

**CHINA'S EVERGRANDE CRISIS: LESSONS
FROM THE FINANCIAL SECTOR
PERSPECTIVE**

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Executive Summary

1. China's Evergrande crisis lasted a good four over months after the country's largest real estate company defaulted on some of its billions of dollars in debt in September 2021. The news had rattled not only investors and property buyers, but also the global financial market as memories of the Lehman Brothers collapse remained fresh.
2. The property developer faced a crisis of liquidity rather than insolvency. The aggressive and poor cooperate financial management is not unique to Evergrande, but could be seen in other real estate companies and even private enterprises as well.
3. The Chinese government's deleveraging efforts to reduce systemic financial risks since 2015, including some policies specifically aimed at the real estate industry, have tightened both the aggregate liquidity supply and financing channel, a crucial factor for the Evergrande meltdown.
4. As the real estate sector is capital-intensive, real estate companies, including Evergrande, have to make full use of any possible resources in various business links for financing, especially when the financial costs are climbing.
5. They rely on bank loans, credit and international debts, and off-balance sheet liabilities for financing. They make use of off-balance sheet financing as an accounting method to hide certain liabilities and to appear to be performing better in various financial analyses and escape certain government regulations. In this way, it is also a major source of financial risks.
6. For the Evergrande in particular, it faced serious problems in three off-balance sheet financial channels: equity instruments, self-financing platform and associated wealth management products, accounts payables and associated Evergrande commercial bills.

7. The implications of the Evergrande crisis are noteworthy in three aspects: (i) the direct economic impact and social implications from Evergrande business troubles; (ii) the possible spill-overs to other real estate firms and their impact (economy and otherwise); and (iii) the changing regulatory regime as a result of Evergrande crisis and its impact.

8. The Chinese government has not indicated its readiness to bail-out any real estate companies, including Evergrande. However, both China's central financial authorities and the authorities in Evergrande's home province of Guangdong did make an effort to stabilise the real estate market.

9. The Chinese financial authorities have also acted to ease the social and financial volatility caused by Evergrande's debt crisis management since September 2021, including adjusting the implementation of certain existing policies according to the actual conditions.