CareEdge Global assigns Long Term Foreign Currency Rating of A (Unsolicited) to People's Republic of China

Credit Profile

China's credit profile benefits from its robust external position, large economic size and high domestic savings. However, these strengths are partly offset by slowing growth prospects and significant off-budget borrowings by local governments, which pose contingent liability risks to the sovereign. Additionally, high private debt levels and an ageing population also weigh on China's credit profile.

Notably, the risk of crystallization of contingent liabilities has increased considerably in recent times, as the ongoing property sector slowdown has impacted revenues of local governments.

While rising geopolitical tensions and de-globalisation do not pose a significant near-to medium-term threat to China's position as a global manufacturing hub, they remain a key monitorable.

Strengths

- Large and competitive economy
- Strong external position
- High domestic savings

Weaknesses

- Slowing growth prospects
- High off-budget borrowings by local governments
- High private debt
- Ageing population

Key Monitorables

- Government measures to support economic growth
- Increasing risk of crystallization of contingent liabilities of the sovereign amidst property sector slowdown
- Geopolitical tensions and supply chain re-adjustments away from China

Key Rating Drivers

Economic Structure & Resilience

China is the world's second largest economy (~USD 18 trillion as of 2023) and a global manufacturing hub with a diverse export product mix.

However, the country's economic growth has slowed in recent years, with average GDP growth declining to 5% between 2019-2023 from 7% between 2014-2018, primarily due to China's stringent zero-Covid policy and a property sector slowdown.

Looking ahead, growth is projected to slow further, averaging ~4% between 2024-2028. The property sector slowdown poses a key near-term challenge to growth, as it accounts for about 20% of China's gross value added, including upstream industries. Additionally, structural issues, such as excess capacity in certain sectors from overinvestment (with gross fixed capital formation at ~41% of GDP in 2023) and an ageing population, also pose headwinds.

While rising geopolitical tensions are concerning, China's deep integration into global supply chains and advancement up the value chain should help it maintain its position as a global manufacturing hub in the near to medium term.

Fiscal Strength

China's official general government debt is estimated at ~56% of GDP (2023). However, there are significant off-budget borrowings over and above this, which pose contingent liability risks to the sovereign. According to the IMF, China's off-budget borrowings amount to ~61% of GDP (2023), including borrowings by local government financing vehicles (LGFVs) at ~48% of GDP. Moreover, debt levels are projected to rise amidst an economic slowdown and an ageing population.

The ongoing property sector slowdown has impacted the finances of local governments as they critically rely on land sales and land-related taxes for revenue and has increased the risk of crystallization of contingent liabilities. However, the extent of crystallization may be limited as not all local governments have been equally impacted by the slowdown and some are under less stress than others.

Our assessment also factors in China's high domestic savings (~47% of GDP) which reduce reliance on external borrowings. External government debt accounts for only 2.9% of total government debt (2023). Additionally, the government's interest expenses are low.

External Position & Linkages

China has consistently maintained current account surpluses, averaging 1.7% of GDP between 2019 and 2023, thanks to its status as a global manufacturing hub. Moreover, these surpluses are expected to continue in the medium term despite rising geopolitical tensions, supported by China's critical role in global supply chains.

As a net external creditor, China has a positive net international investment position of around 17% of GDP (2023), which results from its low external debt (~14% of GDP in 2023) and substantial forex reserves of around USD 3.3 trillion (August 2024), which are the largest globally.

However, foreign direct investment (FDI) net inflows in China declined to historic low of 0.2% of GDP in 2023 from 1.1% in 2022 and 1.9% in 2021. While geopolitical tensions and China's economic slowdown may have partly contributed to this decline, other factors likely played a role as well, such as a global slowdown in FDI.

Monetary & Financial Stability

China's exchange rate regime resembles a crawl-like arrangement, and its currency is actively traded.

Inflationary pressures remain subdued at present amidst weak domestic demand. Consumer price inflation stood at 0.6% in August 2024, whereas producer prices contracted by 1.8%, marking the twenty-third consecutive month of producer price deflation. The People's Bank of China (PBoC) has eased the monetary policy in response to support the economy.

