China's real-estate crisis and local-government debt crisis
—Feasibility of baseline scenario eroded by policy risk—

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Summary

1. The real-estate development sector, which has been a driving force for the Chinese economy, is approaching a turning point. The background to this is the fact that both the area and value of property sold have declined for two consecutive years, meaning that the highly-leveraged operations of real-estate development companies are no longer sustainable. The reality is that real-estate developers no longer have any leeway to pursue financial soundness, since they are having to secure funds for debt repayment, as evidenced by an examination of levels of adherence to the "three red lines," which are financial thresholds that the Chinese government introduced to encourage debt reduction.

2. Meanwhile, broadly-defined government debt is expected to continue to rise, reaching 147% of GDP in 2027. The pace of debt increase at local-government financing vehicles (LGFVs) is so rapid that government debt is no longer at a "controllable" level. The reason the LGFVs have not defaulted is that the government has asked banks to support them, passing the buck to small and medium-sized banks (SMBs). The International Monetary Fund (IMF) predicts that many SMBs will soon find themselves undercapitalized. Most LGFVs are already "non-viable" and the current LGFV bailouts will eventually fail.

3. In response to the deteriorating housing market, the government has launched a cash-flow support program to establish bank credit lines for real-estate development companies, and has also come out with measures to boost demand, such as the "equal treatment for second mortgages" principle, which makes it easier for wealthy individuals to own more than one home. However, since a decline in housing-market demand is inevitable, this series of measures can be viewed as a risky policy that could cause greater shocks to the Chinese economy.

4. The Xi Jinping administration has strengthened the central government's involvement in the rescue of the LGFVs since the beginning of 2023, such as by issuing "refinancing bonds," whereby urban investment bonds issued by LGFV(LGFV bonds) are exchanged for local-government bonds, and allowing an increase in the issuance of "Special bonds for SMB," whereby capital is injected into SMBs. However, these bailout tools are also unsustainable and will likely end up only exacerbating the moral hazards of the LGFVs, local governments, and banks.

5. The problem with the real-estate crisis is not that more and more real-estate development companies are defaulting, but that none of them are proceeding with bankruptcy or restructuring procedures under the Enterprise Bankruptcy Law, despite the fact that defaults are increasing. And the problem with the local-government debt crisis is not when the LGFVs will default, but that they do not default at all, despite the fact that the number of LGFVs with the potential to default is on the rise.

6. It is not default risk that is raising concerns about China's economic outlook, but rather policy risk, as policies seem to lack a clear "end goal." The downside risks to China's economy have never been higher, making it increasingly unlikely that the country's path will follow the baseline IMF scenario of growth slipping to 3.4% in 2028, i.e., a gradual slowdown in economic growth.

Introduction

Confidence in the Chinese economy is wavering. No one believes anymore that the average annual growth rate will return to a rapid trajectory, i.e., above 9%, but there has been considerable divergence in opinion on the prospective growth rate for 2023-2024, with views differing depending on the time the forecast was made. The International Monetary Fund (IMF) had projected growth rates of 5.2% and 4.5% for 2023 and 2024, respectively, in its April 2023 World Economic Outlook (IMF [2023b]), but lowered its forecasts to 5.0% and 4.2% in the October edition (IMF [2023c]).

This reflects the fact that expectations for economic recovery following the scrapping of the zero-COVID policy faded rapidly in the second half of 2023. The growth rate of real-estate development investment, which accounts for more than 40% of fixed capital investment, continued to decline from the beginning of the year, falling 9.1% year over year (YoY) in the first nine months of 2023. Retail sales growth also declined to 6.8% YoY in the January-September period from 9.3% YoY in January-May. Furthermore, the growth rate of exports turned negative, coming in at -5.7% in the January-September period in a reversal of the 2.5% increase recorded in January-April.

However, in its November 2023 Article IV consultation report, the IMF raised expected growth rates for 2023 and 2024 to 5.4% and 4.6%, respectively. Although it emphasized the urgent need to restructure the real-estate sector, it cited stronger-than-expected personal consumption in July-September 2023 as the reason for the upgrade (IMF [2023f]). It is unusual for the IMF to revise a growth forecast after just one month, so the impression given was that it is difficult to predict what kind of growth trajectory China will follow.

The main reason for this opaqueness in China's growth prospects is that it is hard to foresee how two problems will unfold: the real-estate crisis, symbolized by a series of defaults by real-estate development companies, and the local-government debt crisis, symbolized by the excessive indebtedness of local-government financing vehicles (LGFVs). Both are thorny issues that cannot be resolved overnight, and depending on what policies the Xi Jinping administration adopts, there will be considerable latitude in economic predictions not only for the short term but also for the medium to long term. The IMF's economic outlook is often cited as the baseline scenario for medium- to long-term growth trajectories, but in the case of China, its feasibility has declined to the point where it cannot be called "baseline."

For this journal, I wrote papers on the real-estate crisis in May 2022 and on the local-government debt issue in August 2023, examining the basic structure of each of them, describing relevant government initiatives, and discussing what can be concluded from my findings (Miura [2022, 2023b]). Since those papers, both issues have become more serious. Moreover, the two problems are likely to continue to worsen simultaneously, as the deteriorating housing market will hit not only real-estate developers but also the finances of local governments, which depend on income from land use rights transfers. If that happens, the twin crises are expected to further depress economic growth through the channel of stagnant personal consumption.

For this reason, this paper addresses the two issues and examines how the future growth trajectory of the Chinese economy should be viewed. It is important to note here that both the media and previous studies, when dealing with the real-estate crisis and local-government debt crisis, have focused exclusively on the question of default, and neglected the negative impact on the Chinese economy of the Xi Jinping administration's policies toward real-estate development companies and LGFVs. The focus should not be on whether defaults are occurring, but on whether policies have been put in place that will allow the Chinese economy to return to a stable growth path.

In this paper, I first point out that concluding that the bubble has burst, a view that is gaining traction, is premature (1.), after which I examine the current status of the real-estate crisis and the local-government debt crisis, respectively (2. and 3.). Next, I point out that the Xi Jinping administration's attempts to postpone problems rather

than orienting itself toward fundamental reforms increases the likelihood that China will suffer larger shocks in the future (4.). Finally, I present the view that the problem with the Chinese economy is not default risk, but policy risk, as there is no clear "end goal" in sight, and even the baseline scenario of a gradual slowdown is in jeopardy.

1. Theory of economic collapse that is too hasty in its conclusions

With the slowdown in China's economic growth, the theory that "China is on the brink of economic collapse" is gaining momentum as we see more and more gloomy news, such as the string of defaults by real-estate development companies. However, such news does not mean that China's economy is on the precipice, as the extent of the decline in housing prices has been limited and default does not necessarily mean bankruptcy.

(1) Are defaults a precursor to collapse?

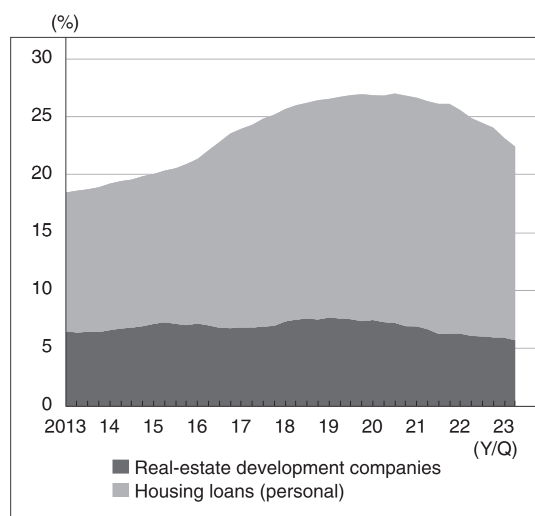
As indicated by the IMF raising its growth forecasts for 2023 and 2024 in November 2023, China's economy is not in a downward spiral. When fears that Evergrande Group was about to default mounted in October 2021, many media outlets argued that its bankruptcy was inevitable and that the bursting of the real-estate bubble was a foregone conclusion, but the company has continued operating, though with borrowings in excess of assets(1). Also, in the spring of 2023, a major rating agency stated that some LGFVs would be unable to repay their debts due to a lack of cash, yet no defaults occurred (Miura [2023b]).

