment, Social and Governance (ESG)

Scope considers ESG sustainability issues during the rating process as reflected in the sovereign methodology. China's performance on ESG parameters has improved. Governance-related factors are explicitly captured in Scope's assessment of 'Institutional and Political Risk' in its methodology, in which China has routinely scored weakly in the World Bank's Worldwide Governance Indicators, with governance standards below that of 'bbb'-indicative sovereigns. However, China's scores on several of these indicators have improved – including on the Rule of Law, Government Effectiveness and the Control of Corruption. Qualitative governance-related assessments reflect Scope's QS evaluation of 'recent events and policy decisions' as 'good' and 'geo-political risk' as 'neutral' compared with China's indicative peers. Scope notes that significant consolidation of power can bolster important reforms in the near term, though it also holds credit-negative implications over the long run.

Socially-related factors are captured in Scope's CVS via China's middle-income economy (GDP per capita of USD 8,643 as of 2017), which has transformed itself with incomes having increased tenfold compared to only 20 years before (USD 781 in 1997). In addition, the CVS accounts for the comparatively low level of unemployment and a healthier old-age dependency ratio compared with peers – although China's rapid ageing means challenges are increasing. Significant social progress has been achieved, including the lifting of over 800 million citizens out of absolute poverty and improvements in education and health. In addition, there have been positive policy shifts towards greater focus on the quality of economic growth and citizens' lives, including priorities on boosting social safety nets and reducing income inequality. These social considerations are considered favourably in Scope's QS evaluation of China's 'growth potential of the economy', 'economic policy framework' and 'macro-economic stability and sustainability'.

China's poor record on environmental issues has improved in recent years. This includes concerning addressing pollution via the Air Pollution Action Plan, which has helped aggressively reduce PM2.5 levels in major metropolitan areas. China is the world's largest emitter of CO_2, however meaningful progress is also being made in cutting the carbon intensity of the economy. China launched a nationwide carbon emissions trading system in 2017 for large industrial users after pilot schemes had been in place since 2011. However, a carbon or coal tax would boost the overall impact on the environment and tax collections, as would expanding the carbon trading scheme to smaller-scale users. China's move towards greener, more sustainable growth is considered during Scope's rating process.

II. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative 'BBB' ('bbb') rating range for the People's Republic of China. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) by up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the People's Republic of China, the following relative credit strengths are identified: i) growth potential of the economy; ii) economic policy framework; iii) market access and funding sources; iv) external debt sustainability; v) vulnerability to short-term external shocks; vi) recent events and policy decisions; and vii) banking sector oversight and governance. Relative credit weaknesses are signalled for: i) debt sustainability; and ii) financial imbalances and financial fragility.

The combined relative credit strengths and weaknesses generate a three-notch adjustment and signal a sovereign rating of A for China. The lead analyst has recommended an additional one-notch adjustment of the indicated rating to A+ in order to take into account the size and resilience of the Chinese economy, and capacity to reform owing to the governance structure. A rating committee discussed and confirmed these results.

Rating overview	
CVS category rating range	bbb
QS adjustment	A
Final rating	A+

Rating committee

The main points discussed by the rating committee were: i) China's capacity to reform; ii) rating level vs current CVS score on China; iii) non-financial debt dynamics; iv) general government debt dynamics; v) trade conflicts with the United States and implications for the economy; vi) China's areas of economic strength and resilience; vii) QS adjustments and analyst adjustment; viii) peers considerations.

