

# People's Republic of China

## Rating report

### 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:** 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.

**Figure 1: China's sovereign rating drivers**

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating				
Domestic economic risk		35%	aa+	CNY	China	+3/3	A
Public finance risk		20%	b+			0	
External economic risk		10%	aa+			+3/3	
Financial stability risk		10%	bb			0	
ESG risk	Environmental factors	5%	ccc	[+1]	[-1]	0	
	Social factors	7.5%	bbb+			0	
	Governance factors	12.5%	ccc			0	
<b>Sovereign Quantitative Model</b>		<b>bbb+</b>			<b>+2</b>		
<b>Additional considerations</b>					<b>0</b>		

Note: The rating committee approved an indicative SQM rating of 'bbb+'.

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst 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.

### Foreign currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

### Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

### Lead Analyst

Eiko Sievert

+49 69 6677389-79

[e.sievert@scoperatings.com](mailto:e.sievert@scoperatings.com)

### Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

### Credit strengths and challenges

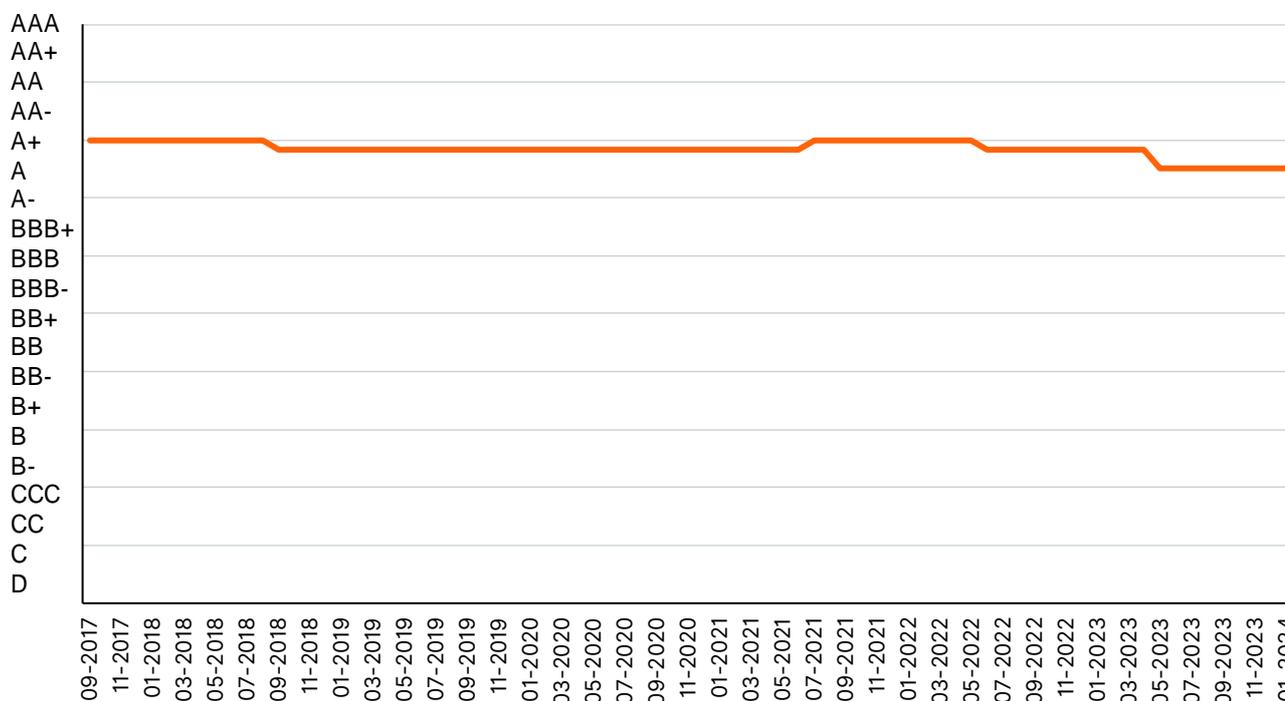
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Large, diversified economy with relatively strong growth potential</li> <li>High external resilience and large foreign exchange reserves</li> <li>Government control in some sectors may facilitate effective reforms</li> </ul>	<ul style="list-style-type: none"> <li>Large public sector deficits and rising public debt</li> <li>Financial imbalances, including high levels of non-financial sector debt</li> <li>Weakening demographics with a declining population</li> </ul>

### Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>Public finances strengthen, resulting in an improving public debt trajectory</li> <li>Strengthened financial stability and/or sustainability of the economic growth outlook thanks to economic and financial reforms</li> <li>The renminbi makes substantive gains as a reserve currency</li> </ul>	<ul style="list-style-type: none"> <li>Materialisation of financial or economic shock, impairing medium-term economic growth</li> <li>Weakening fiscal outlook and continued rise in the debt trajectory due to a protracted fiscal deterioration and/or crystallisation of contingent liabilities</li> <li>Material weakening of external resilience</li> </ul>

