

People's Republic of China

Rating report

Rating rationale

Large and well-diversified economy: China's credit ratings are supported by a large, well-diversified and competitive economy. Although we estimate the country's growth potential at 4% a year, indicating a continued gradual easing of the very rapid growth of the recent decades, near-term growth expectations remain higher than trend (5% for 2024 before 4.5% for 2025).

External-sector resilience: The country's significant external-sector resilience is underpinned by high foreign-exchange reserves exceeding USD 3trn, low external debt outstanding, moderate current-account surpluses alongside internationalisation of the renminbi.

Unique capacity of government for adopting reform: China's central government exerts a significant degree of control over many economic sectors. This can support the speed and efficacy of targeted reforms, including extraordinary macro-prudential measures. While this increases the capacity of the government to bring about fundamental reform when tackling high degrees of leverage, it can also have credit-negative implications if unchecked powers results in lower quality of governance and policy making over time. Nevertheless, controls over the economy raise implicit resources of the sovereign under stressed scenarios – decreasing sovereign credit risk.

Rating challenges: i) wide structural public-sector deficits and an increasing public-sector debt stock over the long run; ii) financial imbalances, such as past rises in 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	Notches	Notches	Notches	
Domestic economic risk	35%	aa+	CNY	China	+ 1	A
Public finance risk	20%	b			0	
External economic risk	10%	aa+			+ 2/3	
Financial stability risk	10%	bb+			0	
ESG risk	Environmental factors	5%	[+1]	[-1]	0	
	Social factors	7.5%			0	
	Governance factors	12.5%	ccc			
Sovereign Quantitative Model (SQM)****	bbb+			+2		
Additional considerations				0		

*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. *The Rating Committee approved an indicative SQM rating of 'bbb+'.

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

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Credit strengths and challenges

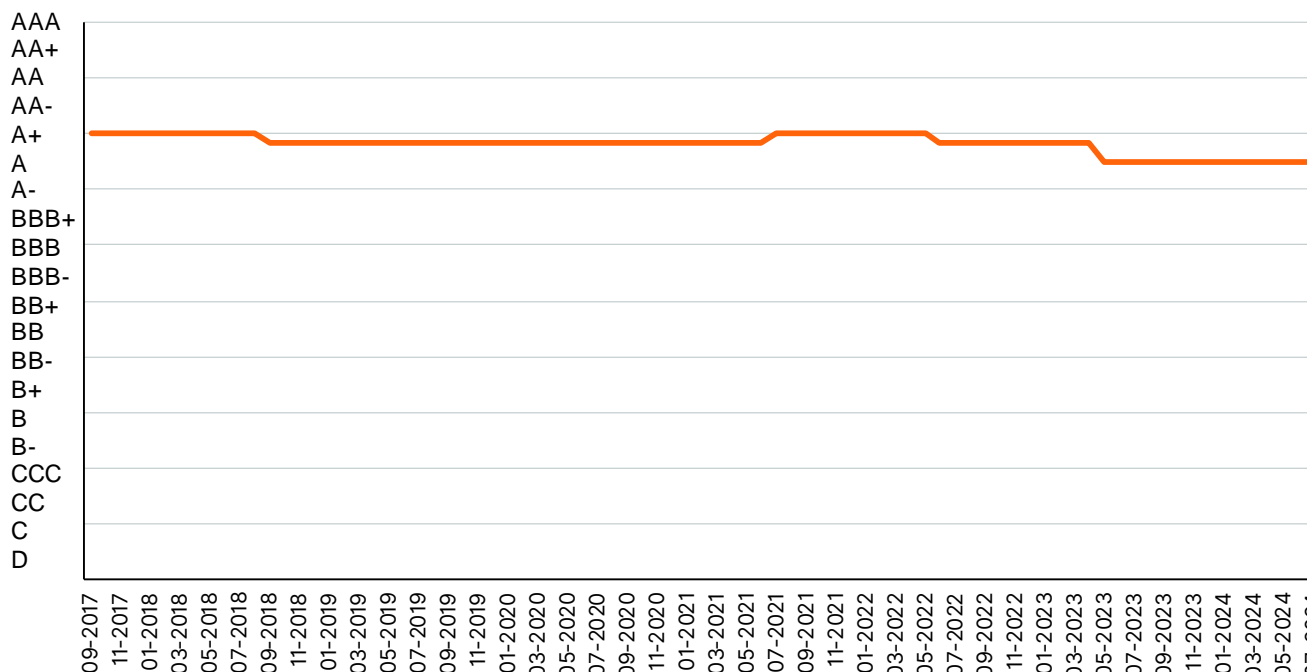
Credit strengths	Credit challenges
<ul style="list-style-type: none"> A large and diversified economy with comparatively strong trend growth Significant external-sector resilience and largest stock of foreign-exchange reserves globally Government controls across many sectors facilitates capacity for targeted reforms and raises implicit resources under stressed economic scenarios 	<ul style="list-style-type: none"> Wide public-sector deficits and rising general and central government debt Financial-system imbalances, including high levels of non-financial sector debt for an emerging economy, corporate defaults and property-sector crisis Weakening demographics and a slowly declining population