QS results

CVS: Rating indicator	Category weight	QS (*Maximum adjustment = 3 notches*)	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Domestic economic risk	**35%**	Growth potential of the economy	◉ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	○ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential we under trend or negative
Real GDP growth Real GDP volatility GDP per capita Nominal GDP Inflation rate		Economic policy framework	◉ Excellent	○ Good	○ Neutral	○ Poor	○ Inadequate
Unemployment rate Old-age dependency ratio		Macro-economic stability and sustainability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Public finance risk Primary balance	**30%**	Fiscal policy framework	○ Exceptionally strong performance	○ Strong performance	◉ Neutral	○ Weak performance	○ Problematic performance
Interest payments		Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	○ Neutral	◉ Weak sustainability	○ Not sustainable
Gross debt Gross financing needs		Market access and funding sources	◉ Excellent access	○ Very good access	○ Neutral	○ Poor access	○ Very weak access
External economic risk External debt	**15%**	Current account vulnerability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Currency turnover/reserves		External debt sustainability	◉ Excellent	○ Good	○ Neutral	○ Poor	○ Inadequate
Net international investment position (NIIP) Current account balance		Vulnerability to short-term external shocks	◉ Excellent resilience	○ Good resilience	○ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Institutional and political risk	**10%**	Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
World Bank Worldwide Governance Indicators		Recent events and policy decisions	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
		Geopolitical risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial risk Non-performing loans (NPLs)	**10%**	Banking sector performance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Tier 1 ratio		Banking sector oversight and governance	◉ Excellent	○ Good	○ Neutral	○ Poor	○ Inadequate
Credit to GDP gap (bubble) Credit to GDP gap (imbalance)		Financial imbalances and financial fragility	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate

Indicative rating range	**bbb**
QS adjustment	**A**
Analyst adjustment	**1**
Final rating	**A+**

* Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10

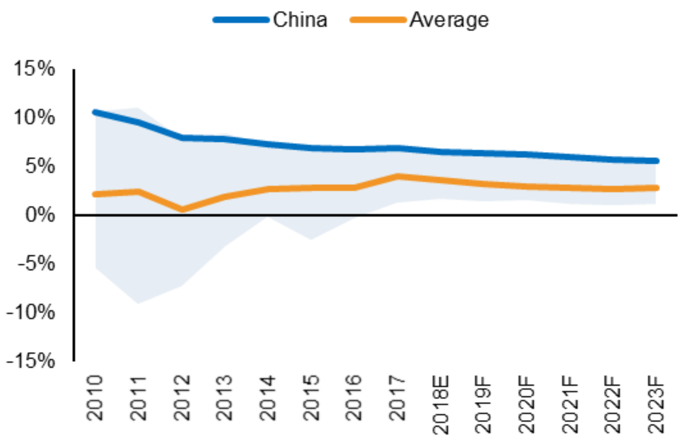
Source: Scope Ratings GmbH

Foreign- versus local-currency ratings

China's debt is issued predominantly in yuan. Because of China's history of debt repayment, low outstanding foreign currency debt, managed floating currency alongside significant FX reserves (which stem balance-of-payment crises and sudden risks to the repayment of foreign currency-denominated debt), Scope sees no evidence that China would differentiate among any contractual debt obligations based on currency denomination.

