CareEdge Global assigns 'Stable' outlook to the rating of People's Republic of China

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge A' (Unsolicited)

Issuer rating	CareEdge A/Stable (Unsolicited)

Rating Action
CareEdge Global has assigned a 'Stable' outlook to the rating of People's Republic of China (China), while reaffirming the Long-Term Foreign Currency rating of **'CareEdge A (Unsolicited)'.**

Rationale
The stable outlook reflects our view that China's significant buffers are expected to help it balance the challenges from a structural slowdown, elevated debt levels and trade-related uncertainties in the near term.

China faces a structural slowdown, with GDP growth expected to be between 4-5% over the next five years, lower than the average growth of the previous decade. The property sector remains a major drag in addition to weak consumption, excess capacity, and an ageing population. Further, despite China's deep integration into global supply chains and strong competitive advantages, trade tensions remain a key source of uncertainty.

Augmented government debt, which includes off-budget local government borrowing, is elevated at about 126% of GDP and is projected to rise, although risks are mitigated by low interest costs and a predominantly domestic investor base. Moreover, elevated private debt, averaging 196% of GDP over the past five years, remains a potential risk to the stability of the banking and financial sector.

China's credit fundamentals are supported by its large economic size and robust external position, reflected in low external debt and substantial foreign exchange reserves, which together provide significant buffers.

Over the medium term we will continue to monitor the evolution of trade relations with key trading partners, the trajectory of augmented debt, and developments on the geopolitical front, including rising tensions across the Taiwan Strait.

Upside Scenario
We could revise our outlook to positive if economic growth proves higher than expected, supported by meaningful structural reforms, and if government finances improve through a consistent decline in debt levels.

Downside Scenario

We could revise the outlook to negative if economic growth underperforms and government debt rises more sharply than anticipated, due to prolonged stress in the property sector, slower consumption recovery, or an unexpected escalation in trade tensions.

Key Rating Drivers

Economic Structure & Resilience

China is the world's second-largest economy (~USD 18.7 trillion in 2024) and a global manufacturing hub with diversified markets and products. However, the country faces a structural slowdown, with GDP growth moderating to an average of 5.8% between 2015–24 from around 10% between 2005–14. The property sector remains a major drag on economic activity, while structural issues such as weak consumption, excess capacity, and an ageing population continue to weigh on growth prospects.

Recent data suggests that home prices have declined year-on-year for three consecutive years, while real estate fixed asset investment continues to contract. The surveyed urban unemployment rate edged up to 5.3% in August 2025, the highest since February, while youth unemployment rose to 18.9%. Retail sales grew 3.4% year-on-year in August but missed market expectations for the third consecutive month. Weak property activity combined with a soft labour market continues to weigh on domestic demand. The government is prioritizing consumption boosting measures, such as the consumer goods trade-in program; however, a sustained consumption-led growth will likely require stronger employment gains and a more robust social safety net.

US–China trade tensions have eased considerably from earlier triple-digit tariffs, with the trade truce extended to November 2025. The IMF's July 2025 World Economic Outlook (WEO) update revised China's 2025 and 2026 growth outlook upwards, citing stronger-than-expected activity in H1 2025 and lower US tariffs. GDP growth for 2025 was revised up by 0.8 percentage points to 4.8% and for 2026 by 0.2 percentage points to 4.2%. Nevertheless, growth is still expected to moderate from 5% recorded in 2024, and trade tensions remain a key source of uncertainty.

It will also be important to monitor the extent to which emerging growth drivers, such as electric vehicles, renewable energy, and advanced technology (e.g., AI), can partially offset the drag on economic activity.

Fiscal Strength

China's fiscal profile is a key credit challenge, characterized by high debt levels and a rising debt trajectory. According to the IMF, augmented government debt, which includes off-budget borrowings of local governments, stood at 126% of GDP in 2024, almost double the level of official general government debt. It has risen from 98.8% in 2020 and is projected to cross

140% in the coming few years, amidst slower economic growth and ongoing fiscal support.

A local government debt swap plan was introduced to ease the financial strain on local governments, which have been affected by the property sector slowdown, as they rely heavily on land sales and land-related taxes for revenue. The plan allows local governments to raise around RMB 10 trillion in debt until 2028 and swap it for the off-budget debt held by local government financing vehicles. While this may lower interest costs for local governments, it does not reduce the overall debt burden.

Separately, bond issuances have been announced for bank recapitalization to strengthen the financial sector. Ultra-long-term special government bonds have also been issued to fund priority projects, including infrastructure and consumer goods trade-in programs. Other recent fiscal measures announced include consumer-loan subsidies and childbirth payouts.

However, risks associated with China's elevated government debt are mitigated by a low interest-to-revenue ratio and low sovereign yields, which support debt affordability. In addition, most government debt is held domestically, which provides financing flexibility. External government debt remains low at 2.6% of total government debt as of 2024.

External Position & Linkages

China's external position remains a key credit strength. The country has maintained consistent current account surpluses, averaging 1.9% of GDP over the past five years. It benefits from low external debt (averaging 14.1% of GDP over the past five years), substantial foreign exchange reserves (exceeding USD 3 trillion), and a positive net international investment position (17.6% of GDP in 2024). However, net FDI inflows have weakened sharply in recent years, falling to USD 18.6 billion in 2024 (0.1% of GDP) from USD 344.1 billion in 2021 (1.9% of GDP).