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"> The renminbi and Chinese government bonds make substantive gains as a reserve currency and global safe asset respectively The public finances strengthen, resulting in stabilisation of the public-debt trajectory Strengthened financial stability and/or sustainability of the economic-growth outlook due to economic and financial reforms 	<ul style="list-style-type: none"> A maintenance of the weak budgetary outlook and continued rise of government debt stocks Materialisation of significant financial and/or economic crisis, impairing financial-system stability A material weakening of external-sector resilience

Figure 2: Rating history¹



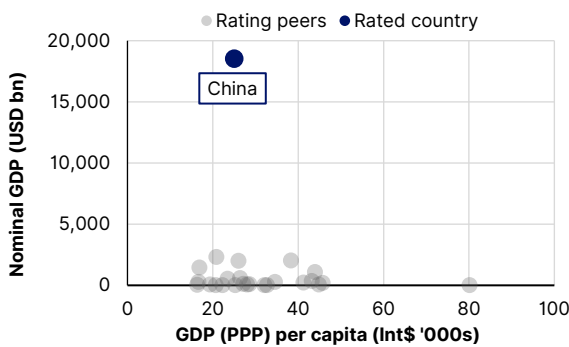
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of China's Domestic Economic Risk

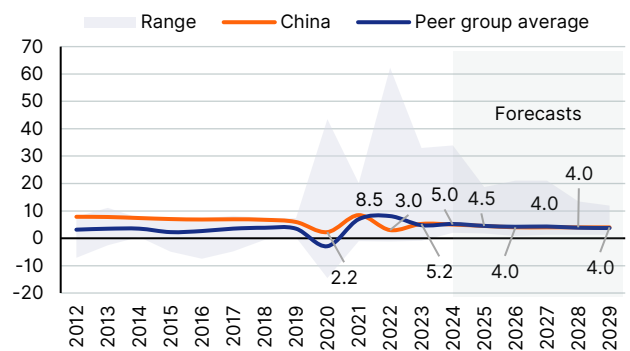
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Growth potential and outlook	Strong	+1/3	Growth potential is still elevated compared with that of economies of sovereign peers, despite gradually structurally moderating
	Monetary policy framework	Strong	+1/3	Effective monetary policy and exchange-rate policy, with a strong concentration on maintaining financial stability; innovations of monetary policies although inflation has recently been well under target
	Macroeconomic stability and sustainability	Strong	+1/3	Largest economy globally by purchasing power, highly-diversified and competitive economy, labour-market rigidities

Figure 3: Nominal GDP and GDP per capita (2024F)



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

Figure 4: Real GDP growth, %



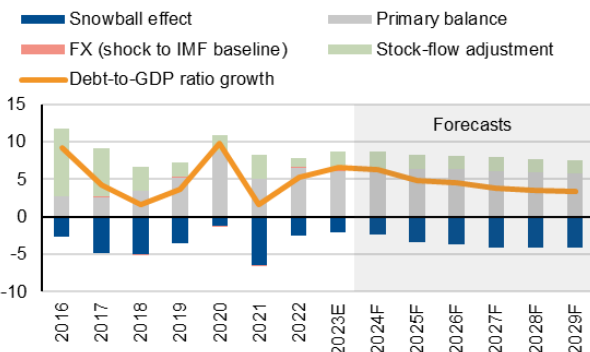
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of China's Public Finance Risk