Figure 2: Rating history<sup>1</sup>



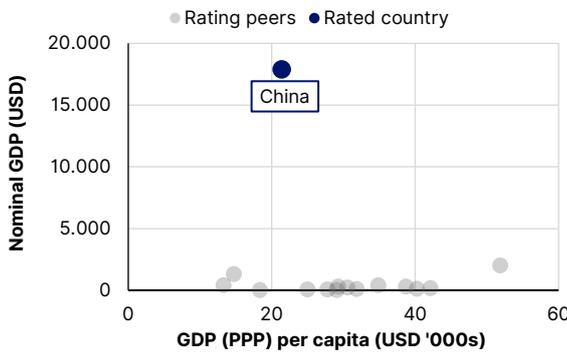
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

### Domestic economic risk

#### Overview of Scope’s assessments of China’s Domestic Economic Risk

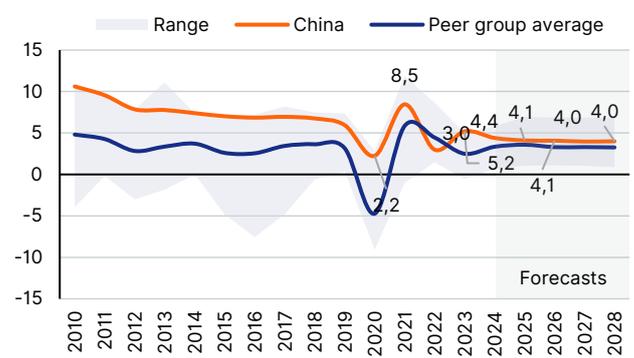
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Growth potential and outlook	Strong	+1/3	Growth potential is still high compared with peers, despite structural decline
	Monetary policy framework	Strong	+1/3	Effective monetary policy and exchange-rate policy, focus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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



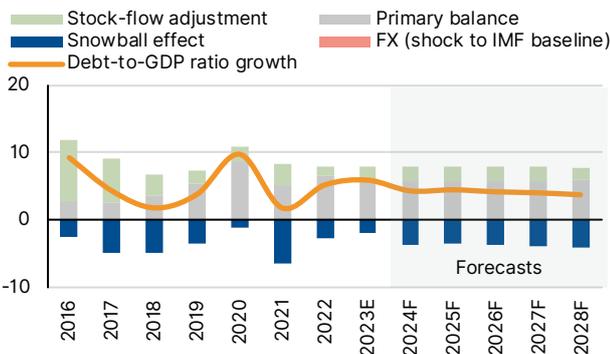
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

#### Overview of Scope’s assessments of China’s Public Finance Risk

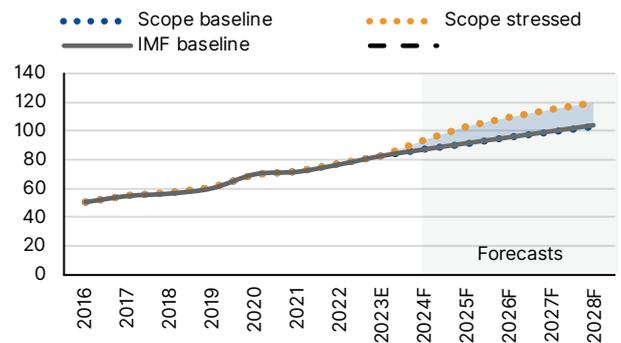
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Fiscal policy framework	Weak	-1/3	Significant structural deficits, wider augmented budget deficits with inclusion of off-balance sheet spending
	Long-term debt trajectory	Neutral	0	Rising public debt ratio, significant 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

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

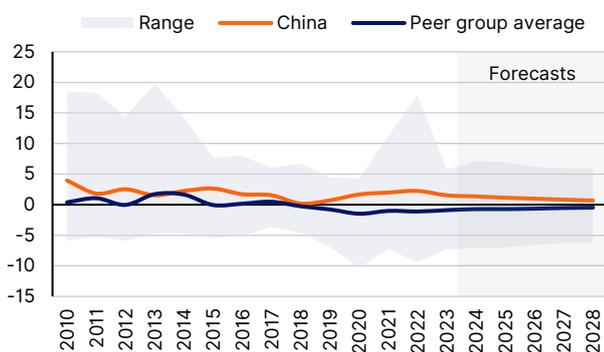
\*Sovereign Quantitative Model.

