鵬元國際 PENGYUAN

Chinese Local Government Rating Criteria

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Summary

*(**Editor's Note**: We originally published this criteria article on June 29, 2018. We have republished it on June 29, 2020, following the completion of our periodic review. As a result of our review, we amended some wordings and added some more explanations to provide readers with better clarity. We also modified the weights of some rating factors and included new adjustment factors to reflect our updated view on Chinese local government creditworthiness.)*

These rating criteria describe Pengyuan's analytical approach in assigning issuer credit ratings (ICRs) and issuance credit ratings to local governments (LGs) in China. Pengyuan intends to use these criteria to provide markets and their participants with understanding of our analysis of the credit risks of Chinese LGs and our ratings that reflect such risks. We realize these criteria cannot exhaust all factors that affect the creditworthiness of Chinese LGs in all circumstances. However, it should enable readers to gain understanding of our approach to assessing LG credit risks.

These criteria will be effective immediately on the date of final publication. We intend to complete the review of all affected ratings, if any, within six months thereafter, and we expect no impact on our current rating portfolio.

Top-down Approach to Rating Chinese Local Governments

We assign ratings to a Chinese LG by applying downward notching adjustments to our rating of the immediate higher-level government (HLG) overseeing the LG. The extent of the adjustment is based on our assessment of the LG's strength relative to its local peers (LGs reporting directly to the same HLG) regarding key rating factors, as well as our assessment of additional factors relevant to the LG (chart 1). Such a top-down approach to rating Chinese LGs reflects our observations and/or opinions below:

An HLG in China would generally keep the creditworthiness of LGs in its jurisdiction within a closer distance to its own creditworthiness, as the latter perform important economic, political and social functions for the former.

The creditworthiness of an LG is generally lower than that of its HLG, since an LG has typically much less power than its HLG in shaping intra-governmental relations, control fewer state-owned assets and companies, and are less able to mobilize external financial resources.

An HLG may tolerate differentiation in the creditworthiness of LGs and even welcome market differentiation of its LGs' creditworthiness to help maintain credit discipline among its LGs.

The divergence in creditworthiness among prefecture-level city governments are more significant than among provincial-level governments, and such divergence could further widen among lower level county governments and below.

On-lending from an HLG would be the key source of debt for most sub-provincial LGs in the foreseeable future under the amended Budget Law of China that took effect in 2015, which allows LGs to borrow only through issuing bonds and allows provincial-level governments and five selected cities to issue bonds currently.

The top-down approach to assigning ratings to Chinese LGs and our approach in assessing and scoring key rating factors (including but not limited to the weights of key rating factors and the choice of anchor indicators) reflect our belief that such approaches provide practical and meaningful ways to capture the creditworthiness of LGs in China, a country with no default of LGs so far and limited available statistics about local public finances.

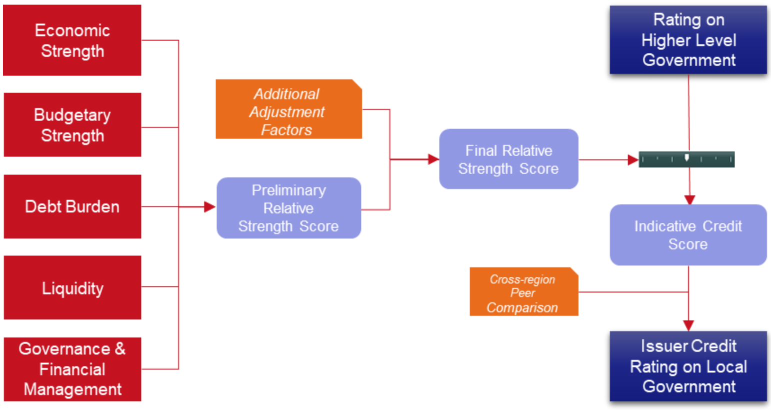
Definition of Local Governments

In general, China, based on its constitution, separates its territory into different provinces, autonomous regions, and centrally-directed municipalities, which have the same administrative rank in China's government system, so we consider them all as provincial-level administrative territories. Each of these provincial-level territories is further divided into different cities and autonomous states, which by and large also have the same administrative rank, so we consider them prefecture-level cities and autonomous territories. Furthermore, these prefecture-level cities and autonomous states are divided into different districts, counties and autonomous counties, which are further divided into townships and villages.