There is no doubt that China is in a phase of lower growth due to a shrinking labor force and declining productivity. There is also no disputing the view that the emergence of two problems, the real-estate crisis and the local-government debt crisis, has made a low-growth period unavoidable for the Chinese economy. In the absence of a significant increase in housing prices, China's economic growth rate will decline further if banks, property developers, and households are forced to adjust their balance sheets.

However, it is still too early to jump to the conclusion that the real-estate crisis will morph into a financial crisis and cause the Chinese economy to collapse. Kenneth Rogoff, a former chief economist at the IMF and a professor at Harvard University in the U.S., and his colleagues have said that China's real-estate sector, when related industries such as construction are included, accounts for 30% of the country's GDP, so its ups and downs have significant ramifications for the Chinese economy (Rogoff and Yang [2020]). However, as of June 2023, loans to real-estate developers accounted for just 5.7% of all lending by Chinese banks (Fig. 1), so the impact of the real-estate crisis on the financial sector is not all that great.

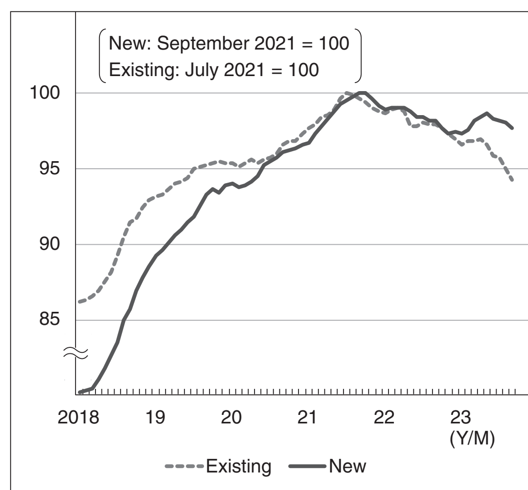
The construction industry, which handles the building of condominiums, is not immune to the real-estate crisis. In fact, an increasing number of homes have been abandoned during construction, known as "unfinished apartments," because real-estate developers have been unable to pay for work to continue. While this is a serious problem for the homebuyers, the impact on the construction industry of defaults by property developers is limited because construction firms and materials suppliers halt work the moment a payment becomes overdue. The performance of the construction sector does not necessarily depend on that of the real-estate sector, as can be seen from GDP statistics for January-September 2023(2), which show that the growth rate of the real-estate industry was negative, at -0.9% YoY, while the construction industry saw positive growth of +7.2% YoY.

Fig. 1 Share of Real-Estate-related Lending in Total Bank Lending



Source: Prepared by JRI based on data from CEIC

Fig. 2 Prices of New and Existing Homes in China (Median for 70 Major Cities)



Notes: Shows the previous month's home prices as a price index with a value of 100 when prices were at their peak.
Source: Prepared by JRI based on data from CEIC

(2) The drop in housing prices has been limited

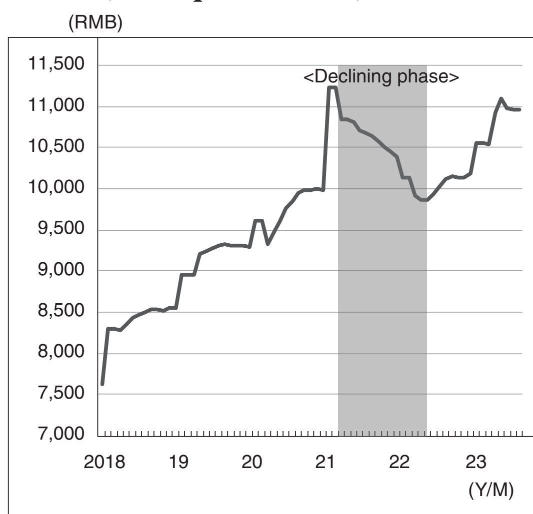
It is mortgages that are more likely to trigger a financial crisis, as they account for 16.7% of bank loans, about three times the figure for lending to real-estate developers (Fig. 1). If these sour, the financial crisis in the U.S. marked by the failure of Lehman Brothers, which was ignited by "subprime loans," will be mirrored. However, since obtaining a mortgage in China requires a down payment of a certain percentage of the purchase price, and because borrowing for home buying in China was not popularized through a mechanism similar to that of subprime loans, whereby the interest rates are low only at the beginning, mortgages are unlikely to turn into non-performing loans.

The percentage required as a down payment varies from region to region, but the China Index Academy, a think-tank specializing in real estate, says that in many cities the ratio is set at 20% for a first home and, to discourage speculation, 30% for a second home(3). Since mortgages are extended for the remaining 70-80%, even if borrowers get behind with their loan payments, the loans will only become non-performing if housing prices decline by more than 20-30% (Miura [2023e]). More attention is paid to housing prices when they are falling, and this has created the impression that the drop in housing prices in China has been substantial, but the actual margin of decline has not been all that large.

According to survey data on median new and existing home prices in 70 major cities from the National Bureau of Statistics, in September 2023, new home prices had fallen by 2.3% from their peak in September 2021, and existing home prices had dropped by 5.7% from their high point in July 2021, so the declines have been slight (Fig. 2). It therefore cannot be said that housing prices are following the scenario of a real-estate bubble bursting.

Each month, the National Bureau of Statistics also publishes monthly cumulative prices per square meter, calculated as the value of residential sales nationwide divided by the square meters of area sold, and the price for the first nine months of 2023 was RMB10,899, up 10.5% from RMB9,860 in the first four months of 2022, when the price declines were most pronounced (Fig. 3). Home prices fell intermittently only in the 13 months from January-March 2021 to January-April 2022.

Fig. 3 Home Prices in China (Per Square Meter)



Notes: Cumulative means for each month.
Source: Prepared by JRI based on data from CEIC

It would thus be premature to judge that China is in the same phase as Japan was in 1991-2006, when land prices declined intermittently for 15 years[(4)].

(3) Default does not equal bankruptcy

China will not easily fall into a financial crisis because its government will take all policy steps it can to avoid one. It is also necessary to take into account that banks are under intense political pressure to prioritize cooperation with policies aimed at preventing financial crises over minimizing risks to themselves. So what measures has the government come out with? How will they affect the three groups of banks, real-estate developers, and households? Determining a more accurate outlook for the Chinese economy requires careful scrutiny of the substance and impact of the government's policies.

In fact, when housing prices began to decline nationwide in 2021, the government supported real-estate developers by expanding bank lending and easing restrictions on withdrawing funds from depository accounts in order to shore up housing prices. It also stimulated demand by extending loans using public housing funds, expanding subsidies for home purchases, and lowering interest rates (Miura [2022]). Though contrary to the government's efforts to reduce the indebtedness of real-estate development companies, and the "common prosperity" principle, which maintained that the high levels of housing prices should be corrected, these measures helped avert a prolonged decline in home prices.