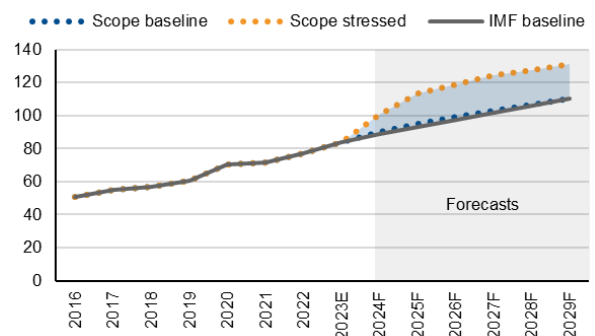
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Fiscal policy framework	Weak	-1/3	Budgetary dynamics are hindered by structural social spending alongside infrastructure-spending requirements to achieve annual growth objectives; limited enforceable fiscal regulations restricting spending
	Long-term debt trajectory	Neutral	0	General government debt levels elevated by emerging-market standards; rise expected in public indebtedness over the forecast horizon; more benign longer-run ageing-related spending pressures
	Debt profile and market access	Strong	+1/3	General government debt is uniquely predominantly at local level rather than sovereign debt; moderate average maturity of treasuries; foreign-exchange risks; significant cash cushions; deep domestic capital markets; unique sovereign resources under stressed scenarios given controls over economy

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



Source: IMF WEO, Scope Ratings forecasts
*Sovereign Quantitative Model.

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



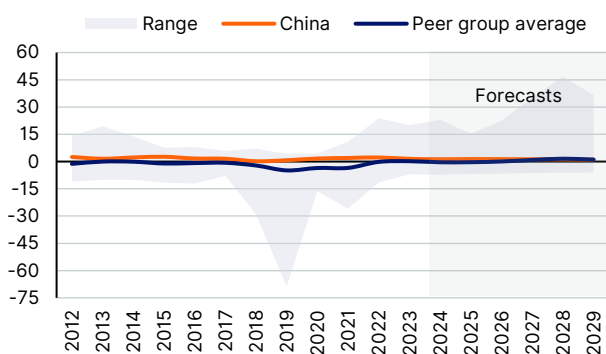
Source: IMF WEO, Scope Ratings forecasts

External economic risk

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

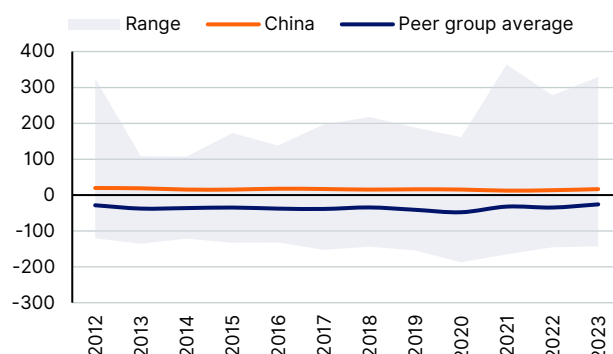
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Current account resilience	Neutral	0	Moderate current-account surpluses; significant inward foreign direct investment
	External debt structure	Strong	+1/3	Very-limited foreign debt at 14% of GDP due to past closed financial system
	Resilience to short-term external shocks	Strong	+1/3	The largest stock of foreign-exchange reserves globally at > USD 3.2trn – strongly underpinning external-sector resilience