China's central government is called the People's Central Government of the People's Republic of China (PRC). The country has government bodies in accordance with each level of administrative territories and regions, such as provincial governments, autonomous regional governments, city governments and county governments. We consider all non-central governments in China as Local Governments, and apply the criteria in this report when assessing these LGs' creditworthiness.

Other than provinces, cities and counties, China has national economic new zones, special economic zones and districts, and high-tech industrial zones etc. Most of these zones and districts don't have full-fledged governments. Instead they are often run by administrative committees and come under the supervision of a provincial or city government. We usually consider these zone and district administrative committees as the extension or subordinate part of the relevant local governments, and assess them in conjunction with the supervising governments.

Chart 1: Framework of Chinese Local Government Rating



Issuer Credit Rating of Chinese Local Governments

When we assign an ICR to a Chinese LG, we start with determining the rating of its HLG based on the Chinese Local Government Rating Criteria or in the case of a provincial government, the Sovereign Rating Criteria. The rating of the HLG of a provincial government is equal to the sovereign rating of China.

Then, we assess each key rating factor of the LG and assign to each of them a score in the range of "1" (weakest) to "3" (strongest), based on the LG's strength relative to peer LGs. The five key rating factors are: economic strength, budgetary strength, debt burden, liquidity and governance and management.

Thereafter, we determine a *preliminary relative strength score* (PRS), based on the weighted average of the scores on all key rating factors. Typical weights are 30% for economic strength, 20% for budgetary strength, 20% for debt burden, 20% for liquidity and 10% for governance and financial management. The rating committee has the discretion to apply different sets of weights, if the typical set of weights are deemed to understate or overstate the creditworthiness of the LG.

We would typically round up the weighted average score to the closest integer to arrive at the PRS. However, when the weighted average score is close to the middle of two integers, we would pick the one that better captures the creditworthiness of the LG as the PRS. The rating committee may cap the PRS at "1", if the LG demonstrates extreme weakness in the liquidity assessment and such weakness is not temporary and cannot be offset by other strong rating factors.

Then we make adjustments to the PRS, based on our assessment of two *additional adjustment factors* below to arrive at the *final relative strength score* (FRS), which will be given a score between '0' and '4':

- The importance of the LG to its HLG that is not correlated to and thus captured by the relative economic and fiscal strength of the LG: we could raise the PRS by one or two points if the solvency of the LG is substantially more important or very much more important to the HLG than peers.
- Track record of default and other signs of less willingness to pay compared to peers would lead to a one or two-point downward adjustment of the PRS.

Thereafter, we arrive at an indicative credit score (ICS) based on the formula below:

ICS on LG = **ICR on HLG** minus **(4 – FRS) notches**

The ICR of the LG would be equal to the ICS, unless we believe the ICR should be one or two notches lower or higher than the ICS, based on *cross-regional peer comparison* (comparing the credit profile of the LG with those of similarly-rated LGs in China outside the jurisdiction of the HLG overseeing the LG).

The foreign-currency ICR on the LG would be derived from notching down the foreign-currency ICR of the HLG. The local-currency ICR on the LG would be derived from notching down the local-currency ICR of the HLG.

Key Rating Factors

We explain in this section how we assess and score key rating factors.

For most key rating factors, we assign a preliminary score based on the weighted average of sub-scores, which are in turn based on key indicators. Then we notch up (or down), if applicable, the preliminary score based on additional considerations to obtain the final score.

The weights of sub-scores in the preliminary score listed in the relevant tables are typical weights we use. The rating committee has the discretion to apply different sets of weights, if the typical set of weights are deemed to understate or overstate the creditworthiness of the LG.