The same goes for the LGFVs. In Guizhou Province in the second half of 2022, numerous LGFVs found themselves unable to service their debts. Guizhou Communist Party Secretary Shen Yiqin, the party's leader in the province, called on financial institutions to come to the aid of the LGFVs by extending debt repayment deadlines, cutting interest rates, refinancing loans, and other means. In addition, Tianjin Infrastructure Investment Group, China's largest LGFV, escaped default because policy lenders such as the China Development Bank led an expansion in its lines of credit (Miura [2023b]).

Many of the media focus on one point: whether real-estate developers or LGFVs will default. However, in China, banks often continue to do business with companies that have defaulted, because of the expectation of "implicit government guarantees," whereby the government ensures debt repayment, and this is true not only for state-owned enterprises but also for large private companies.

In China, default does not equate to bankruptcy, as it has already been two years since Evergrande Group defaulted at the end of 2021[(5)]. The growth trajectory of the Chinese economy will depend less on whether there are defaults, but rather on "post-default" developments, such as the success or failure of negotiations with creditors and tangible/intangible support from the government (Miura [2021b]).

2. The real-estate crisis is becoming more serious

What direction will the real-estate crisis take? Here I will summarize the performance of Evergrande Group and Country Garden and reveal that the real-estate development sector is approaching a major turning point. The struggles of heavily-leveraged real-estate developers will become even clearer in 2024, with more companies expected to fall into insolvency.

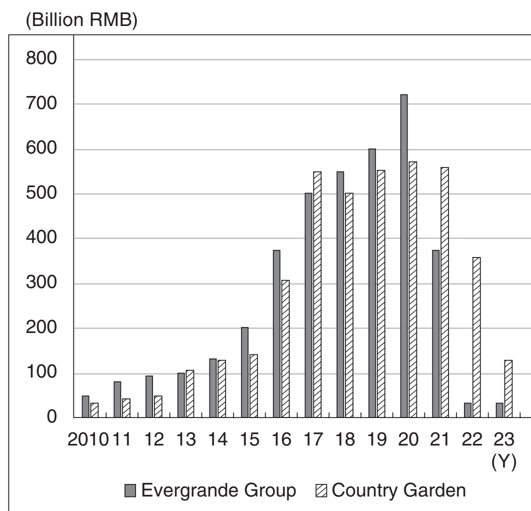
(1) Defaults by Country Garden and Evergrande Group

In the second half of 2023, fears of another default by real-estate development giant Evergrande Group increased (Miura [2021a]), and in October, Country Garden, China's largest real-estate developer, was finally confirmed to have defaulted on its dollar-denominated bonds(6). Both companies, which had been vying for the top position in China's real-estate development sector, have seen their performance deteriorate sharply, with Evergrande Group's residential sales down 48.4% YoY in 2021 and Country Garden's sliding 39.5% YoY in 2022 (Fig. 4). These events suggest that the real-estate development sector, which has been a driving force for the Chinese economy, is approaching a turning point.

In January-June 2023, Country Garden's consolidated net sales recovered to RMB226.3 billion, up 39.4% YoY. However, due to the depreciation of its real-estate holdings, selling expenses soared 72.6% YoY to RMB250.6 billion, exceeding the net sales. As a result, the company's bottom line plunged from a RMB600 million profit in the same period of the preceding year to a loss of RMB48.9 billion (Fig. 5). The firm's total liabilities amounted to RMB1,364.2 billion against total assets of RMB1,618.5 billion as of the end of June 2023, for a debt-to-asset ratio of 84.2%.

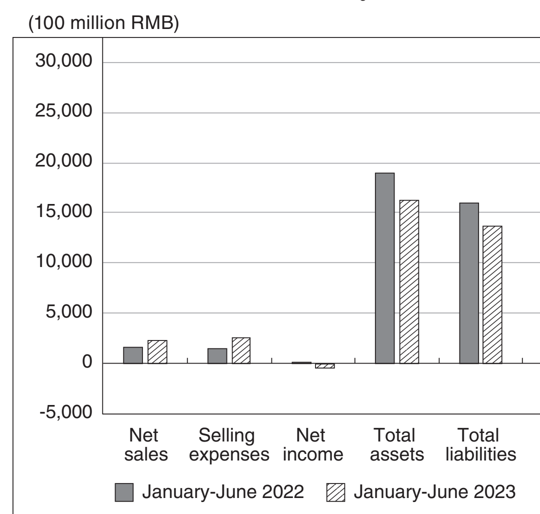
Country Garden's short-term debt solvency ratio, which is cash and deposits divided by short-term interest-bearing debt, stood at 145.3% at the end of June 2023, ranking 34th among the real-estate development companies within 100 largest interest bearing debt, and much higher than Evergrande Group's 0.7%, which puts the latter firm

Fig. 4 Value of Home Sales by Evergrande Group and Country Garden



Notes: Figures for 2023 are for January-June.
Source: Prepared by JRI based on local media reports

Fig. 5 Country Garden's Financial Results for January-June 2023



Source: Prepared by JRI from the company's financial reports

in the 100th place. Country Garden has thus been viewed as a blue-chip company(7). Nevertheless, it defaulted, which was the result of the backfiring of its “low-margin, high-volume” business model of earning thin profit margins on high sales volume in small and medium-sized cities(8). Sales in tier-3 and -4 cities(9) account for 63% of its total sales(10), which put it at risk.

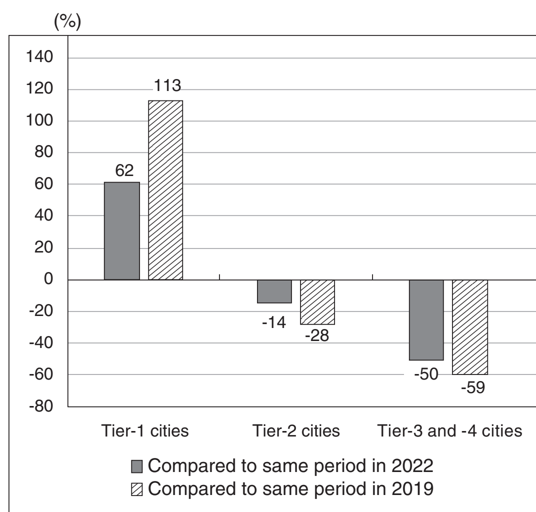
A look at housing area sold during the eight consecutive holidays starting at the end of September 2023 following the Mid-Autumn Festival and National Day reveals that the tier-1 cities of Shanghai, Beijing, Guangzhou, and Shenzhen saw significant recoveries, with a 62% YoY increase and a 113% rise compared to the same period in pre-COVID 2019, while tier-3 and -4 cities saw the figures go into freefall, registering decreases of 50% and 59% over the same periods respectively (Fig. 6). This “polarization” of the housing market (Miura [2021]) has hit Country Garden directly. The impact of the company’s default on the Chinese economy is significant, as the firm was still the top player for residential sales in terms of both area (59.45 million square meters) and value (RMB464.3 billion) in 2022.

Meanwhile, Evergrande Group’s consolidated financial results for January-June 2023 (which auditors have yet to sign off on) revealed a substantial recovery in net sales, which were up 43.5% YoY to RMB128.2 billion, but also a 44.1% YoY rise in selling expenses to RMB118.4 billion. Earnings from overseas operations also deteriorated, and the firm booked a net loss of RMB33.0 billion (Fig. 7). Although the deficit halved from RMB66.4 billion in the same period a year earlier, the company remained insolvent, with total liabilities of RMB2,388.2 billion, well above its total assets of RMB1,744.0 billion.

Comparing Country Garden and Evergrande Group, the impact on the financial sector is greater in the case of the latter. Evergrande Group’s total debt is 1.7 times that of Country Garden. In contrast, Country Garden has more impact on homebuyers than Evergrande Group does. This is because the number of residential projects under development by Country Garden was 3,103 as of June 2023, 4.4 times the figure of 706 projects for Evergrande Group (as of August 2023)(11).

