



Chinese financial crisis risk is rising

Policymakers need to restore confidence to head off a disaster

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Property developers' cash crunch puts the financial system at risk

Developers can't pay their commercial bills, and their financial woes are spreading to the banks. Real estate non-performing loans are rising. If this continues, losses on developer loans could potentially cause up to a quarter of China's smaller banks to fail.

Time appears to be running out for policy to turn this around

Another wave of non-performing loans looks to be right behind those from the real estate sector. Regulatory forbearance programs for small business and others affected by the pandemic have likely suppressed another large pile of bad loans.

Propping up real estate may require a bigger policy change

Monetary and fiscal policy appear to be impotent, and not just toward housing. That's likely because Covid zero is weighing on private-sector confidence. But dropping the restrictions abruptly might be worse. A sharp economic rebound seems unlikely.

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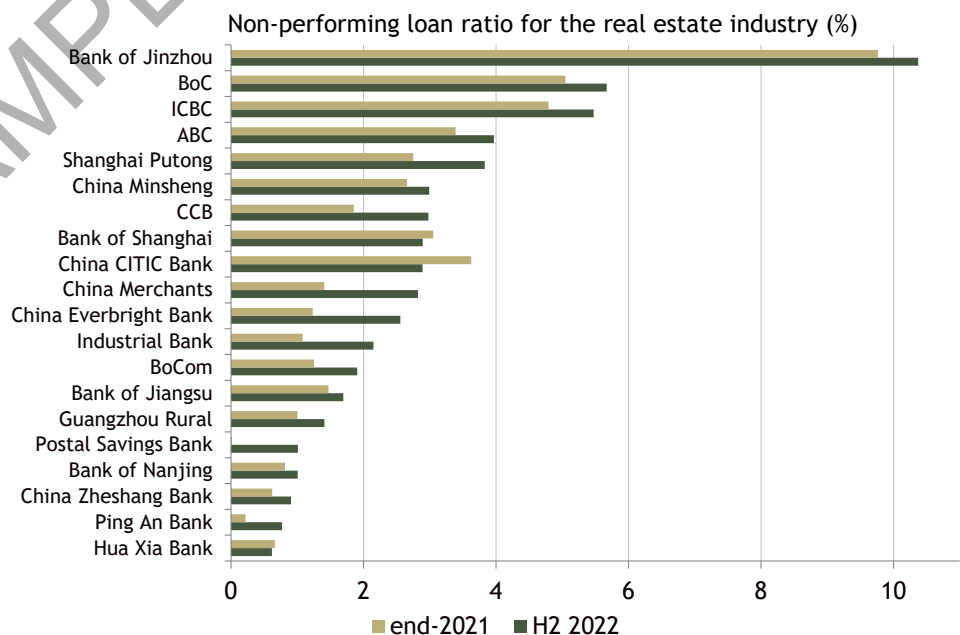
['China falls further into a liquidity trap'](#), Absolute Insight, 5th Aug 2022

['A state bailout for China's property market?'](#), Absolute Insight, 26th Jul 2022

['The constraints on China's recovery'](#), Economics Weekly, 28th Jun 2022

['When will China end zero Covid'](#), Economics Weekly, 17th May 2022

Key chart: Most banks reported large increases in developer NPLs



Source: ASR Ltd. / Companies' H1 2022 interim financial reports