HONG KONG, 5 December 2019. Pengyuan International has assigned the global scale foreign-currency issuer credit rating (ICR) and local-currency ICR to five provincial level local governments (LG) in China, including the provinces of Fujian, Jiangxi and Hunan, the Guangxi Zhuang Autonomous Region as well as the Tianjin municipality. The outlooks for these ratings are stable. Relative ICRs are as following:

Local Government	Foreign-currency ICR	Local-currency ICR
Fujian	A+	AA-
Jiangxi	A+	AA-
Hunan	A	A+
Guangxi	A	A+
Tianjin	A	A+

China's administrative system mainly involves four-level of governments: central government, provincial-level governments, prefecture-level city governments, and county-level governments. Counties are then further divided into townships and villages. In China, provincial level LGs are highest level local governments that are under central government's direct supervision and their credit profiles are closely linked to China's sovereign rating (AA/AA+, stable), in our view. We examine Chinese LGs' creditworthiness on five aspects: economic strength, budgetary strength, debt burden, liquidity, governance and financial management. Each of these five major credit factors is assessed on relative basis by comparing a particular LG's credit strength to its relevant peer group, and then a weighted average score is derived to determine the LG's credit linkage with its higher-level government. Some additional adjustment may be applied to address a unique credit characteristic of a LG.

Given China's centralized governing system, we believe Chinese central government would generally keep the creditworthiness of the provincial level LGs within a closer distance to its own creditworthiness. Even though the central government has offloaded most of economic and social responsibilities down to the LGs over the last decades, it still deeply influences the LGs' economics and financials through a tax-sharing and reallocation system. In addition, the appointment and promotion of the local government officials are very much centralized in China through a vertically managed system controlled by the ruling party.

In our view, the provincial level LGs' credit ratings are no more than three notches below China's sovereign rating, with only a few provinces and centrally-supervised municipalities outperforming the peers and establishing their credit profiles to be one notch away from the sovereign rating. We believe most of the provincial level LGs' credit ratings will fall into two to three notches below the sovereign rating given their current credit strength.

CREDIT SUMMARY

Our ratings on Fujian provincial government reflect the province's high economic strength, moderate budgetary performance, heavy debt burden and slightly tight liquidity. Fujian is one of the most outward-looking provinces of China, with high GDP per capita and fast GDP growth, both of which have significantly outperformed the national average. However, the Fujian general government (GG) has shown a rapid increase in its debt due to economic stimulation through investments. Even though the GG's absolute broad debt is middling at the end of 2018, its debt burden is heavy if assessed relative to budgetary revenue.

Jiangxi provincial government's ratings reflect the province's improving economic strength, below-average budgetary performance, moderate debt burden and relatively tight liquidity. The province has a weak economic base but its economy has boomed in the past decade, and it is absorbing the economic spillover and industrial transfer from its wealthy neighbors such as Guangdong and Zhejiang nowadays. We expect the Jiangxi GG will suffer a significant deficit in the coming years, which will challenge its liquidity. Jiangxi GG's leverage is modest and its debt growth is manageable in our opinion.

Our ratings on Hunan provincial government reflect the province's moderate economic strength, as well as its weak budgetary performance, onerous debt burden and very tight liquidity. Although the province has good economic fundamentals and its economic growth remains strong, the budgetary strength of the Hunan GG is below the average with deteriorating deficit and weak revenue base. Moreover, we believe its debt burden is much heavy and liquidity condition will be at the bottom end among its peers. A few risk events among LGFVs and SOEs in the province have also raised our concerns over the Hunan GG's management of debt and liquidity.

Guangxi Zhuang Autonomous Region government's ratings reflect the region's weak economy, average budgetary performance and debt burden, as well as its highly stressed liquidity. Guangxi has a weak industrial base and the traditional industries have fueled its economy, which have caused a clear downtrend of the region's economic growth in recent years. Supporting by the central government, the Guangxi GG has attained decent revenue growth which enhances its ability to sustain debt burden. However, the government's fiscal deposit is rather low, so we estimate its liquidity will be under substantial pressure in the next two years.

Our ratings on Tianjin municipal government reflect the municipality's languishing economy, deteriorating budgetary strength, significant debt burden and extremely tight liquidity. The municipality is one of the most developed cites in China and possesses a strong industrial base. However, Tianjin's economy has relied on heavy industries which have run out of steam in recent years. The dubious quality of the municipality's economic statistics is also of concern. The budgetary revenue of Tianjin GG has declined in the past two years, which largely dented the government's ability to carry its tremendous debt load. A few LGFVs and SOEs in Tianjin have run into some credit events in recent years, which has cast a shadow on the GG’s creditworthiness and shown its very tight liquidity.

ANALYSTS CONTACT

Primary Analyst

Tony Tang

+852 3615 8278
tony.tang@pyrating.com

Secondary Analyst

Jameson Zuo

+852 3615 8341
jameson.zuo@pyrating.com

Secondary Analyst

Lisa Hu

+ 86 755 8321 0225
li.hu@pyrating.com

Committee Chair

Yun Tang

+852 3615 8297
yun.tang@pyrating.com

MEDIA CONTACT
media@pyrating.com

OTHER ENQUIRIES
contact@pyrating.com

Date of Relevant Rating Committee: 25-Nov-2019

Additional information is available on www.pyrating.com

Related Criteria
Chinese Local Government Rating Criteria (29 June 2018)

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