When the value of such an indicator falls on or lies very near a threshold between two different notching outcomes or two different scores, we will choose the one which in our judgement better captures the credit risk.

The notching of the preliminary score on each key rating factor is accumulative. However, the final score would be restricted to the range of "1" to "3". The notching adjustment may be conducted on the increment of half-point scale depending on the severity of our assessment on the rating factor.

Economic Strength

We believe economic strength is the most useful barometer and an important factor of the relative credit strength of a Chinese LG compared to its peers. A strong economy provides an LG with greater revenue base, more influence in shaping inter-governmental arrangements with its HLG, stronger ability to mobilize financial resources and less contingent liabilities from loss-making government-related entities (GREs), which are typically state-owned enterprises (SOEs) which in the broad sense include local government financing vehicles (LGFVs).

We assign a preliminary economic score (PES) based on two sub-factors: the stage of economic development and the economic growth of the LG (table 1). We determine the stage of economic development of an LG mainly based on its GDP per capita.

Table 1: Assigning Preliminary Economic Score

Sub-factor	Indicator	Weight in PES	Score		
			1	2	3
Stage of Economic Development	GDP per capita[1] ($)	60%	Below average	Average	Above average
Growth Performance	Real growth rate of gross local product[2] ("local GDP")	40%	Below average	Average	Above average

Note: 1. Local GDP divided by total number of residents, year$_{t-1}$, with year$_t$ being the current year. 2. Five-year average (year$_{t-3}$ to year$_{t+1}$).

Additional Considerations

- **Investment-driven growth**: We would lower the PES by up to two points if the dependence of the LG's economy on investment is high (capital formation accounts for 2/3 of local GDP or above) especially when a substantial portion of the investment involves the local public sector (LG and local SOEs). Investment on such a scale is likely to be unsustainable and may include sizable low-productivity or loss-making projects, which dampens the prospect of sustainable growth of the economy and fiscal health of the LG.
- **Economic concentration**: We would lower the PES by up to two points if the local economy has high dependence on a single volatile industry or sector, unless the industry or sector appears to be close to the bottom of the medium to long term economic cycle and the downside risk is limited.
- **Business environment**: We would lower (or raise) the PES by up to one point if we believe the local business environment is far worse (or better) than the peer average. This adjustment would apply to outliers only, thus would be limited to no more than very few LGs under an HLG.
- **Demographic profile**: We would lower (or raise) the PES by up to one point if the local demographic profile is much worse (or better) than the peer average. Large and prolonged net outflows of population, substantial drainage of talent and a high share of the dependent population dampen the growth prospects of the local economy and increase fiscal pressure in stress scenarios. In contrast, a young population and substantial inflow of talent could boost local economic growth. This adjustment would apply to outliers only, thus would be limited to no more than very few LGs under an HLG.
- **Quality of economic statistics**: We would lower the PES by up to two points if there is evidence that the quality of economic statistics of the LG is much worse than its peers. This adjustment would apply to outliers only, thus would be limited to no more than very few LGs under an HLG.

Budgetary Strength

We assign the preliminary budgetary score (PBS) based on three components of budgetary performance (table 2), while treating budgetary flexibility as an additional factor, since simple indicators don't carry much information about the budgetary flexibility of LGs in China.

Budgetary strength—consisting of budgetary performance and budgetary flexibility—is a key aspect of LG creditworthiness. Budgetary performance (typically measured by budgetary balance) affects the LG's debt and fiscal reserves, while budgetary flexibility (the ability to raise additional revenue or cut expenditure) helps an LG to manage stress scenarios.

However, we attach relatively lower weight to budgetary strength than economic strength in the PRS and focus our assessment more budgetary balance (surplus or deficit) in scoring budgetary performance, given in China's conditions. We understand that the headline budgetary data and information may not provide a clear and full picture of the budgetary conditions and strength of many Chinese LGs, due to limited disclosure of revenue and spending details, evolving public accounting standards and practices, and in some cases the poor quality of budgetary data. Besides, we believe that budgetary strength of Chinese LGs is largely correlated with their economic strength and would have thereby been partly captured by our economic score of the LGs.