China's exports to the US have contracted by 15% year-on-year in 2025 (CYTD up to August). Overall exports, however, have continued to grow by around 6%, supported by stronger shipments to non-US markets, like ASEAN.

During the first US–China trade war in 2018–19, the yuan experienced a sharp depreciation against the US dollar. This time, the yuan has appreciated by around 2.5% CYTD, supported by a weaker dollar, stronger daily fixings by the People's Bank of China (PBoC), and buoyant Chinese equity markets.

Key monitorables include developments on the US–China trade deal, transshipment-related tariffs, and duties on goods from other countries.

Monetary & Financial Stability

China's currency, the yuan, is actively traded. Deflationary pressures persist due to weak domestic demand and excess capacity. Consumer prices fell 0.4% in August 2025, while producer prices have been contracting for nearly three years. China has taken steps to curb corporate price wars, but inflationary pressures are expected to remain muted given ongoing domestic challenges. The PBoC has eased monetary policy to support the economy and remains committed to maintaining a moderately loose policy stance.

Financial stability risks remain elevated due to high private debt levels, averaging 196% of GDP over the past five years. The prolonged property sector slowdown and financial difficulties of local governments have further heightened these risks. While official non-performing loan ratios remain low at around 1.5% in Q2 2025, underlying asset quality pressures may be higher. Banks' net interest margins are near record lows at 1.4% as of end-June 2025. Smaller banks are particularly vulnerable to credit risks. However, the likelihood of a broader financial contagion appears contained.

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, as well as regulatory quality. A lack of data transparency hampers the accurate assessment of the country's economic health.

Geopolitical tensions remain a key risk. While US–China frictions have eased from their early-2025 peak, challenges persist, as seen in China's recent citation of security risks from American AI chips. The growing divide with the West has also become evident, underscored by limited Western participation in China's Victory Day parade. Territorial disputes in the South China Sea and rising tensions across the Taiwan Strait also remain important to monitor.

China– Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	14,572	15,103	18,191	18,308	18,270	18,748	19,232	20,376
GDP Per Capita (Constant-PPP)	USD	18,781	19,192	20,827	21,488	22,677	23,835	24,834	25,875
Real GDP Growth	%	6.1	2.3	8.6	3.1	5.4	5.0	4.8	4.2
GFCF/GDP	%	42.8	42.5	42.0	41.9	41.3	-	-	-
Gross Domestic Savings/GDP	%	43.5	44.2	45.3	45.6	43.2	-	-	-
Exports (G&S)/GDP	%	18.1	18.2	19.5	20.3	19.1	20.0	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.7	69.4	69.2	69.1	69.1	69.3	69.7	70.1
Old-Age (65+) Population (% Share in Total)	%	12.1	12.6	13.2	13.8	14.3	14.7	14.9	15.1
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-6.1	-9.7	-6.0	-7.5	-6.9	-7.9	-8.3	-8.2
Revenue/GDP	%	28.1	25.7	26.6	26.0	26.8	26.8	27.0	27.2
Expenditure/GDP	%	34.2	35.4	32.7	33.5	33.7	34.7	35.3	35.4
GG Gross Debt/GDP (official)	%	38.5	45.4	46.9	50.7	56.3	63.3	71.0	76.3
Augmented GG Debt/GDP (including off-budget borrowings)	%	86.3	98.8	100.8	108.3	117.1	126.4	134.0	138.8
GG External Debt (by Creditor)/GG Gross Debt	%	3.1	3.6	3.9	3.2	2.9	2.6	-	-
Interest/Revenue	%	3.0	3.7	3.4	3.6	3.6	-	-	-
External Indicators									
Current Account Balance/GDP	%	0.7	1.6	1.9	2.4	1.4	2.3	1.9	1.7
FDI, Net Inflows/GDP	%	1.3	1.7	1.9	1.0	0.3	0.1	-	-
Outstanding FII Liabilities/GDP	%	10.0	12.9	11.8	9.8	9.3	10.3	-	-
NIIP/GDP	%	15.8	15.1	12.0	13.2	15.6	17.6	-	-
Foreign Exchange Reserves	USD Billions	3,223	3,357	3,427	3,307	3,450	3,456	-	-
Import Cover	Months	15.5	16.9	13.3	12.6	13.3	12.7	-	-
External Debt/GDP	%	14.2	15.9	15.1	13.4	13.4	12.9	-	-
Monetary and Financial Indicators									
CPI Inflation	%	2.9	2.5	0.9	2.0	0.2	0.2	0.0	0.6
Exchange Rate (Average)	LC per USD	6.9	6.9	6.5	6.7	7.1	7.2	-	-
Non-Performing Loans/Total Gross Loans	%	1.9	1.8	1.7	1.6	1.6	1.5	-	-
Private debt, loans and debt securities/GDP	%	183.4	195.5	188.2	193.3	199.2	205.6	-	-

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 2024

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A/Stable	September 29, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A	October 03, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

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CIN-U66190GJ2024PLC151103