

Why Evergrande will not go bankrupt



The Chinese real estate developer Evergrande is on everyone's lips, or at least it gets a prominent place in the international headlines. Rightly so, because a bankruptcy of the company would have major consequences, too major for the Chinese state to allow.

Raiffeisen Research analysed the interdependencies and, like other experts, comes to the conclusion that a failure of the Evergrande Group could lead to uncontrolled developments. After all, we are talking about almost 4 million employees who would be indirectly affected and assets of about 2% of GDP. Moreover, it can be assumed that the Chinese authorities want to avoid emergency and panic sales in the real estate market. A key aspect is also that a large part of the debt of almost USD 300 bn is domestically held. (Which is a striking difference to the Lehmann scenario.) So an uncontrolled bankruptcy of Evergrande would above all be damaging to China and its reputation. Despite statements in state-related media suggesting that China's political leadership would accept the default, a less drastic scenario can be assumed.

What does this mean for (Chinese) equities?

Besides the debt issue, other negative headlines made the rounds. The Chinese government imposed strict regulatory measures in the tech sector. An old stock market adage is „political stock markets have short legs!“ which means that the political influence (e.g. of an election) usually only has short-term effects on the stock markets. Afterwards, other (economic) factors prevail again. This case, however, appears different. Due to the strong regulatory intervention, the cards are completely reshuffled for certain companies and the Chinese stock market. And the Evergrande case is also likely to have a lasting negative impact on local stock markets. International experts currently consider a spill-over effect on Europe or the USA to be negligible, as long as the real estate group really is wound up in an orderly manner.

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