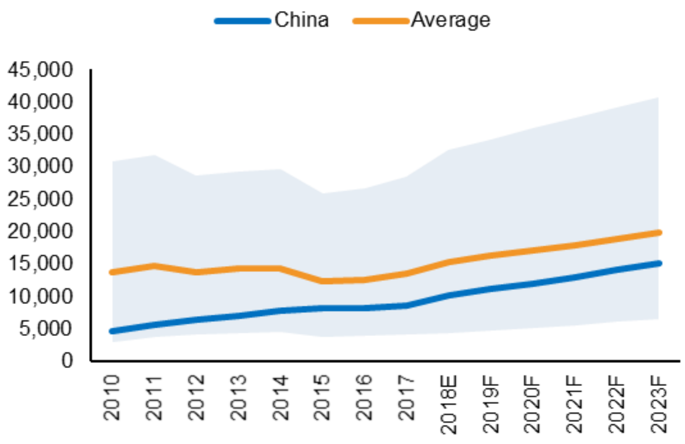
III. Appendix: Peer comparison

Figure 12: Real GDP growth



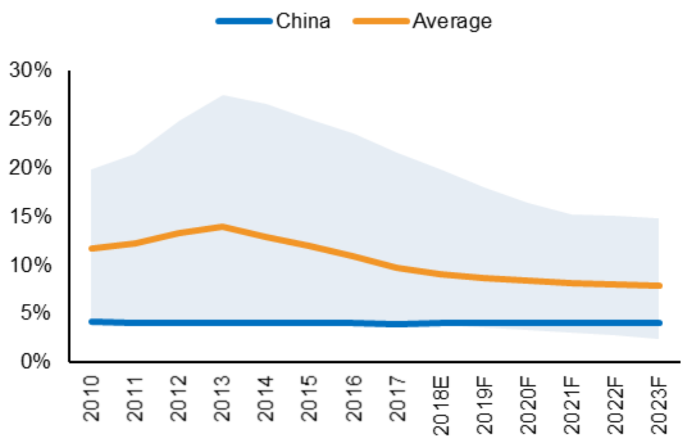
Source: IMF, Calculations Scope Ratings GmbH

Figure 13: GDP per capita (USD per person)



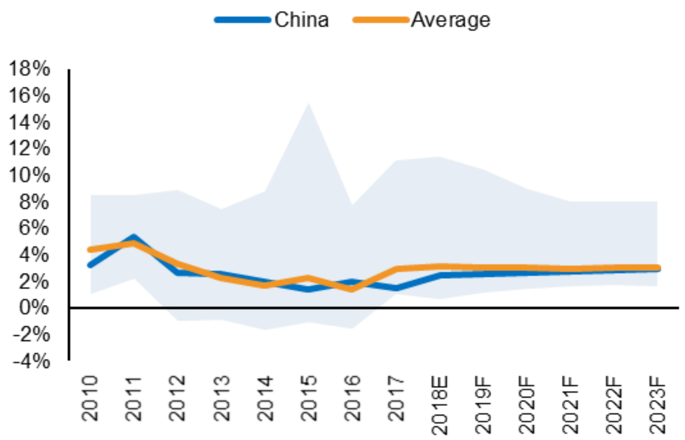
Source: IMF, Calculations Scope Ratings GmbH

Figure 14: Unemployment rate



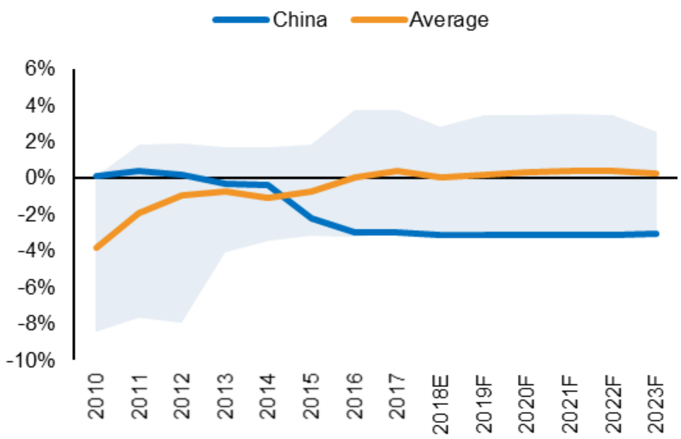
Source: IMF, Calculations Scope Ratings GmbH

Figure 15: Headline inflation



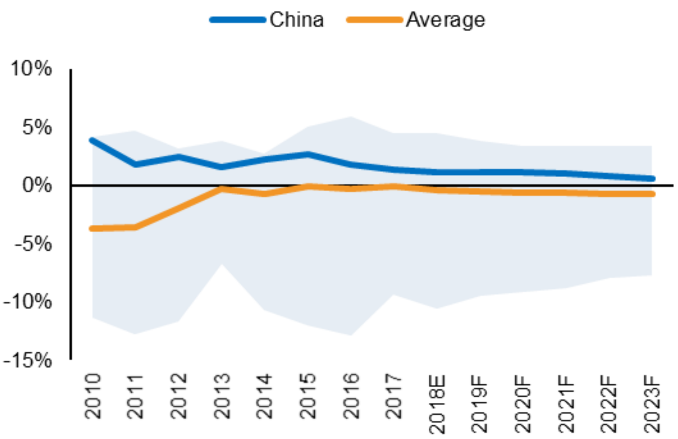
Source: IMF, Calculations Scope Ratings GmbH