Our assessment of budgetary strength focuses on the aggregate *general budget* and *government fund budget* of all subnational governments within the LG's jurisdiction (including lower-level LGs not reporting directly to the LG), partly because an LG usually possesses some degree of authority to manage and affect its subordinate LG's finance by changing the amount of transfer and refund or adjusting the tax-sharing mechanism, and more importantly because an LG is directly responsible for the payment of debt on-lent to its subordinate subnational governments.

In contrast, we take into account the potential funding gap of the *social security fund budget* (SSFB) of LGs in our assessment of debt and contingent liabilities, mainly because the limited availability of data—especially about transfers from other budgets to the SSFB—may make an aggregate balance of SSFB and other budgets misleading on the budget performance.

While LGs have a separate *operating budget of state-owned assets* (OBSOA), the revenue and expenditure of the budget are typically very small compared to those of the general budget and government fund budget, and are normally balanced. Thus, OBSOA has typically no material impact on the creditworthiness of a Chinese LG relative to its peers.

Table 2 Assigning Preliminary Budgetary Score

Sub-factor	Indicator	Weight in PBS	Score		
			1	2	3
Budgetary Balance	Average budgetary balance[1]	50%	Below average	Average	Above average
Revenue Strength	Revenue per capita[2]	25%	Below average	Average	Above average
Revenue Growth	Average revenue growth[1]	25%	Below average	Average	Above average

Note: 1. The sum of general budgetary balance and government fund budget balance, exclusive of carry-forward revenues and expenditures; five-year average (year$_{t-3}$ to year$_{t+1}$). 2. The sum of general budgetary revenue and government fund revenue divided by total number of residents; data of year$_{t-1}$.

In regions where a lack of data makes it impractical to calculate a meaningful budgetary balance for peer comparison, we would replace an assessment of budgetary balance with an assessment of the difference between the growth rate of budgetary revenue and the growth rate of budgetary expenditure.

Additional Considerations

- **Budgetary flexibility**: We would lower (or raise) the PBS by up to one point if we believe the budgetary flexibility of an LG is much weaker (or stronger) than the peer average. This adjustment would apply to outliers only, thus would be limited to no more than very few LGs under an HLG.

  Our assessment of budgetary flexibility consists of an assessment of revenue flexibility and an assessment of expenditure flexibility. In China's tax-sharing system, LGs have generally little flexibility in modifying tax revenue. Some LGs could have significant ability to modify non-tax revenues, including by raising state land prices. However, such ability may be limited in stress scenarios except for very few LGs. On the expenditure side, while non-discretionary spending accounts for most of the expenditure of some LGs, some LGs appear able to cut capital spending when needed.

- **Potential change in inter-governmental arrangements**: We believe the Chinese government generally takes a granular approach to reforming inter-governmental arrangements, thus the prospective change in such arrangements would typically have limited impact on the relative budgetary strength of LGs under an HLG. If in rare cases the potential change in inter-governmental arrangements may have great impact on the relative budgetary strength of LGs under an HLG, we could lower the PBS of the LG or LGs hurt greatly by the change by up to one point and raise the PBS of the LG or LGs benefiting greatly from the change by up to one point .

- **Revenue Volatility**: We would lower the PBS by up to one point if we reckon the LG's revenue is expected to be much more volatile than its peers. Our assessment on an LG's budgetary strength mainly focuses on the average performance over a period of most recent past and immediate future, which could understate the fiscal stress and credit risk that an LG faces in a certain year. We believe a study of LG's revenue volatility is essential to capture such significant downside risk and ensure all LGs are compared fairly.

- **Quality of budgetary data**: We would lower the PBS by up to two points if there is evidence that the quality of budgetary statistics of the LG is much worse or seriously worse than its peers.

