

# People's Republic of China

## Rating Report



A

STABLE  
OUTLOOK

### Credit strengths

- Large, diversified economy with relatively strong growth potential
- High external resilience and large foreign exchange reserves
- Government control in some sectors may facilitate effective reforms

### Credit challenges

- Large public sector deficits and rising public debt
- Financial imbalances, including high levels of non-financial sector debt
- Weakening demographics with a declining population

### Rating rationale:

**Large, diversified economy:** China's rating is supported by its large, highly diversified, competitive economy. Despite the country's growth potential remaining below the government's target, at around 4%, near-term growth expectations remain high compared with similarly rated peer countries.

**High external resilience:** The country's high external resilience is underpinned by high foreign exchange reserves, low external debt and consistent current account surpluses.

**Government's scope to implement reforms:** China's central government exerts a significant degree of control in some sectors. This can support the implementation of effective reforms, including extraordinary macroprudential measures. While this increases the ability to bring about fundamental reform when tackling high levels of leverage, it can also have credit-negative implications if it leads to lower quality of governance and policymaking.

**Rating challenges include:** i) large structural public sector deficits and an increasing public sector debt stock over the long run; ii) financial imbalances, including high levels of total non-financial sector debt since 2008; and iii) weakening demographics including a declining population.

### China's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aa	CNY [+1]	+3/3	A	
Public Finance Risk	20%	b+		0		
External Economic Risk	10%	aaa		+3/3		
Financial Stability Risk	10%	bb-		0		
ESG Risk	Environmental Factors	5%		c		-1/3
	Social Factors	7.5%		a-		0
	Governance Factors	12.5%		c		0
<b>Indicative outcome</b>		<b>bbb+</b>		<b>+2</b>		
<b>Additional considerations</b>				<b>0</b>		

Note: The rating committee approved an indicative rating of 'bbb+'. The reserve-currency adjustment applies to currencies in the IMF's SDR basket. \*The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's Sovereign Rating Methodology. Source: Scope Ratings.

### Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12 to 18 months.

#### Positive rating-change drivers

- Public finances strengthen, resulting in an improving public debt trajectory
- Strengthened financial stability and/or sustainability of the economic growth outlook thanks to economic and financial reforms
- The renminbi makes substantive gains as a reserve currency

#### Negative rating-change drivers

- Materialisation of financial or economic shock, impairing medium-term economic growth
- Weakening fiscal outlook and continued rise in the debt trajectory due to a protracted fiscal deterioration and/or crystallisation of contingent liabilities
- Material weakening of external resilience

### Ratings and Outlook

#### Foreign currency

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

#### Local currency

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

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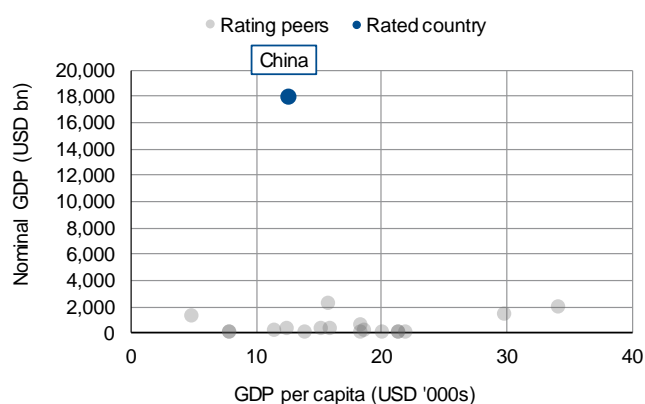
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for China's *Domestic Economic Risk*

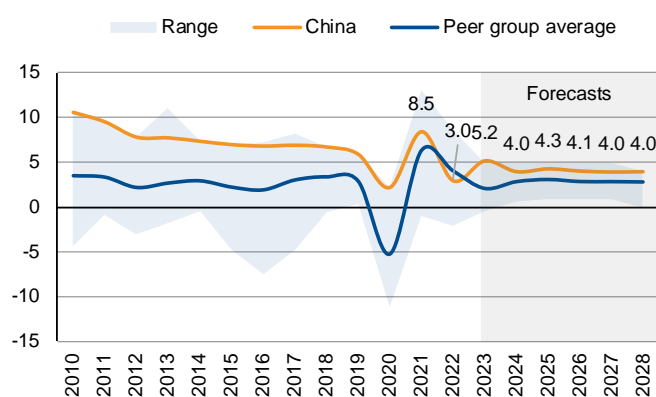
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Growth potential of the economy	Strong	+1/3	Growth potential is still high compared with peers, despite structural decline
	Monetary policy framework	Strong	+1/3	Effective monetary policy and exchange-rate policy, focus on maintaining financial stability
	Macro-economic stability and sustainability	Strong	+1/3	Highly diversified, competitive economy, significant economic size, labour market rigidities

#### Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

#### Real GDP growth, %



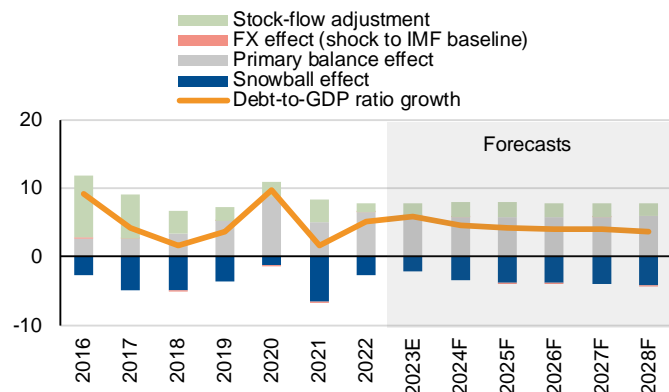
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for China's *Public Finance Risk*

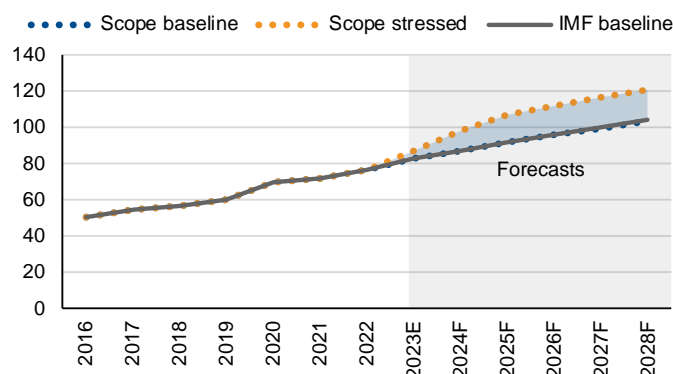
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Fiscal policy framework	Weak	-1/3	Significant structural deficits, wider augmented budget deficits with inclusion of off-balance sheet spending
	Debt sustainability	Neutral	0	Rising public debt ratio, significant off-balance sheet debt, but moderate explicit central government debt
	Debt profile and market access	Strong	+1/3	High government financing need but most issuance in local currency, significant government assets, development of domestic bond market

#### Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



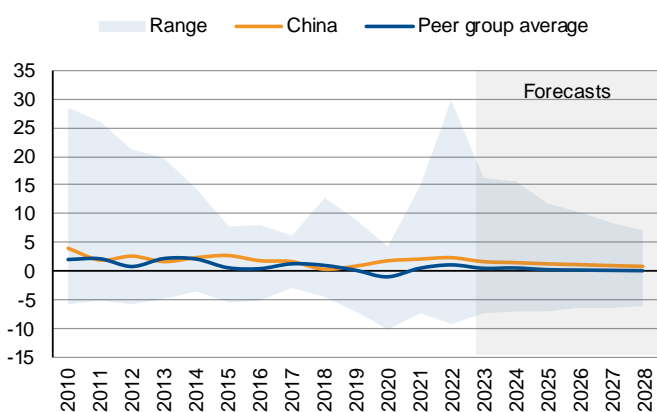
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for China's *External Economic Risk*

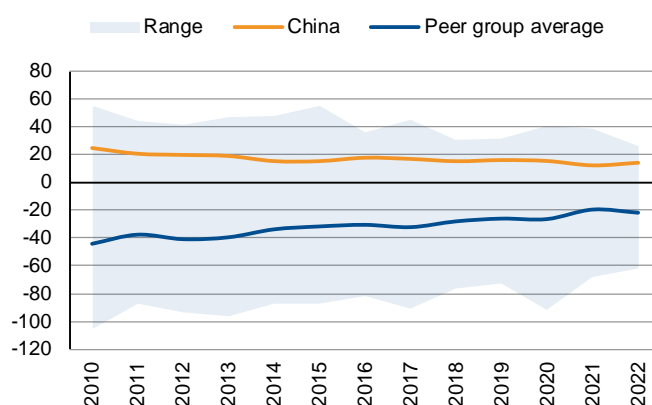
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	+1/3	Diversified, competitive export base, current account surpluses, risk from periods of capital outflows
	External debt structure	Strong	+1/3	Very low external debt, public and financial sectors have strong liquid external assets
	Resilience to short-term external shocks	Strong	+1/3	Sizeable foreign-exchange reserves, rising international use of renminbi and foreign investment in domestic assets

#### Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

#### Net international investment position (NIIP), % of GDP



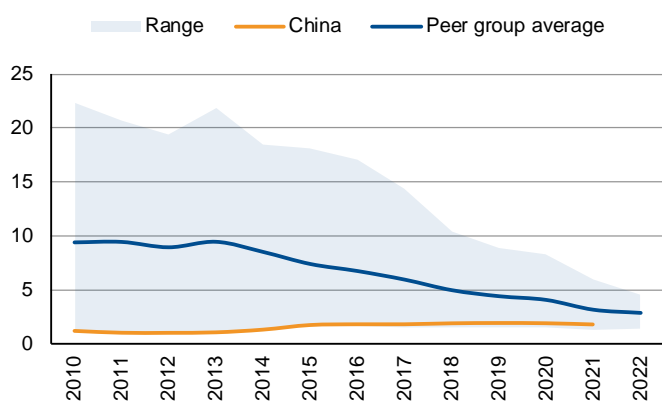
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for China's *Financial Stability Risk*

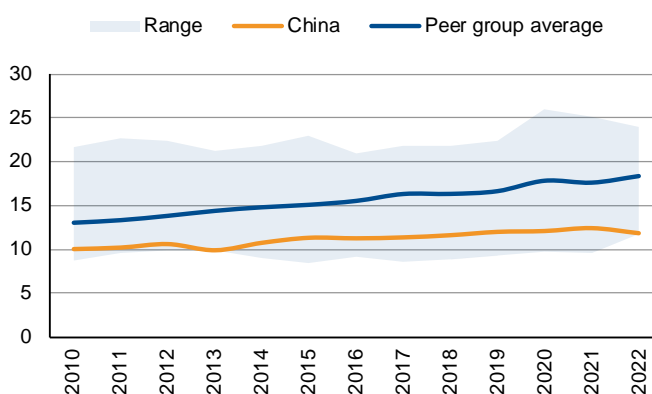
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Banking sector performance	Neutral	0	Low (reported) non-performing loans
	Banking sector oversight	Strong	+1/3	Significant commitment and ability to counteract financial system risks, improvement in financial supervisory regime
	Financial imbalances	Weak	-1/3	High non-financial sector debt, gradually improving credit growth

#### Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

#### Tier 1 capital, % of risk-weighted assets



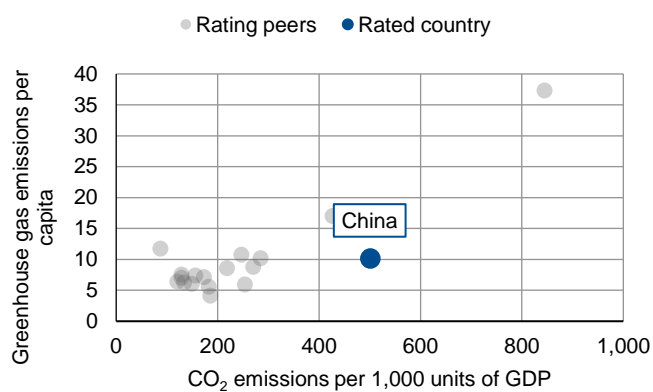
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

#### Overview of Scope's qualitative assessments for China's ESG Risk

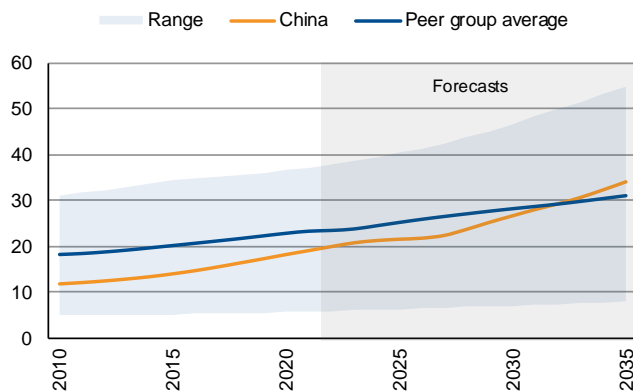
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Environmental factors	Weak	-1/3	Significant transition risks in greening the economy but progress made has been substantive and objectives are ambitious
	Social factors	Neutral	0	High income and urban-rural inequalities, declining working-age population, but strong educational attainment and reduction of poverty
	Governance factors	Neutral	0	Improved government effectiveness, President Xi's power consolidation poses long-term governance risks

