

S&P Global (China) Ratings--Local Government Methodology

English Summary:

SCOPE AND OVERVIEW

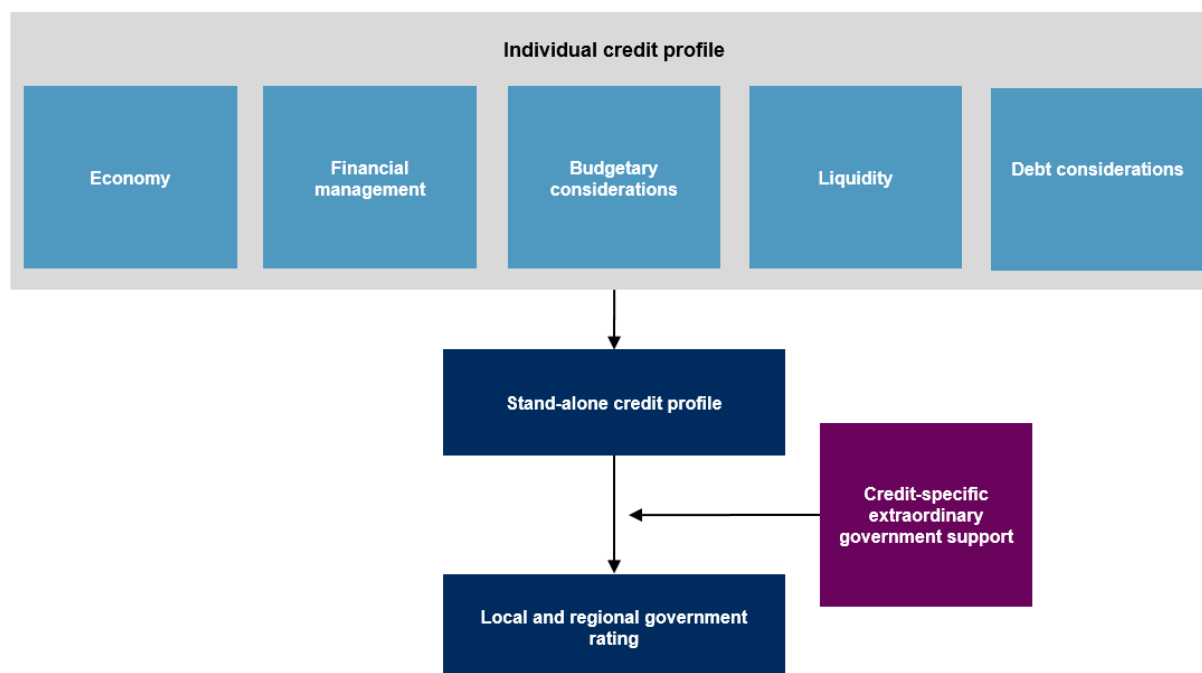
This S&P Global (China) Ratings methodology applies to our ratings on all local and regional governments (LRGs) in China. The methodology may also apply to the analysis of issuers that have similar characteristics to LRGs where we deem this methodology appropriate to use for that analysis.

LRGs' scope of activities generally include the responsibilities of delivering public services and funding infrastructure developments, which are supported directly or indirectly by taxes and fees levied on residents or transferred from other levels of government. Typically, LRGs' main task is financing the cost of these services and infrastructure developments with available revenues, as well as with recourse to debt when necessary.

The framework for rating LRGs typically consists of quantitative and qualitative analysis of factors such as economy, financial management, budgetary considerations, liquidity, and debt considerations.

The combination of the above factors generally establishes the individual credit profile of the LRG. The results of this analysis may be adjusted to arrive at an LRG's stand-alone credit profile (SACP), typically as a result of nuances and comparisons amongst peers. We may then factor in other considerations about support from other levels of government, to derive the issuer credit rating (ICR) on an LRG.

Local And Regional Government Methodology Framework



METHODOLOGY

We typically review an LRG based on its qualitative and quantitative analyses of certain factors, such as:

- Economy,
- Financial management,
- Budgetary considerations,
- Liquidity,
- Debt considerations.

We typically view an LRG as part of the wider political, institutional, administrative, and budgetary system. This is because of the integrated nature of sovereign, regional, and local governments both in terms of activities, funding dependencies, and policy objectives.

We typically derive the ICR on an LRG by determining its SACP, and considering potential support from a higher level of government.

We may also conclude that an LRG having difficulty repaying its debt on time may be likely to benefit from timely and extraordinary credit support from another level of government.

In cases where we view this extraordinary credit support as sufficiently predictable, the LRG rating may be higher than its SACP. Uplift of the SACP as a result of expectations of higher level government support can occur when we expect that the likely extraordinary support to the LRG will be forthcoming when necessary and is beyond ongoing support that we may have already incorporated into our analysis of the LRG.

Factors That Typically Influence An LRG's SACP

Economy

The economic analysis typically considers how economic factors are likely to affect an LRG's revenue generation capability and spending needs and ultimately its ability to service debt in the medium to long term. This may be influenced by growth trends, population demographics and economic diversification, amongst other things.

Financial management

The financial management analysis typically considers how the quality of an LRG's financial management and its political context are likely to affect its willingness and ability to service debt over time. This may also consider the management and implications associated with any government-related entities.

Budgetary Considerations

The budgetary considerations typically look at the level and volatility of an LRG's expected cash flows (such as revenues from operations and investment activities) that are available for debt service. We may also consider how much an LRG could increase its revenues or reduce its expenditures, if necessary, to maintain its debt servicing ability. We may also consider factors such as operating and capital account balances.

Liquidity

The liquidity analysis typically considers how an LRG's internal sources of liquidity, such as cash reserves and cash flow generation, and external sources, namely intergovernmental financing, bank facilities and market access, are likely to affect its debt servicing capability.

Debt Considerations

Debt considerations may consider how our expectations for the level, structure, and sustainability of an LRG's debt is likely to affect its debt servicing capability, and also may consider contingent liability risk. Other factors we may consider may include volatility and exposure to market risks, guarantees, and GRE-related debt.

OTHER CONSIDERATIONS

This methodology is not intended to be an exhaustive list of all factors we may consider in our analysis. Where appropriate, we may apply additional and/or different, quantitative and/or qualitative, considerations in our analysis to reflect the circumstances of the analysis for a particular issuer, issue or security type. A rating committee may adjust the application of the methodology to reflect individual circumstances in our analysis.