## External economic risk

### Overview of Scope's assessments of China's External Economic Risk

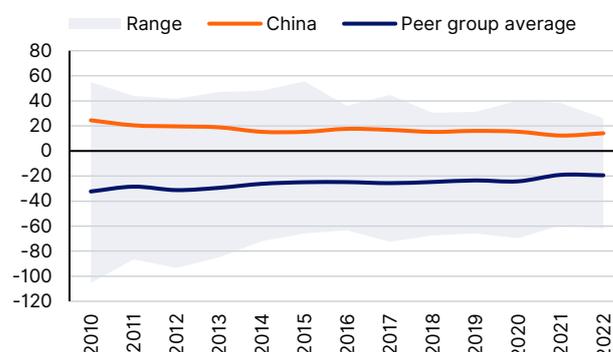
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Current account resilience	Strong	+1/3	Diversified, competitive export base, current account surpluses, risk from periods of capital outflows
	External debt structure	Strong	+1/3	Very low external debt, public and financial 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

Figure 7: Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



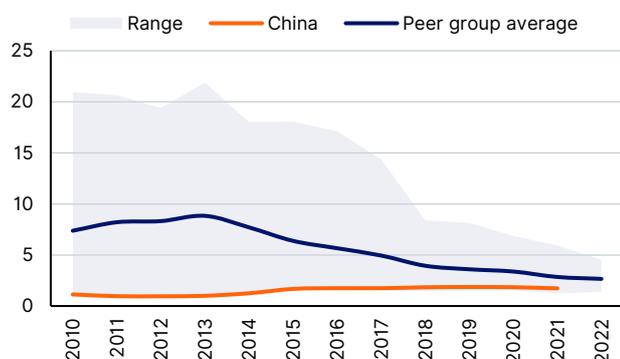
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of China's Financial Stability Risk

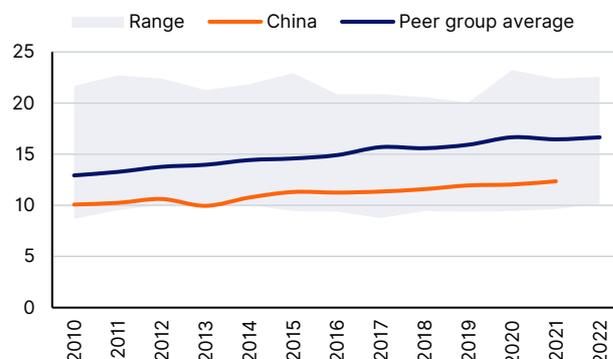
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Banking sector performance	Neutral	0	Low (reported) non-performing loans
	Financial sector oversight and governance	Strong	+1/3	Significant commitment and ability to counteract financial system risks, improvement in financial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

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



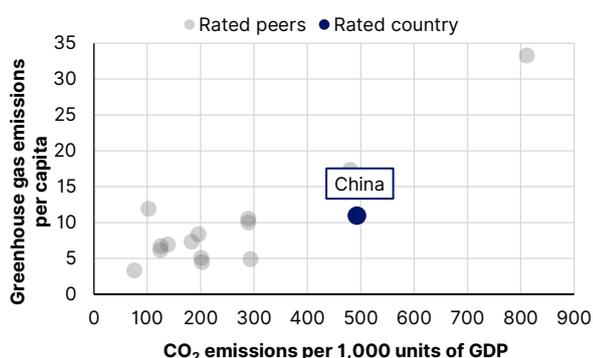
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope’s assessments of China’s ESG risk

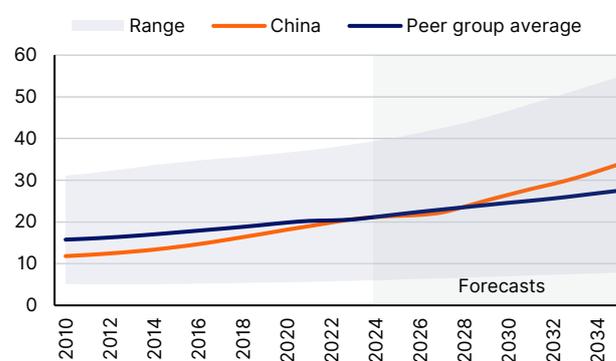
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Environmental factors	Neutral	0	Significant transition risks in greening the economy but progress made has been substantive and objectives are ambitious
	Social factors	Neutral	0	High income and urban-rural inequalities, 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