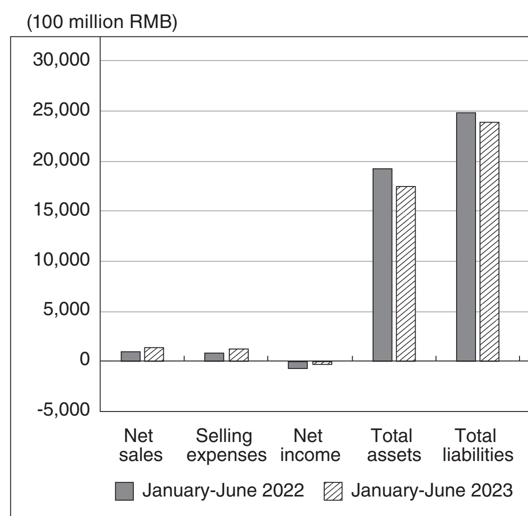
If Country Garden’s cash flow deteriorates further, the number of unfinished apartments is bound to increase. 80% of the homes sold in China are so-called “future units,” i.e., are still under construction at the time of sale, so the problem of unfinished apartments is grave not only for home-

Fig. 6 Growth in Area of Home Sales by City Size During the Autumn 2023 Consecutive Holidays



Source: Prepared by JRI based on local media reports

Fig. 7 Evergrande Group’s Financial Results for January-June 2023



Source: Prepared by JRI from the company’s financial reports

buyers, but also because it lowers demand for housing and fuels distrust of the government.

(2) Highly-leveraged operations no longer viable

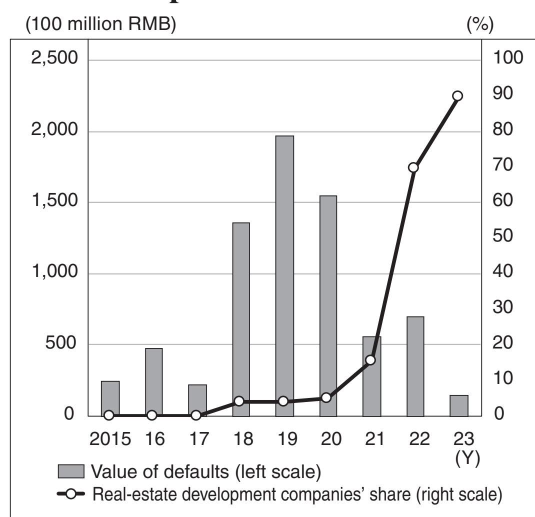
Corporate bond defaults in China have been on a downward path since 2020 (bar graph in Fig. 8). This is due to the strengthening of support measures for companies amid the COVID pandemic, and questions remain about the extent to which it reflects actual business conditions of companies. However, it should be kept in mind that the defaults reported in the media concern only a fraction of the dollar-denominated bonds issued by real-estate development companies (offshore bonds), and since offshore bonds account for just 30% of the total outstanding bonds issued by real-estate developers, value of defaults is not particularly large.

Even so, it is worth noting that real-estate development companies' share of defaults began to rise from 2021 (line graph in Fig. 8). In 2022, it was 69.7%, and in October 2023, it reached 89.6%, meaning that almost all defaulting companies were real-estate developers. U.S. banking giant JPMorgan Chase claims that 40-45% of China's top 100 real-estate developers have already defaulted(12).

The background to this is the fact that for the second year in a row, both area and value sold have declined, creating a difficult environment that real-estate developers have never experienced before. Residential area sold in the first nine months of 2023 was down 15.1% YoY, and this followed a 26.8% YoY drop in the previous year (Fig. 9). The value of home sales also saw negative growth, falling 8.9% YoY, again following a 28.3% YoY decline the year before. Real-estate development companies had been leveraging themselves to generate more profit, investing many times more than they had on hand through loans and other forms of financing. This behavior was based on the assumption of steady growth in the housing market, but has now resulted in developers across the board running short of funds.

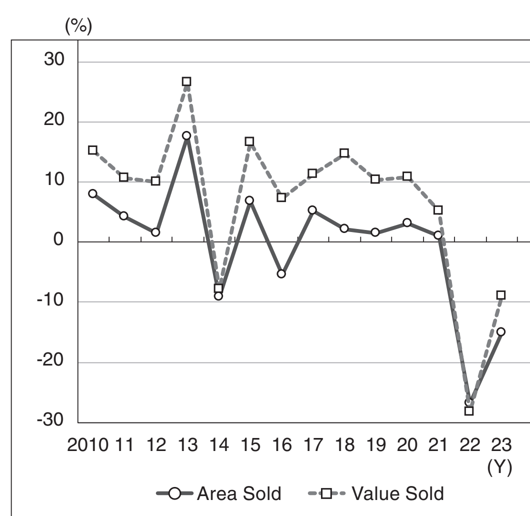
The slump in the housing market is expected to continue in 2024. Standard & Poor's (S&P) predicts that area of residential property sold in 2024 will decline by 2% YoY(13). While area sold in tier-1 cities will recover, rising by 3%, that in tier-2 cities will rise by a fraction of a percent, and that

Fig. 8 Corporate Bond Defaults and Real-Estate Development Companies' Share



Notes: Figures for 2023 are up to October 8.
Source: Prepared by JRI based on data from Wind

Fig. 9 Growth in Area and Value of Home Sales in China



Notes: Figures for 2023 are for January-September.
Source: Prepared by JRI based on data from CEIC

in tier-3 and lower cities will see a 5% decrease, so the outlook for sales depends on the size of the city. As for the value of homes sold, since tier-3 and lower cities account for 50% of the total, the deterioration of market conditions in small and medium-sized cities will affect China as a whole, and S&P expects the value sold to decline 5% YoY and home prices to fall 3% YoY in 2024.

Given this situation, the number of real-estate development companies classified as "on the verge of default," which could default at any time, looks set to increase steadily, and the value of corporate bond defaults shown in the bar graph in Fig. 8 above could surge. It is not surprising that the Xi Jinping administration is worried about a financial crisis stemming from defaults by real-estate development companies.

(3) Defaults will continue to increase

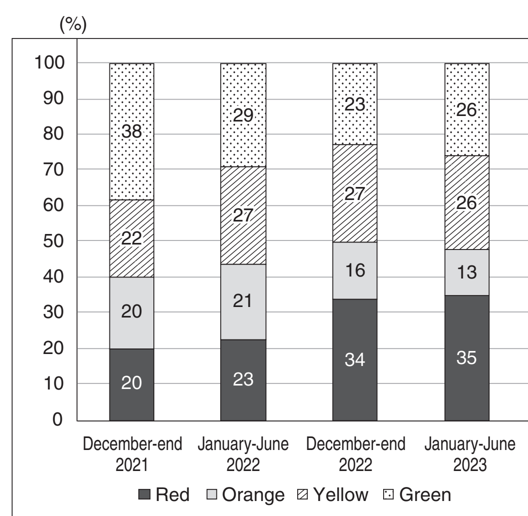
Real-estate development companies are facing bleaker business conditions than ever before due to the soft market. This is evident in levels of adherence to the "three red lines" that the Chinese government introduced in September 2020. The "three red lines," which are criteria imposed to encourage real-estate development companies to reduce their debt, are: 1) debt-to-asset ratio excluding advances of 70% or less, 2) net debt-to-equity ratio of 100% or less, and 3) cash-to-short-term debt ratio of 100% or more. The degree of adherence to these thresholds determines the extent to which interest-bearing debt can be increased(14).