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

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



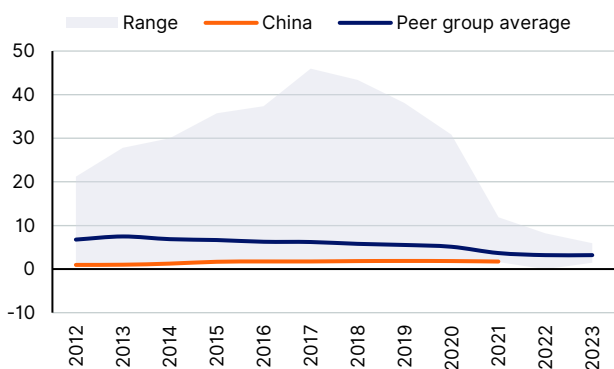
Source: IMF, Scope Ratings

Financial stability risk

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

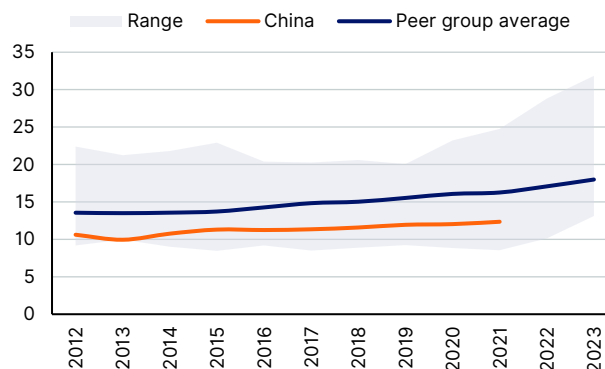
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Banking sector performance	Neutral	0	Moderately capitalised banking system; lows levels of reported NPLs
	Financial sector oversight and governance	Strong	+1/3	Effective supervision; unparalleled capacity for fast and comprehensive regulatory measures addressing financial-stability concerns
	Financial imbalances	Weak	-1/3	Elevated and rising economy-wide debt; property sector crisis; corporate defaults; still elevated but declining foreign-currency exposures of the banking system

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



Source: World Bank (WB), Scope Ratings

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



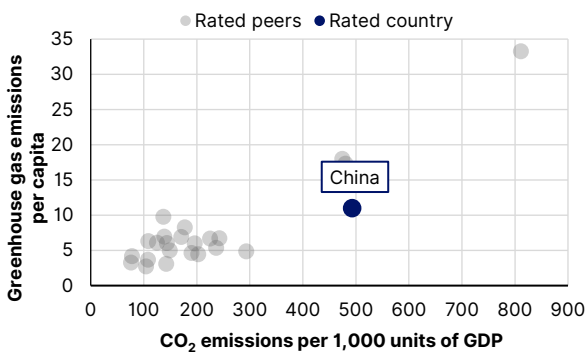
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope’s assessments of China’s ESG Risk

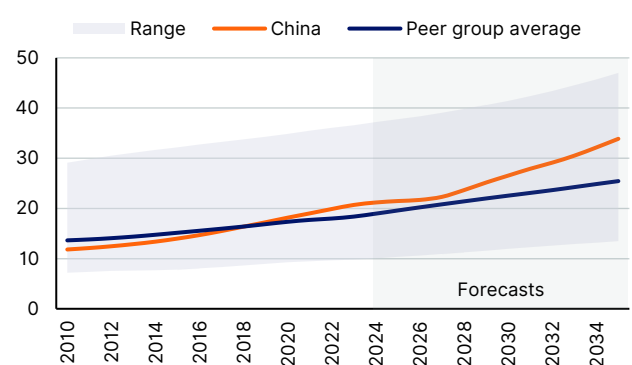
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Environmental factors	Neutral	0	Elevated carbon and energy intensity of the economy; highest emissions globally but leads the globe on wind and solar
	Social factors	Neutral	0	Elevated income inequality, slow demographic decline, but elite education results, comparatively long healthy life expectancy
	Governance factors	Neutral	0	China’s central government exerts a significant degree of control over the economy, supporting fast reform, but one-man rule may result in lower quality of governance and risk of greater policy mistakes if left unchecked long run

Figure 11: CO₂ emissions per GDP, mtCO₂e (2022)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

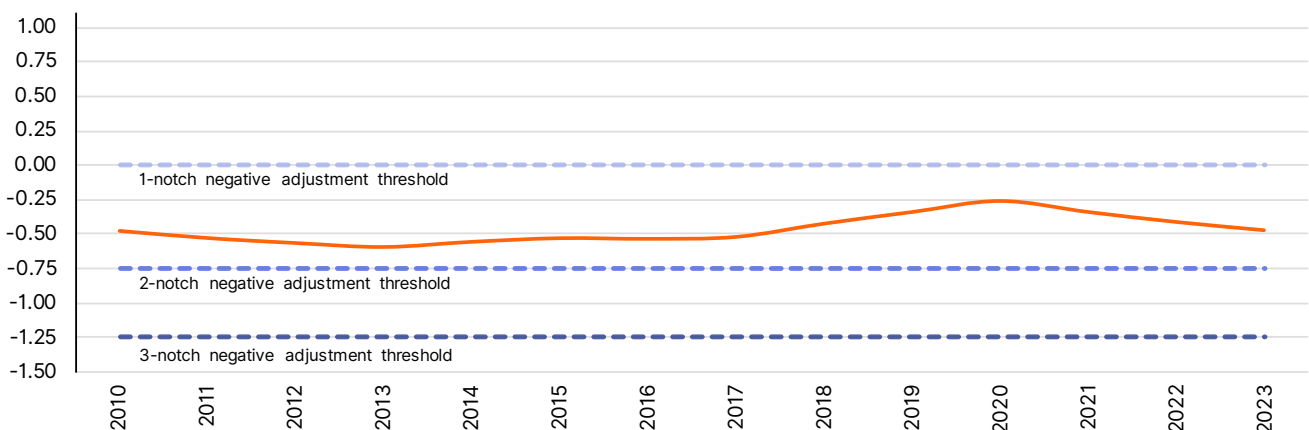
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