Debt Burden

Debt burden is a key factor to differentiate the creditworthiness among LGs in China, as the motivation of the central government to promote differentiation among LGs' creditworthiness is to contain the rapid debt growth of some LGs.

We assign the preliminary debt score (PDS) in this way:

- If the debt ratio of the LG breached the debt ceiling set by the HLG, the PDS is "1".
- Otherwise, the PDS will be the weighted average of sub-scores on debt level and debt growth (table 3).

Table 3 Assigning Preliminary Debt Score

Sub-factor	Indicator	Weight in PDS	Score		
			1	2	3
Debt Level	Debt-to-revenue ratio[1] Debt-to-GDP ratio	60%	Worse than average	Average	Better than average
Debt Growth	Average change in debt ratio[2]	40%	Worse than average	Average	Better than average

Note: 1. Revenue = general budgetary revenue + government fund revenue, year$_{t-1}$. 2. Five-year average of yearly change in the debt to GDP ratio in percentage points, year$_{t-3}$ to year$_{t+1}$.

The debt includes the debt of all subnational governments under the jurisdiction of the LG, plus all contingent liabilities of all these subnational governments that could be quantified with a fair degree of accuracy. Typical contingent liabilities include debt guaranteed by the LG, urban facilities mandated by the LG and debt incurred by important entities related to the LG (local GREs) which are very likely not self-supporting. Contingent liabilities may also include debt incurred by GREs from investing in not-for-profit infrastructure, urban facilities and the potential spending gap of the local social security system (especially pension funds).

We employ debt-to-revenue as the primary measure to assess the debt level of LGs as it directly reveals the LGs' financial ability to pay back their debt obligations, however we would also take into the consideration of debt-to-GDP ratio as a supplementary indicator to estimate the LG's debt level. Due to the economic cyclicality and land market volatility, Chinese LGs often see their revenue collections to fluctuate substantially from time to time, which in turn will distort the debt-to-revenue performance in a specific short time period. In some other cases, if an LG's debt-to-revenue ratio happened to be at the borderlines between our score tranches, causing dilemma to pin its debt level score down, the debt-to-GDP ratio could also be referred to.

Additional Considerations

- **Debt ratio volatility**: If an LG demonstrates much greater volatility on the debt ratios than its peers and there is significant downside risk to the economic growth and revenue collections, we would lower the PDS by up to one point. In such case, assessment based on the debt ratio of year$_{t-1}$ could understate the weakness of the LG's debt burden, and we believe such volatility also weakens the LG's ability to service and manage its debt.
- **Large hard-to-quantify contingent liabilities**: When the size of contingent liabilities cannot be pinned down to a number with a fair degree of accuracy but is very likely much higher than the peer average, we would lower the PDS by up to one point. For instance, if local SOEs are heavily indebted and have very weak financial profiles, they could pose substantially greater contingent liabilities to a LG and justify the one-point downward adjustment of the PDS.
- **Quality of debt statistics**: We would lower the PDS by up to two points if there is evidence that the quality of debt statistics of the LG is much worse or seriously worse than its peers.

Liquidity

We assign the preliminary liquidity score (PLS) based on the coverage of an LG's liquidity sources over its liquidity usages in the next year (liquidity coverage ratio, table 4). All other things being equal, the higher the liquidity coverage ratio of an LG, the lower the risk of default.

Typically, the basic liquidity sources of an LG include the bank deposit for the budget stabilization fund and carry-forward surplus under the general government budget and government fund budget, as well as the holding of stocks of listed SOEs which the LG is willing to sell to meet debt obligations. Other available liquidity sources could be the new external debt issuance if the LG is able to access domestic bond market at reasonable costs. Likewise, the LG's liquidity usages may include the short-term debt obligations and potential deficit funding needs. Eventually, we attain the liquidity coverage ratio so as to manifest a comprehensive liquidity status of the LG.

The liquidity analysis focuses on the aggregate liquidity sources and usages of all subnational governments under the LG's jurisdiction.