Real-estate development companies are categorized into 1) those in the "red" category, which have not met any of the three criteria, 2) those in the "orange" category, which have met one, 3) those in the "yellow" category, which have met two, and 4) those in the "green" category, which have met all three. "Red" developers cannot increase their interest-bearing debt at all, but "orange," "yellow," and "green" ones can raise it by up to 5%, 10%, and 15%, respectively, compared to the previous year.

The "three red lines" are a measure of the extent to which a real-estate development company has reduced its debt, and until the first half of 2021, the number of developers falling into the "green" category increased while those in the "red" category decreased, so the introduction of the thresholds contributed to an improvement in the financial positions of real-estate developers (Miura [2022]). Since then, however, the situation has reversed and their financial positions have continued to worsen (Fig. 10). According to CRIC, a Chinese research firm specializing in real estate, the percentage of 69 major listed real-estate development companies that fall into the "red" category was 35% in the January-June period of 2023, up from 20% at the end of 2021(15).

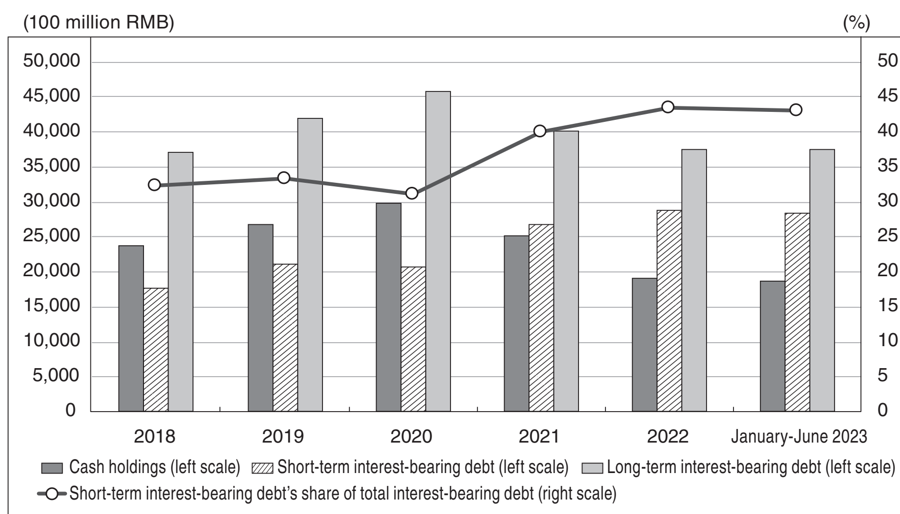
The increase in the number of "red" developers was largely due to an increase in short-term interest-bearing debt as cash holdings dwindled as a result of poor sales. While the long-term interest-bearing debt of real-estate development companies peaked in 2020 and has been declining since then, short-term interest-bearing debt increased to RMB2,832.9 billion in January-June 2023, swelling by RMB765.6 billion from 2020 (Fig. 11). Meanwhile, cash holdings totaled RMB1,875.6

Fig. 10 Chinese Real-Estate Development Companies' Adherence to the "Three Red Lines"



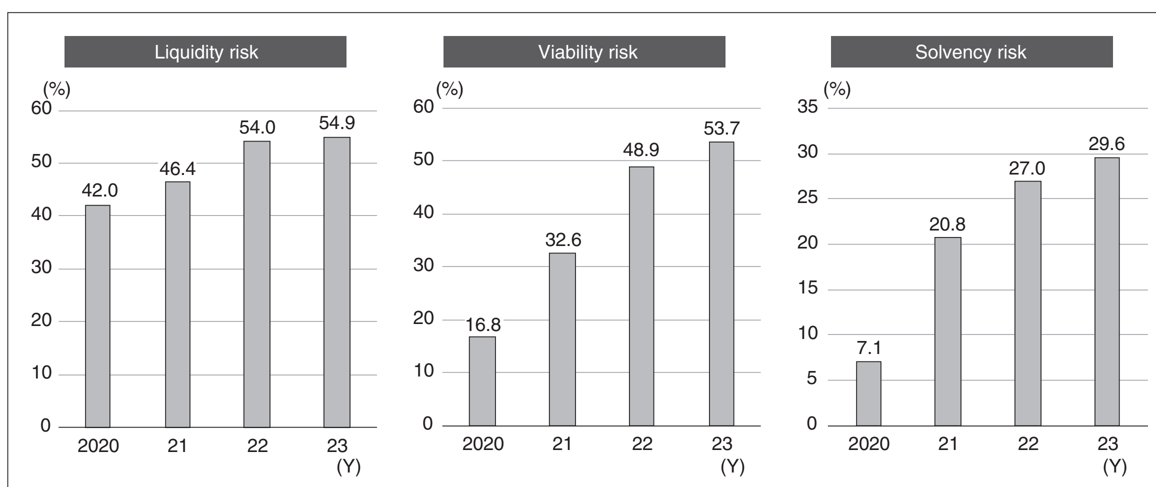
Notes: Covers 69 listed real-estate development companies.
Source: Prepared by JRI based on local media reports

Fig. 11 Chinese Real-Estate Development Companies' Cash Holdings and Long-term/Short-term Interest-bearing Debt



Notes: Covers 69 listed real-estate development companies.
Source: Prepared by JRI based on local media reports

Fig. 12 Risks Facing Real-Estate Development Companies



Source: Prepared by JRI based on IMF [2023d]

billion, down RMB1,116.4 billion from 2020. The reality is that real-estate developers no longer have the time to improve their financial health, but are instead being forced to secure funds to fulfill their debt obligations, which are falling due one after another.

The IMF also expressed strong concern about this situation in its Global Financial Stability Report (GFSR), released in October 2023. This is because the assets of real-estate development companies facing liquidity risk, i.e., running out of cash after paying off short-term debt, accounted for 54.9% of the sector's total assets in 2023, up 12.9 percentage points from 2020 (Fig. 12). Similarly, the proportion of assets exposed to viability risk, i.e., where EBIT (Earnings Before Interest and Taxes) is less than interest payments, made up 57.7% of the total, jumping 36.9 percentage

points from 2020.

This suggests that about half of the real-estate developers are in a financial situation similar to that of Country Garden, and that more companies will face default in the future. In December 2023, Moody's Investors Service, a U.S. credit rating agency, downgraded the debt of Vanke, property-development giant at the same level as Country Garden and Evergrande Group, by two notches to Baa3(16). Baa3 is one step short of a "junk" rating.

The IMF states that the share of assets encumbered with solvency risk, i.e., the inability to repay the debt even if all the assets are sold, rose from 7.1% to 29.6% over the same period. This means that more and more developers are following the trail blazed by Evergrande Group. In November 2023, Evergrande Group reportedly asked creditors holding offshore bonds to agree to a restructuring plan under which the company would swap their debt for equity and continue operating. This was because even if the firm were liquidated, less than 3% of the debt could be repaid(17). Yet in negotiations with creditors concerning restructuring proposals, deals are not going to be easily reached, so the real-estate crisis may continue to drag on.

3. Ballooning local-government debt

The outlook for local-government debt is also a concern. The LGFVs have not defaulted despite a significant decline in their ability to service their debts. This is because the government is asking banks to expand low-interest lending to LGFVs, though this is piling pressure on fragile small and medium-sized banks (SMBs). In addition, as the number of LGFVs whose operating income is insufficient to cover their interest payments increases, the policy is expected to become unsustainable sooner or later.