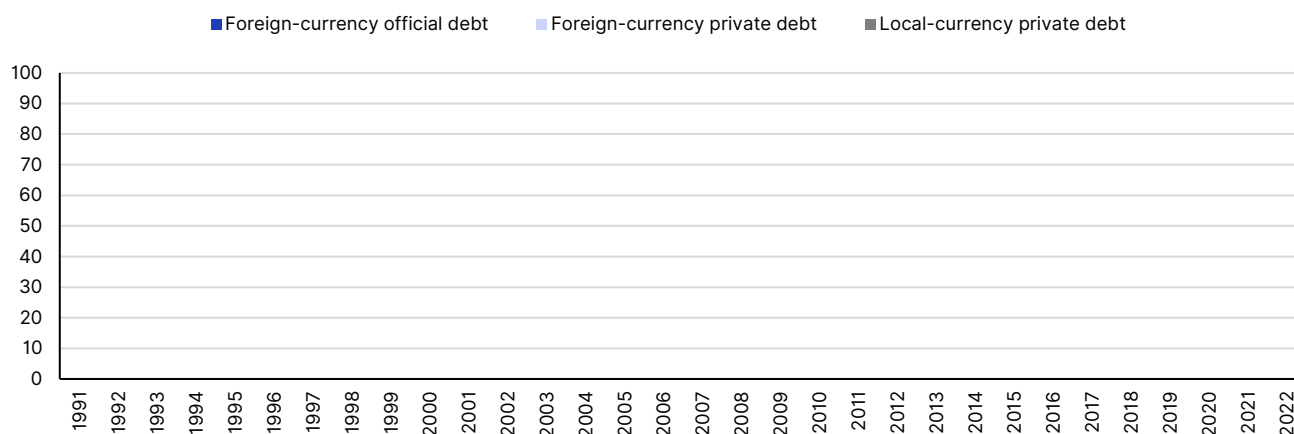
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD bn



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*
Georgia
Greece
Hungary
Romania
Serbia
Türkiye

*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 (bps) as of 25 July 2024

66.8

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), Int\$ '000s	IMF	15.4	16.5	17.1	19.4	21.4	23.3
	Nominal GDP, USD bn	IMF	13,842	14,341	14,863	17,759	17,849	17,662
	Real growth, %	IMF	6.8	6.0	2.2	8.5	3.0	5.2
	CPI inflation, %	IMF	2.1	2.9	2.5	0.9	2.0	0.2
	Unemployment rate, %	WB	4.3	4.6	5.0	4.6	5.0	4.7
Public Finance	Public debt, % of GDP	IMF	56.7	60.4	70.1	71.8	77.1	83.6
	Net interest payment, % of government revenue	IMF	2.8	3.0	3.7	3.4	3.6	3.5
	Primary balance, % of GDP	IMF	-3.5	-5.3	-8.8	-5.1	-6.6	-6.1
External Economic	Current-account balance, % of GDP	IMF	0.2	0.7	1.7	2.0	2.3	1.5
	Total reserves, months of imports	WB	13.1	13.8	14.7	11.6	11.1	11.8
	NIIP, % of GDP	IMF	15.2	16.0	15.4	12.3	13.6	-
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	12.2
	Credit to the private sector, % of GDP	WB	157.8	165.4	182.9	177.3	186.2	194.7
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	544.2	525.5	523.5	510.0	493.2	-
	Income share of bottom 50%, %	WID	13.9	14.0	13.8	13.7	13.7	-
	Labour-force participation rate, %	WB	75.5	75.4	74.3	75.8	75.9	-
	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.

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