

Finance & economics

Mar 5th 2022 edition >

The other crisis

China scrambles to prevent property pandemonium

As defaults escalate, another shock threatens to hit the global economy

Mar 5th 2022
HONG KONG

NOT LONG ago prospective homebuyers in China would find large maps on the walls of property marketing offices. On display were not

Homebuyers are seeing a very different picture now. Xi Jinping, China's president, has been fearful of runaway unaffordability and untenable debt. He has turned off the tap of easy credit by capping developers' ratios of liabilities to assets, net debt to equity, and cash to short-term debt (known as the "three red lines"). This has pushed China's property sector to the edge. A dozen developers, including Evergrande, one of the world's most indebted property groups, have defaulted on bonds since July 2021, or have come close. Companies recently deemed safe bets for investors have suddenly started looking wobbly. One of those, Shimao, missed trust

The implications go far beyond the offshore bond market. Construction has stalled in places. Some developers are now selling assets to patch up their cash flows. Many have stopped buying land, causing the value of parcels sold by local governments to crater by 72% in January year on year. Home prices are falling in many cities, turning off speculators looking for

As the bubble deflates the effects are rippling through the Chinese economy. Senior leaders have yet to issue an economic growth target for 2022 but many economists expect them to draw a line at 5% (China's GDP grew by nearly 6% in 2019). This will be a difficult rate to defend should the property sector, which makes up an estimated 25% of GDP, continue to crumble. A major slowdown, in turn, would hamper a global economy already hobbled by soaring inflation and geopolitical clashes.