(1) The impact on SMBs is substantial

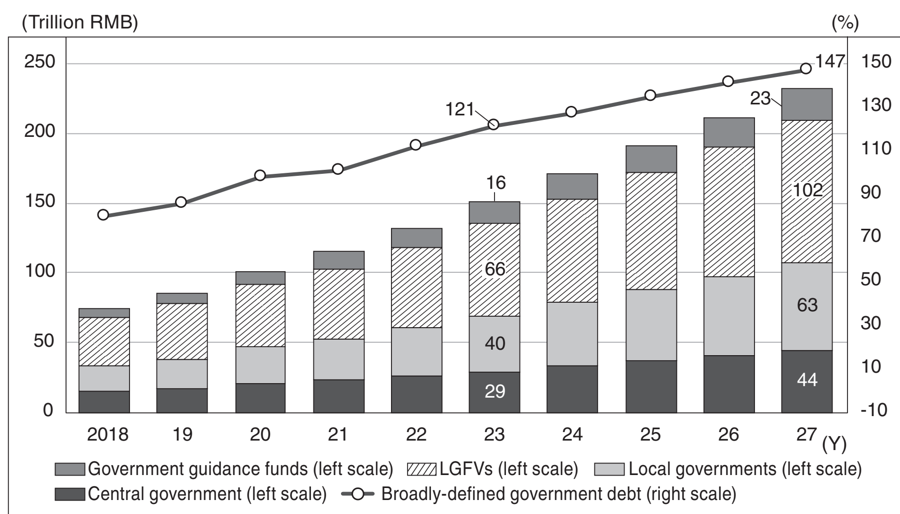
According to IMF estimates, the outstanding debt of LGFVs stood at RMB66 trillion, or 53% of GDP, in 2023, higher than the respective figures of RMB29 trillion and 24% for central-government debt and RMB40 trillion and 32% for local-government debt, making LGFVs the chief culprit in government-debt expansion (Fig. 13). LGFV debt is positioned as "hidden debt" because it is not reflected on local-government balance sheets. China's outstanding government debt can be viewed as comprising government debt in the narrow sense, i.e., central- and local-government debt, and government debt in the broad sense, which includes the debt of LGFVs and government guidance funds. Broadly-defined government debt was 121% of GDP in 2023, putting China fourth among G20 countries after Japan (255%), Italy (144%), and the U.S. (123%).

China's broadly-defined government debt is expected to continue to rise, reaching 147% of GDP in 2027. A major reason is that LGFV debt will swell to RMB102 trillion, or 66% of GDP, a 34 percentage-point increase from 2023. The level of 147% of GDP would be the second highest among the G20 countries, after Japan (251%) but higher than Italy (141%) and the U.S. (135%). The Chinese government has regarded its debt as "under control" by ignoring "hidden debt," but LGFV debt is now rising at such a rapid pace that such complacency is no longer justifiable.

However, as of the end of 2023, LGFVs have still not followed the real-estate developers into default. This is because LGFV defaults carry a high risk of contagion, so the government cannot afford to sit back and allow them to occur. One contagion risk is vertical, i.e., the risk of default spreading to the bonds of the local government that has invested in the LGFV in question (contagion to local-government bonds), and the other is horizontal, i.e., the risk of default spreading to the bonds of similar LGFVs that are overly indebted (contagion to urban investment bonds issued by LGFV(LGFV bonds)).

Local-government bonds amounting to RMB40

Fig. 13 Breakdown and Ratios to GDP of China's Broadly-defined Outstanding Government Debt



Notes: Figures from 2021 onwards are estimates.
Source: Prepared by JRI based on IMF [2023a]

trillion were outstanding as of 2023, which together with RMB66 trillion in LGFV bonds comes to RMB106 trillion, or 85% of GDP (see Fig. 13 above), so if contagion risk materializes, the impact will be huge. For this reason, the government has asked banks to support LGFVs that are short of funds, thus staving off LGFV defaults (Miura [2023b]). As a result, LGFV defaults in China are now viewed as no more than "technical defaults," meaning that repayment is slightly delayed due to improper cash management, and are distinct from "actual defaults," meaning that the issuer has run out of cash and repayment is impossible (Miura [2023b]).

LGFVs have never defaulted not because they have performed well, but only because they are protected by "implicit government guarantees." And the buck is being passed to SMBs. In its October 2023 GFSR, the IMF predicted that if it is assumed that all LGFVs reduce their debt to a level at which they are able to pay interest out of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and that banks bear half the cost, banks' capital ratios would fall by 1.7 percentage points, and that while large banks would be able to withstand the shock, SMBs would end up undercapitalized, even ones in regions where LGFV debt levels are relatively low (IMF [2023e]).

Furthermore, in a worst-case scenario in which loans to LGFVs become non-performing, S&P expects bank losses to reach RMB2.2 trillion, the capital ratio of the top 80 SMBs based in specific regions, including urban commercial banks, to fall from 13.4% to 10.5%, and capital ratios for the bottom 16 banks to drop below the 8% required for commercial lenders(18). The increases in LGFV debt shown in Fig. 13 suggest that problems like these will become more serious with each passing year.

(2) LGFV bailouts will fail

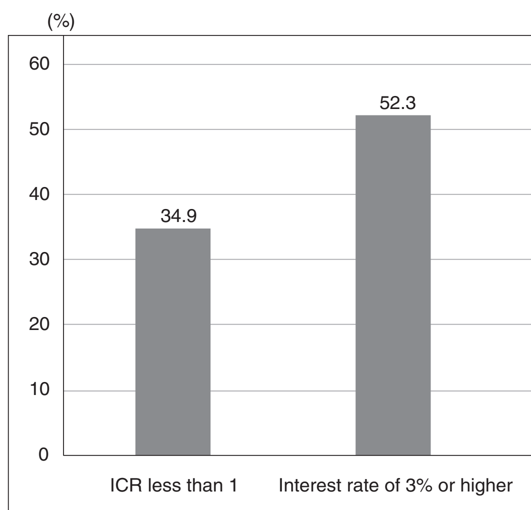
The rescue measure of calling on banks to provide support is expected to gradually become ineffective as the finances of the LGFVs deteriorate. The IMF argues that LGFVs are now stuck in a vicious cycle of flat investment returns and reliance on external sources to cover 80-90% of their annual expenditures (IMF [2021]). It has also been pointed out in China that LGFVs, like real-estate developers, do not possess the cash they

need to repay their debts. According to an analysis of financial data from 3,299 LGFVs, interest-bearing debt on the books of LGFVs, including bank loans and bonds, exceeded 70 trillion in 2022, a much bigger figure than the IMF estimate in Fig. 13 above. Meanwhile, cash holdings as a percentage of total assets were estimated to have been 5.8% in 2022, down by half from their peak in 2016[19].

The IMF's most recent analysis is even more shocking. In the October 2023 GFSR, the IMF contended that for 34.9% of the debt of LGFVs, the interest coverage ratio (ICR) had been below one for the last three years, meaning that with regard to this debt, LGFVs are unable to pay the interest out of their operating income. As such, it stated that LGFVs saddled with such debt are "non-viable" (Fig. 14).

