



Article

A Giant Falls: The Impact of Evergrande on Asian Stock Indexes

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Abstract: The economic growth of China has been driven by the development of its real estate market, especially after the 2008 crisis. This growth is mostly related to the huge housing bubble and growing amounts of sovereign debt that have been redirected to corporations in the sector. Evergrande is one of those corporations; it is a Chinese company in the construction and real estate sector, a global giant with investments in many parts of the world. Its bond default in September 2021 sounded alerts in financial markets. Several news outlets spoke of the “next Lehman Brothers”, and apprehension was very high, especially in Asian markets. This research work aims to evaluate the impact of Evergrande’s bond default on six Asian stock markets, using an event study approach. The results show a strong reaction from the markets towards the event in study, even anticipating it. Furthermore, it is worth mentioning a quick reversion to “normal” behavior, indicating the rapid absorption of information by the markets.

Keywords: Evergrande; event study; Asian stock markets; bond default; real estate



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1. Introduction

The financial literature states that leveraged bubbles typically precede financial crises, and when a financial crisis nears, there is a lift-off in debt-servicing costs (Virtanen et al. 2018). Therefore, when Evergrande announced difficulties in paying its bonds, the markets were alert and expectant. Many in the media remembered the crisis triggered by Lehman Brothers.

“As of the end of June, Evergrande had nearly 2 trillion yuan of debt on its books, plus an unknown amount of off-books debt. The property giant is on the verge of a dramatic debt restructuring, or even bankruptcy, many institutions believe. A bankruptcy would amount to a financial tsunami, or as some analysts put it, “China’s Lehman Brothers”. The American investment bank’s 2008 collapse helped trigger a global financial crisis.” (Jing et al. 2021).

The Evergrande Real Estate Group Limited (formerly Hengda Group) is China’s second largest estate company by sales, ranked 122nd in the Fortune Global 500. This company has more than 800 projects in more than 280 cities (see <https://www.forbes.com/companies/china-evergrande-group/?sh=6d03e6785668>, accessed on 20 June 2022). It was established on the 8th of February 1997, with its headquarters in Nanshan District, Shenzhen. Although principally engaged in property development, it has a wide range of business activities. Its business is operated through four segments: property development, property investment, property management, and other businesses. The last is engaged in property construction, the provision of hotel and other properties’ development-related services, insurance, and fast-moving consumer product business. It also has some subsidiaries, which allow the company to be also engaged in mineral water and food production, electric vehicles, tourism (with the creation of “Evergrande world of water” and “Evergrande