Table 4 Assigning Preliminary Liquidity Score

Indicator	Score		
	1	2	3
Liquidity coverage ratio[1]	Below average	Average	Above average

Note: 1. For rating action taking place in the first quarter of a year, liquidity coverage ratio of $year_t$; for rating action taking place in the last quarter of a year, liquidity coverage ratio of $year_{t+1}$; otherwise, average liquidity coverage ratio of $year_t$ and $year_{t+1}$. Liquidity coverage ratio ($year_t$)= Liquidity source ($year_t$) / liquidity usage ($year_t$). Debt obligation related to direct debt and contingent liabilities that are very likely to materialize and move to the balance sheet of the LG in $year_t$.

Additional Considerations

- **Special liquidity arrangement**: If an LG is more important or far more important to its HLG than its peers, given the LG's unique status or role in meeting national or regional economic, political or security objectives, the HLG may provide much stronger liquidity support to the LG than to other LGs. More importantly, if there is evidence that the HLG has special liquidity support arrangements with the LG, we would raise the PLS by up to two points.
- **Debt and liquidity management**: If the debt and/or liquidity management of an LG are very weak, the risk of failing to making timely debt payments could be significantly higher than suggested by the liquidity coverage ratio. Then, we would lower the PLS by up to one point.
- **Access to external financial resources other than that from HLG**: If the economy and SOE sector of an LG is much larger and stronger than those of its peers, the LG may be in a much stronger position to mobilize external financial resources to meet its debt obligations or support GREs experiencing liquidity shortages. In such cases, we would raise the PLS by up to one point. This adjustment would apply to outliers only, thus would be limited to no more than very few LGs under an HLG.
- **Quality of liquidity statistics**: We would lower the PLS by up to two points if there is evidence that the quality of statistics about the liquid assets of the LG is much worse or seriously worse than its peers.

Governance and Financial Management

Governance and financial management are key factors affecting the long-term economic and fiscal performance of an LG. However, given the generally weak disclosure of Chinese LGs in these areas, we attach relatively low weight to the governance and financial management score in the PRS. We believe that the level of governance and financial management of Chinese LGs is in general correlated with the local economic strength and thereby has been partly captured by our economic score.

The governance and financial management score (GFS) is based on our assessment of four sub-factors: budgetary management, GRE management, transparency and accountability (table 5). We have already covered debt and liquidity management and quality of data in previous sections of this report.

Table 5 Assigning Governance and Financial Management Score

Sub-factor	Weight in GFS	Score		
		1	2	3
Budgetary management	30%	Below average	Average	Above average
GRE management	30%	Below average	Average	Above average
Transparency	20%	Below average	Average	Above average
Accountability	20%	Below average	Average	Above average

Our assessment of budgetary management focuses on how well the budget implementation meets budget planning and budgetary discipline, and whether there is a meaningful medium-term budget, including realistic/prudential capital spending. We would find an LG's budgetary management underperformed should it appeared significant and continuous budget overrun problem which reflected the LG's poor ability to balance and control its revenue and expenditure. The improvement or setback of the LG's budgetary management and the HLG's evaluation on the LG are also references for our judgment.

Our assessment of GRE management focuses on how effective is the division of roles between the local government and GREs (typically SOEs) in managing the strategy and operation of GREs; whether the LG intervenes in the operations of SOEs in relation to the legal rights of creditors; whether the major local SOEs have reasonably well-defined business portfolios; and whether the LG appoints capable professionals to the SOEs' management teams.

Our assessment of transparency focuses on the coverage and timeliness of disclosure of economic, financial and fiscal statistics and information about the local economy and the LG.

Our assessment on accountability focuses on whether breaches of laws and regulations by officials over budgetary management, GRE management, debt and liquidity management, data and disclosure receive proper discipline.