The IMF also believes that as long as LGFVs' financing costs, resulting from borrowing from banks or issuing bonds, exceed 3%, they are incapable of paying the interest on 52.3% of the debt, and that LGFVs burdened with such debt would also become "non-viable." In 2022, LGFVs' financing costs are thought to have averaged 5.6%[20], significantly higher than the 3% used in this IMF estimate. The average interest rate on bonds issued by LGFVs is posited to be 2.8%

Fig. 14 Share of Debt of "Non-Viable" LGFVs



Source: Prepared by JRI based on IMF [2023e]

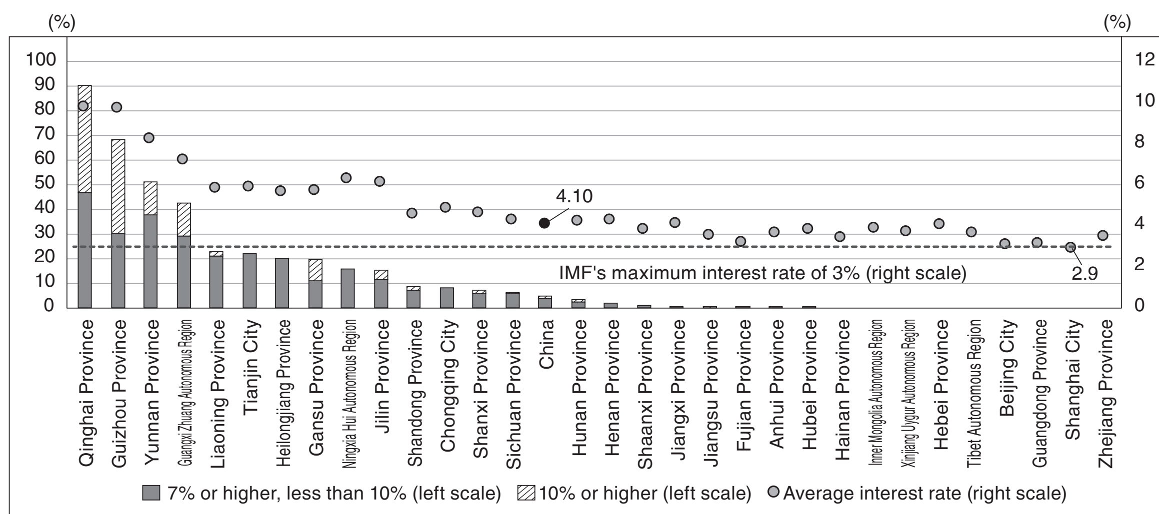
in the case of bonds carrying the highest rating, AAA. However, only 20% of all bonds are rated AAA, which means that hardly any LGFVs will be able to survive.

At first glance, the LGFV bailout strategy, whereby debt carrying high interest rates, such as LGFV bonds, is refinanced with lower-interest debt, such as bank loans, would appear to be an effective policy. Interest rates on LGFV bonds vary widely by region. Qinghai Province has the highest rates. They average 9.8%, and 46.9% of all bonds there carry interest rates between 7% and 10%, with 43.4% exceeding 10% (bar graph in Fig. 15). If LGFV bonds can be switched to lower-interest bank loans not only in Qinghai Province, but also in Guizhou Province, Yunnan Province, and Guangxi Zhuang Autonomous Region, the debt burden of LGFVs would certainly be lightened and the risk of default would be lowered. Since the total amount of outstanding LGFV bonds in these three provinces, including Qinghai, and one autonomous region that issue LGFV bonds with high interest rates accounted for only 5.6% of the total at the end of 2022[21], the burden on banks can be said to be low.

However, in terms of the average interest rate on LGFV bonds by region, this is not the case. As of August 2023, the average interest rate on LGFV bonds was 4.1%, and only Beijing (2.9%) was below the IMF threshold of 3% (dots in Fig. 15 above). The bailout method of requiring banks to provide low-interest loans to LGFVs to prevent them from defaulting brings with it the new question of how long SMBs in almost every region will be able to withstand the costs to them.

At the end of September 2023, the outstanding balance of LGFV bonds was RMB16.1 trillion[22], registering an increase of RMB2.4 trillion from the end of 2022 despite growing concerns about default. This clearly shows that LGFVs, for which bank loans alone are insufficient to cover their funding needs, are issuing bonds to repay their debts, and that they are caught in a vicious cycle in which they are making no progress at all with debt reduction. It has to be assumed that the current bailout scheme, which shifts the burden of the contradictions faced by LGFVs onto the banks,

Fig. 15 Average Interest Rate on LGFV Bonds and Share of High-Interest-Rate LGFV Bonds in Total Outstanding LGFV Bonds by Region (as of August-end 2023)



Source: Prepared by JRI based on IMF [2023d]

will eventually fail[23].

The time has come for the very raison d'être of the LGFVs to be reconsidered. According to the Zhongtai Securities Research Institute, LGFVs' ROIC (Return On Invested Capital), which was 3.1% in 2011, had slumped to 1.3% in 2020[24]. In addition, Professor Song Zheng of the Chinese University of Hong Kong has noted that the ROI (Return on Investment) on Chinese infrastructure investment, which once exceeded 10%, has declined to 2-3%[25]. With declining economic growth rates and fewer infrastructure projects with high profit potential, the LGFV business model of generating above-market rates of return is no longer viable.

4. The Xi Jinping administration's prescription lacks a clear "end goal"

The policies set out by the Xi Jinping administration to deal with the real-estate crisis and the local-government debt crisis constitute postponements of the two problems and are nowhere near to being a fundamental solution. In what direction is the Xi Jinping administration trying to lead the Chinese economy? There is no "end goal" in sight.

(1) Response to the real-estate crisis

1) "Equal treatment for second mortgages"

As mentioned above, in response to the deterioration in the financial positions of real-estate developers due to the introduction of the "three red lines," the Chinese government adopted policies in 2021 to stimulate housing demand while providing cash-flow support to the developers. Although these measures had some effect, worsening market conditions have further damaged the liquidity of real-estate development companies, forcing the government to come out with additional policies since 2022.

While the policies are wide-ranging[26], the following three are typical of the way the Xi Jinping administration has responded to the real-estate crisis:

The first was the establishment of a new bank credit facility for real-estate development com-

panies in September 2022. It was reported that in just two months through November, more than 60 banks extended new lines of credit totaling RMB4 trillion to more than 100 real-estate developers[27]. Given that outstanding loans to these companies at the end of 2022 totaled RMB12.7 trillion, loans made via the new credit facility accounted for 30% of that amount, so they can be regarded as having helped improve the financial situations of the real-estate development companies.

By bank, the Industrial and Commercial Bank of China had provided the largest credit line at RMB655 billion, followed by Bank of China at RMB600 billion, Shanghai Pudong Development Bank at RMB530 billion, and Industrial Bank at RMB440 billion. Meanwhile, although the extent of the loan limits set for individual real-estate development companies has not been disclosed, developers such as Vanke, Greenland Holdings, Midea Real Estate Holding, and Country Garden have been able to obtain loans from more than 10 banks. However, Evergrande Group, which is fighting for survival, is not among them.

The second is a comprehensive financial support package for the real-estate market. In November 2022, the People's Bank of China and the China Banking and Insurance Regulatory Commission (CBIRC) issued a notice detailing 16 measures to support the market[28]. The main ones are: encouraging banks to extend the repayment deadlines of loans to real-estate development companies by one year, waiving the requirement to reclassify the loans to prevent an accompanying increase in non-performing loans, and supporting the issuance of bonds by healthy real-estate developers that are temporarily strapped for cash.

In addition, local governments were asked to stimulate housing demand by lowering mortgage interest rates and down payment ratios, as well as by making it easier for migrant workers from rural areas, who are required to have paid social insurance premiums or personal income taxes for a certain period of time to get mortgage loans, to take out mortgages[29]. At the same time, the government declared that it would promote "apartment delivery guarantees," whereby policy financial institutions such as the China Development Bank would provide special loans to real-estate development companies to ensure the delivery of homes to their buyers. Furthermore, while encouraging distressed real-estate developers to dispose of their assets, the government also urged banks and financial asset management companies to assist with such asset sales as well as with the issuance of bonds for the purpose of M&A in residential development projects.

