Evergrande can’t pay the debt it leans, which will make bad influence to the financial market

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Hello professor Seah, I’m glad to write a report to you. The protagonist in this report is an estate company from China, called ‘Evergrande’. Evergrande is suffering a huge amount of debt and hard to compensate. Furthermore, the interest of millions of dollars was not paid by Evergrande (CBC News, p3). The effect is, not only institutions who loans to Evergrande will bear the loss, but also some Stock Market located in North America was off around 2.5% (p2), and some investor feel worried (p4).

The dilemma of Evergrande reflect the real estate market of China. The property bubble was swelling in the last few years, and estate companies in China was developing in a fast speed. However, the current situation might imply the property bubble will disappear or shrink (p4). If the real estate market of China collapse, it will make a huge damage to financial market, as well as the financial market in the whole world. That is why investor are feeling worried.

In our economic course, we talked about ‘the expectation to the future is a factor influenced the demand of people’. People who pay attention to the news about Evergrande and worried about to the future will spend their money more carefully, which means their demand will goes down. For example, they will buy less stock, and cause the Stock Market off.

The reason that impels Evergrande loans a huge amount of money seems easy, Evergrande has the confidence to earn more money than it loans, but actually the reason is deeper. I’m not and don’t have the ability to analyze it, but I’m glad to share the knowledge I already have. Real estate companies need to input a lot to buy land, building materials and hiring workers. The time they can earn the money from consumers is usually years later than they put input. Real estate companies must take the risk during these years. Except these factors influenced the benefit of estate companies, there is another factor “price of land”. If a real estate company buy the land at a price of $2000, and sold the house at $5000 land of price, this real estate company will earn $3000 without any input but time. Evergrande is sure that the land of price will growth, so the company loans a lot of money buying many lands, and wait for the price of land go up. The tragedy is, Evergrande spend most of the money buying the land, but don’t have enough money to build buildings and sold them.

In general, Evergrande make its situation today because this company take a risk much more than the ability it has. To our sadness, the whole financial market will pay the debt which owed by Evergrande.

Reference

CBC News (2021 September). Fear grips markets as China's Evergrande struggles with massive debt. Retrieved from <https://www.cbc.ca/news/business/markets-evergrande-monday-1.6182507>