Additional Adjustment Factors

- Importance of the LG to its HLG: We could raise the PRS by one or two points if the solvency of an LG is substantially more important, or very much more important, to its HLG than other LGs within the same HLG jurisdiction. For example, if an LG is the government of the capital of a region, we may apply such notch-ups to highlight the importance of the capital to its HLG on a case by case basis, but being the capital alone is not a sufficient reason to apply such uplifts. We would assess the social and economic importance of this capital in addition to its status as the political centre of the HLG. In any case, the FRS will be capped at "4".
- Track record of default and other signs of less willingness to repay debt compared to peers would lead to a reduction of the PRS by one or two points. Even though an LG may not have a record of default, we would still apply such downward adjustments if we believe or if there is market consensus that the LG's willingness to fulfill its financial obligations has substantially weakened. In any case, the FRS will be no less than zero.

Indicative Credit Score

After factoring the previously mentioned two additional adjustment factors into the preliminary relative strength score, we will derive the final relative strength score for a LG, which may take any integer value between '0' and '4'. We then combine the assessment of the FRS and the HLG's issuer credit rating (ICR) to arrive at the indicative credit score (ICS) for an LG. The higher the FRS score, the closer the creditworthiness of an LG is to its HLG. When the FRS is set at '4', we consider the LG's creditworthiness equal to its HLG; if the FRS score is '0', we consider the LG's creditworthiness to be four notches below its HLG's creditworthiness. The ICS is an assessment of an LG's relative creditworthiness compared to other LGs under the same HLG. We would conduct a cross-region peer comparison study to compare an LG's ICS with all other similar LGs outside the HLG's jurisdiction to finalize its ICR.

Cross-Regional Peer Comparison

Since China is a huge country with dozens of provincial-level governments, hundreds of prefecture-level city governments and thousands of county-level governments, the creditworthiness of these local governments may vary greatly. However, we believe the creditworthiness should vary less among provincial governments than among prefecture-level city governments, and the difference will be even greater among lower district and county level governments. Our top-down approach employs a large set of rating factors which are usually assessed within a performance range, and we compare an LG to other LGs under the same HLG. We take a holistic view when finalizing an LG's ICR, since bits of rating information may be lost at each step of the analysis. Such loss of information may be cumulatively material enough to impact an LG's final rating. We believe that a comparison of an LG to other similarly rated LGs under different HLGs across the nation is crucial to ensure consistency in our ratings.

Often, an LG may have extremely weak or strong values in one or more assessment subfactors during the previous ICS analysis. Our scoring mechanism usually gives a score of '1' to a rating factor assessed as below average and a score of '3' to a rating factor assessed as above average. If an LG has one or more rating factors with extremely weak or strong values compared to the peer average and we believe the score of '1' or '3' may overstate or understate the creditworthiness of this LG, particularly if such weakness or strength may become obvious when comparing with other LGs in different regions, we may score the LG's ICR one or two notches lower or higher than its ICS.

In some provinces of China, the economic and financial disparity is significant, because the province usually devotes most of its resources and policy support to the capital or a special economic region, which may cause the capital or economic region to account for a substantial share of the province's economic output and revenue sources. The economic development and contributions of other cities within this province usually fall far behind the capital or special economic region. When we compare these less developed LGs with other LGs in another part of the country, the creditworthiness of these less developed LGs is often overstated by its HLG's ICR. In these cases, we may assess the LG's ICR to be one or two notches lower than its ICS.

Typically, we may allow a provincial-level government's ICR to be up to one notch lower or higher than its ICS, and a prefecture-level city and a lower local government's ICR to be up to two notches lower or higher than its ICS.

Assigning Issuance Rating

We set the issuance credit rating of a senior unsecured LG foreign-currency debt equal to the LG foreign-currency ICR, unless the debt is fully guaranteed, in which case we assign issuance rating based on our applicable criteria.

We set the issuance credit rating of a senior unsecured LG local-currency debt equal to the LG local-currency ICR, unless the debt is fully guaranteed, in which case we assign issuance rating based on our applicable criteria.

Related Criteria and Research

- Rating Symbols and Definitions, 7 May 2018
- General Principles of Credit Ratings, 21 November 2017
- Sovereign Rating Criteria, 30 May 2018

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