Figure 16: General government primary balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 17: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2013	2014	2015	2016	2017	2018E	2019F
Economic performance							
Nominal GDP (CNY bn)	59,696.3	64,718.2	69,910.9	74,563.2	81,203.8	88,572.4	96,537.5
Population (mn)	1,360.7	1,367.8	1,374.6	1,382.7	1,390.1	1,397.0	1,403.4
GDP per capita PPP (USD)	12,368.0	13,440.5	14,450.1	15,530.6	16,806.7	-	-
GDP per capita (CNY)	43,871.1	47,314.8	50,858.4	53,925.4	58,416.6	63,402.7	68,788.7
Real GDP, % change	7.8	7.3	6.9	6.7	6.9	6.6	6.4
GDP growth volatility (10-year rolling SD)	2.0	2.2	2.4	2.2	1.4	1.4	1.4
CPI, % change	2.6	2.0	1.4	2.0	1.6	2.5	2.6
Unemployment rate (%)	4.1	4.1	4.1	4.0	3.9	4.0	4.0
Investment (% of GDP)	47.3	46.8	44.7	44.1	44.4	44.2	43.7
Gross national savings (% of GDP)	48.8	49.0	47.5	45.9	45.8	45.4	44.9
Public finances							
Net lending/borrowing (% of GDP)	-0.8	-0.9	-2.8	-3.7	-4.0	-4.1	-4.3
Primary net lending/borrowing (% of GDP)	-0.3	-0.4	-2.2	-2.9	-3.0	-3.1	-3.1
Revenue (% of GDP)	27.7	28.1	28.5	28.2	27.6	27.5	27.4
Expenditure (% of GDP)	28.5	29.0	31.3	31.9	31.5	31.6	31.6
Net interest payments (% of GDP)	0.5	0.6	0.6	0.8	0.9	1.1	1.1
Net interest payments (% of revenue)	1.8	2.0	2.0	2.7	3.4	3.9	4.1
Gross debt (% of GDP)	37.0	39.9	41.1	44.3	47.8	51.2	54.4
Net debt (% of GDP)	-	-	-	-	-	-	-
Gross debt (% of revenue)	133.5	142.3	143.9	157.0	173.3	186.4	199.0
External vulnerability							
Gross external debt (% of GDP)	-	15.1	11.5	11.5	12.1	-	-
Net external debt (% of GDP)	-	-	-	-	-	-	-
Current-account balance (% of GDP)	1.5	2.2	2.7	1.8	1.4	1.2	1.2
Trade balance (% of GDP)	3.7	4.2	5.3	4.4	3.9	-	-
Net direct investment (% of GDP)	2.3	1.4	0.6	-0.4	0.5	-	-
Official forex reserves (EOP, USD bn)	3,821.3	3,843.0	3,330.4	3,010.5	3,139.9	-	-
REER, % change	6.2	2.0	10.3	-4.2	-2.8	-	-
Nominal exchange rate (AVG, CNY/100 USD)	619.6	614.2	622.7	664.0	675.5	-	-
Financial stability							
Non-performing loans (% of total loans)	1.0	1.3	1.7	1.7	1.7	-	-
Tier 1 ratio (%)	10.0	10.8	11.3	11.3	11.4	-	-
Private debt (% of GDP)	173.8	185.6	201.6	210.8	208.7	-	-
Credit-to-GDP gap (%)	18.9	21.5	27.2	24.7	12.6	-	-

Sources: IMF, European Commission, National Bureau of Statistics, PBOC, China Banking Regulatory Commission, SAFE, World Bank, BIS, Scope Ratings GmbH

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