Financial stability risks persist due to elevated private debt levels (~195% of GDP in 2022). Additionally, the ongoing property sector slowdown and the financial difficulties of certain local governments have increased financial stability concerns. While forbearance measures have kept overall non-performing loan (NPL) ratios of banks low (~1.6% of gross loans in Q2 2024), underlying asset quality issues have increased. Smaller banks with higher NPLs and lower capital buffers are particularly more vulnerable to the rising credit risks. Shadow banks with real estate exposure have also experienced stress. Still, even though overall financial risks have increased, it is expected that the government/PBoC will intervene as needed to contain any potential financial contagions.

Institutions & Quality of Governance

China's political system has been dominated by the Communist Party since the founding of the People's Republic, establishing a one-party system.

According to the Worldwide Governance Indicators, China performs well in government effectiveness, reflecting its ability to implement policies effectively. However, it underperforms in areas such as voice and accountability and regulatory quality. A lack of data transparency hampers accurate assessment of the country's economic health, and recent government actions targeting sectors like technology have increased regulatory uncertainty.

Additionally, China is involved in geopolitical tensions, including a trade war with the US, and disputes over Taiwan and territories in South China Sea.

China – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	13842	14341	14863	17759	17849	17662	18533	19790
GDP Per Capita (Constant-PPP)	USD	15050	15893	16226	17591	18128	19082	19977	20807
Real GDP Growth	%	6.8	6.0	2.2	8.4	3.0	5.2	5.0	4.5
GFCF/GDP	%	43.0	42.6	42.0	42.1	42.0	41.4	-	-
Gross Domestic Savings/GDP	%	44.9	44.0	44.7	46.1	46.6	-	-	-
Exports (G&S)/GDP	%	19.1	18.4	18.6	19.9	20.8	19.7	-	-
Working-Age (15-64) Population (% Share in Total)	%	70.1	69.7	69.4	69.2	69.0	68.9	69.1	69.3
Old-Age (65+) Population (% Share in Total)	%	11.5	12.0	12.6	13.1	13.7	14.3	14.6	14.9
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-4.3	-6.1	-9.7	-6.0	-7.5	-7.1	-7.4	-7.6
Revenue/GDP	%	29.0	28.1	25.7	26.6	26.0	26.8	26.2	26.3
Expenditure/GDP	%	33.3	34.2	35.4	32.7	33.5	33.9	33.6	34.0
GG Gross Debt/GDP – (Official)	%	36.5	38.5	45.4	46.9	50.7	56.3	60.5	63.7
GG Gross Debt/GDP - (Official + Off-Budget Borrowings as per IMF)	%	80.8	86.3	98.8	100.8	107.9	116.9	124.0	128.9
GG External Debt (by Creditor)/GG Gross Debt	%	3.0	3.1	3.6	3.9	3.2	2.9	-	-
Interest/Revenue	%	2.8	3.0	3.7	3.4	3.6	3.5	-	-
External Indicators									
Current Account Balance/GDP	%	0.2	0.7	1.7	2.0	2.5	1.4	1.5	1.5
FDI, Net Inflows/GDP	%	1.7	1.3	1.7	1.9	1.1	0.2	-	-
Outstanding FII Liabilities/GDP	%	8.4	10.1	13.2	12.1	10.1	9.6	-	-
NIIP/GDP	%	15.2	16.0	15.4	12.3	13.6	16.5	-	-
Foreign Exchange Reserves	USD Billion	3168	3223	3357	3427	3307	3450	-	-
Import Cover	Months	14.8	15.5	16.9	13.3	12.6	13.2	-	-
External Debt/GDP	%	14.3	14.4	16.2	15.5	13.7	13.9	-	-
Monetary and Financial Indicators									
CPI Inflation	%	2.1	2.9	2.5	0.9	2.0	0.2	0.7	1.9
Exchange Rate (Average)	LC per USD	6.6	6.9	6.9	6.4	6.7	7.1	-	-
Non-Performing Loans/Total Gross Loans	%	1.8	1.9	1.8	1.7	1.6	1.6	-	-
Private debt, loans and debt securities/GDP	%	185.5	186.4	198.7	193.0	195.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	A	October 3, 2024

Analytical Contacts

Mihika Sharma
mihika.sharma@careedge.in

Kiran Kavala
kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra
mradul.mishra@careedge.in

Criteria Applied

CareEdge Sovereign Rating Methodology

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer
This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
CIN-U66190GJ2024PLC151103