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

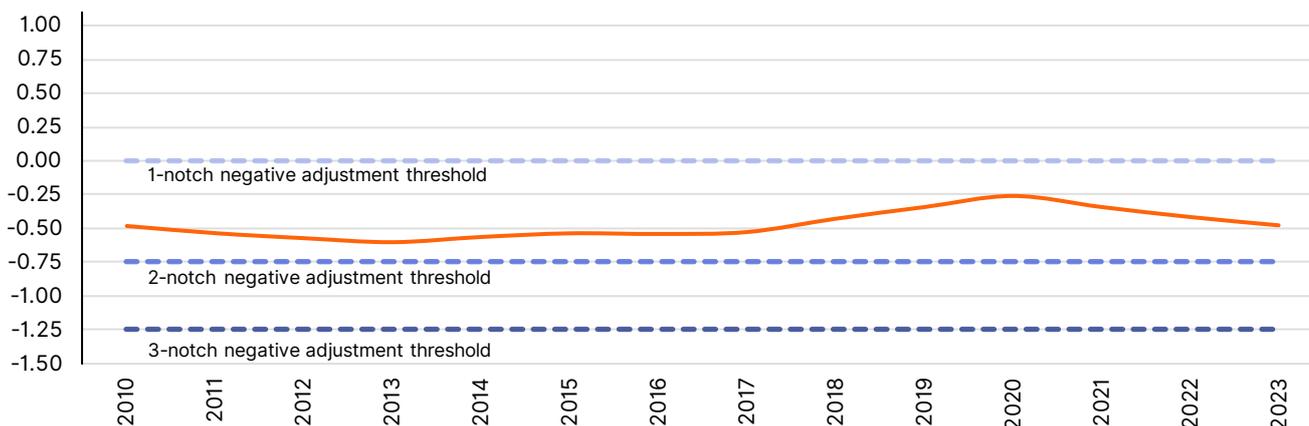
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, China, 3-year moving average



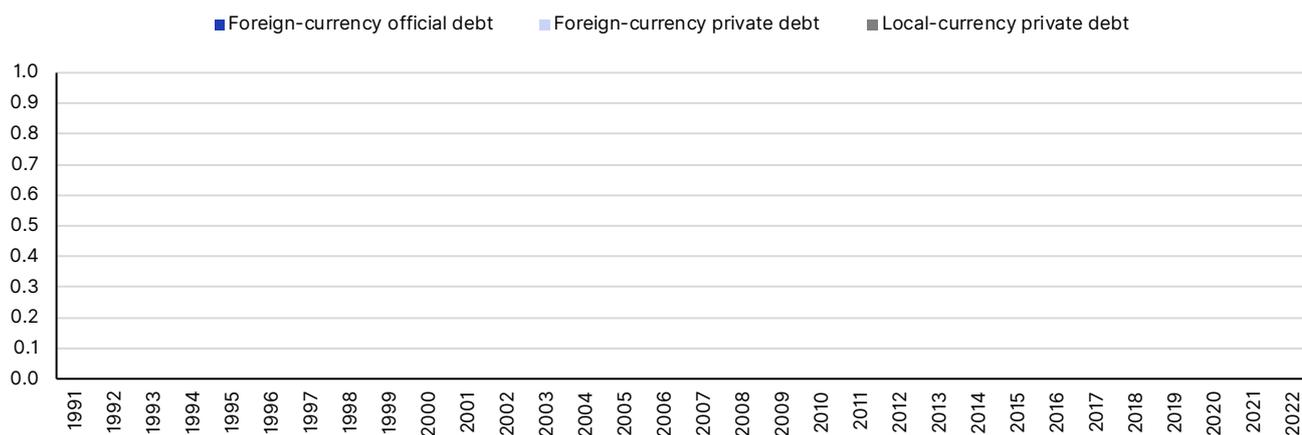
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings

### 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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Hungary
Italy
Romania
Slovakia

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

### Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 2 February 2024	66.3

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, 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.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	15.4	16.6	17.1	19.4	21.4	23.3
	Nominal GDP, USD bn	IMF	13,842	14,341	14,863	17,759	17,886	17,701
	Real growth, %	IMF	6.8	6.0	2.2	8.5	3.0	5.0
	CPI inflation, %	IMF	1.9	2.9	2.5	0.9	1.9	0.7
	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	83.0
	Net interest payment, % of government revenue	IMF	2.8	3.0	3.7	3.4	3.6	4.3
	Primary balance, % of GDP	IMF	-3.5	-5.3	-8.8	-5.1	-6.6	-6.0
External Economic	Current-account balance, % of GDP	IMF	0.2	0.7	1.7	2.0	2.2	1.5
	Total reserves, months of imports	IMF	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	20.7
	Composite governance indicators*	WB	-0.3	-0.4	-0.3	-0.2	-0.3	-
	Political stability, index	WB	-0.3	-0.3	-0.5	-0.5	-0.4	-

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

## Scope Ratings GmbH

Lennéstraße 5  
D-10785 Berlin  
[scoperatings.com](https://www.scoperatings.com)

Phone: +49 30 27891-0  
Fax: +49 30 27891-100  
[info@scoperatings.com](mailto:info@scoperatings.com)

   
Bloomberg: RESP SCOP  
[Scope contacts](#)

## Disclaimer

© 2024 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.