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



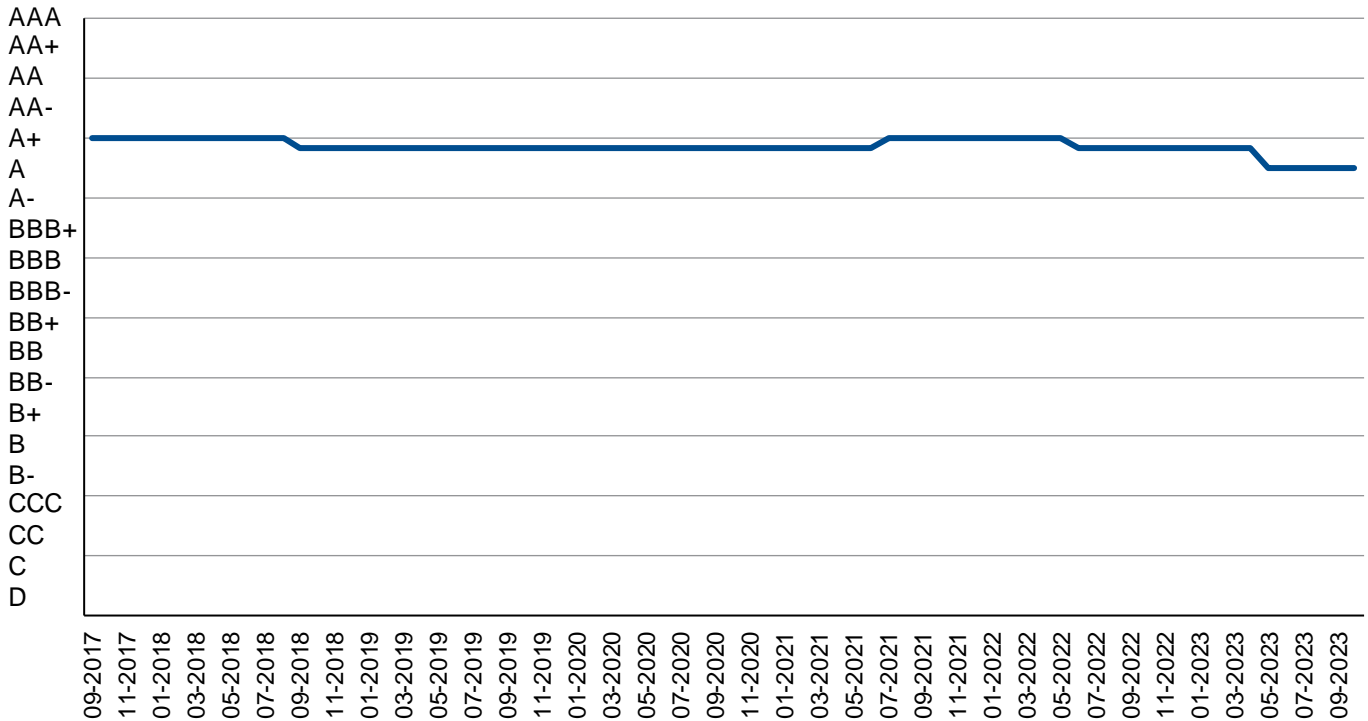
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

### Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Bulgaria
Croatia
Hungary
Italy
Latvia
Poland
Romania
Slovakia
Spain

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

\* Average of the six World Bank Worldwide Governance Indicators.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	9.8	10.2	10.5	12.6	12.7
	Nominal GDP, USD bn	IMF	13,841.8	14,340.6	14,862.6	17,759.3	17,886.3
	Real growth, %	IMF	6.8	6.0	2.2	8.5	3.0
	CPI inflation, %	IMF	1.9	2.9	2.5	0.9	1.9
	Unemployment rate, %	WB	4.3	4.6	5.0	4.6	4.9
Public Finance	Public debt, % of GDP	IMF	56.7	60.4	70.1	71.8	77.0
	Net interest payment, % of revenue	IMF	2.8	3.0	3.7	3.4	3.6
	Primary balance, % of GDP	IMF	-3.5	-5.3	-8.8	-5.1	-6.6
External Economic	Current-account balance, % of GDP	IMF	0.2	0.7	1.7	2.0	2.2
	Total reserves, months of imports	WB	13.1	13.8	14.7	11.6	11.3
	NIIP, % of GDP	IMF	15.2	16.0	15.4	12.3	14.2
Financial Stability	NPL ratio, % of total loans	IMF	1.8	1.9	1.8	1.7	-
	Tier 1 ratio, % of risk-weighted assets	IMF	11.1	11.5	11.9	11.9	12.2
	Credit to the private sector, % of GDP	WB	157.8	165.4	182.9	177.3	185.4
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	541.7	523.3	519.6	501.4	-
	Income share of bottom 50%, %	WID	13.9	14.0	13.8	13.7	-
	Labour-force participation rate, %	WB	75.5	75.4	73.1	75.8	-
	Old-age dependency ratio, %	UN	16.4	17.2	18.2	19.0	19.9
	Composite governance indicators*	WB	-0.3	-0.4	-0.3	-0.3	-0.3

### Appendix IV. Economic development and default indicators

IMF Development Classification

Emerging market and developing economy

5y USD CDS spread (bps) as of 27 October 2023

84.57



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