The third was the elimination of differential treatment regarding down payments and interest rates based on mortgage history. In China, as a means of discouraging speculative purchases of residential property, homes purchased by people who have taken out mortgages in the past are regarded as second homes, and thus subject to high down payment ratios and interest rates. In August 2023, however, the government decided that it would no longer matter whether a potential borrower has taken out a mortgage in the past[30], so all housing loans are now subject to the same conditions as the first, regardless of how many mortgages the borrower has previously taken out. This is referred to as "equal treatment for second mortgages," and is expected to stimulate housing demand among the wealthy and push up housing prices, especially in large coastal cities[31].

These three measures represent a departure from the Xi Jinping administration's previous policies, namely the "three red lines" and "common prosperity." Although the government has not publicly declared the scrapping of the "three red lines[32]," the credit facility and the comprehensive financial support plan can be viewed as policies resulting in the "three red lines" now existing in name only. The same can be said for common prosperity. To deliver common prosperity, the Xi Jinping administration had been trying to curb speculative home purchases with the mantra that "housing is for living, not for speculation," but "equal treatment for second mortgages" does nothing more than encourage speculation.

A major shift in this policy was being predicted in China, following the July 2023 meeting of the Politburo of the Communist Party of China (CCP), where the above mantra was absent from the statement and instead it was asserted that "real-estate

policy will be adjusted and optimized in a timely manner to adapt to the new situation of significant changes in the relationship between supply and demand in the real-estate market(33).” Symbolic of this is the “equal treatment for second mortgages” concept, which has created quite a stir within China. At meetings of the Standing Committee of the National People’s Congress and the Central Financial Work Conference in October 2023, it was stressed that a financial crisis would not be permitted to unfold(34), so the Xi Jinping administration is sending a clear signal that it is prepared to deploy all available policy tools to avert a such a crisis.

In November 2023, the government said it would expand lending to private real-estate firms, which are more cash-strapped than state-owned enterprises(35). This unusual mention of private enterprises was probably designed to prevent the fallout from the defaults by these companies spreading to state-owned enterprises. Also in November 2023, the market grew hopeful that policy measures would be taken to stave off a financial crisis, as rumors swirled that the government had drawn up a list of 50 real-estate development companies, including Country Garden, that ought to be prioritized for support(36), and that it would permit the extension of working capital loans to certain real-estate developers(37).

2) Restructuring of real-estate development companies remains untouched

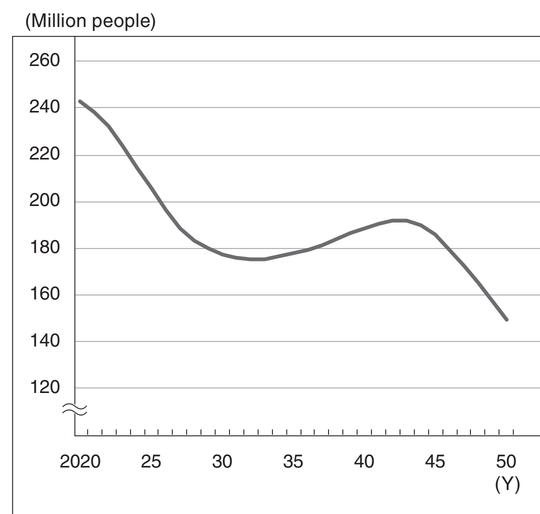
While this set of policies will help alleviate the cash-flow headaches faced by real-estate developers and reduce defaults, the measures can be viewed as a high-risk strategy that could lead to bigger shocks to China’s economy in the future. Declining demand is inevitable in China’s housing market. Without restructuring efforts to align with the shrinking market, real-estate developers will not see improved performance. All that will happen is that their debt will swell.

Chinese real-estate developers face the challenge of dealing with a prolonged, though intermittent, decline in housing demand. Estimates of the typical age at which people buy a home in China differ slightly depending on who conducted the survey, but it is roughly between the late 20s and the mid-30s(38). The population in this age group will fall significantly in the future. According to the United Nations, the number of people aged 26-34, which was 242.79 million in 2020, will decline by 67.89 million to 175.08 million in 2032 (Fig. 16). Given that the urban vacancy rate was already at 21.4% as of 2017, that a child living in a city could eventually inherit three houses, and that the marriage rate is falling, actual demand for new homes is expected to decline at an even faster rate than Fig. 16 would suggest.

In 2022, Beike Research Institute, a think-tank specializing in real estate, released a long-term housing demand forecast for China, in which it predicted that housing demand would gradually fall from 9.4 billion square meters over the five-year period 2016-2020 to 6.9 billion square meters in the five-year period 2031-2035 (Fig. 17). Housing area sold in China dropped sharply to 990 million square meters in 2022, down 29.7% from the previous year. The COVID pandemic and the “three red lines” were undoubtedly factors, but even without them, demand for real estate in China had passed its peak.

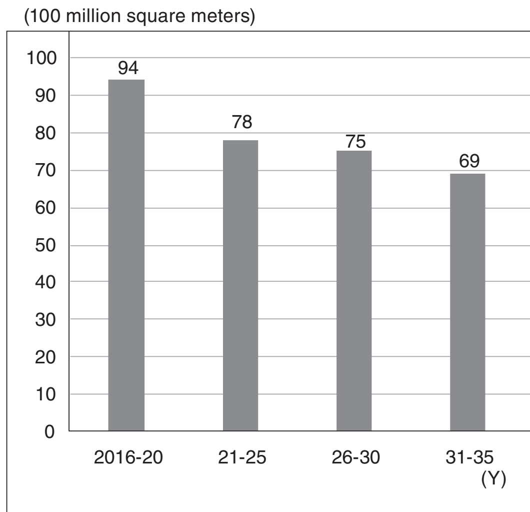
The effect of “equal treatment for second mortgages” will only be temporary. Given the declin-

Fig. 16 Chinese Population Aged 26-35



Notes: Figures from 2022 onwards are estimates (medium-variant projection).
Source: Prepared by JRI based on UN World Population Prospects 2022

Fig. 17 Housing Demand in China



Notes: Figures for 2021-2025 and onwards are estimates.
Source: Prepared by JRI from Beike Research Institute [2022]

ing demand for housing, real-estate policy must focus on the central issue of how to restructure real-estate development companies while limiting the economic and social impact. Real-estate developers cannot simply be liquidated in accordance with the Enterprise Bankruptcy Law because of the problems they are grappling with, such as "unfinished apartments" and the potential to unleash a financial crisis. However, if the government, due to its wariness of this possibility, continues to toss real-estate development companies cash-flow lifelines and take steps to fire up demand, the debt on their books will continue to balloon, and the Chinese economy will eventually experience a shock from which it will struggle to recover.

(2) Response to the local-government debt crisis

1) "Refinancing bonds" and "Special bonds for SMB"

Although the LGFVs are not defaulting like the real-estate development companies are, this is because the former have been rescued by "implicit government guarantees," and the local-government debt crisis is actually more serious than the real-estate crisis in that LGFVs and local governments, which are their investors, have not felt a sense of urgency at all. In the second half of 2023, this problem was exacerbated by responsibility for reviving the LGFVs shifting from local governments to the central government, and bailout measures becoming more extensive.

The most attention-grabbing central government initiative to rescue the LGFVs is the attempt to slash their debt with "special refinancing bonds." Often referred to as just "refinancing bonds," these "special refinancing bonds" are deployed under a scheme that allows local governments to issue new local-government bonds and exchange a portion of them for LGFV bonds already issued under their purview. The decision to issue "refinancing bonds" was prompted by the July 2023 meeting of the CCP's Politburo, at which it was stated that "it is essential to effectively prevent and resolve local-government debt risks and to determine and implement a package of debt reduction measures(39)."

The Ministry of Finance is expected to eventually allocate RMB1.5 trillion in "refinancing bonds" to local governments(40). Since the outstanding balance of LGFV bonds in October 2023 was RMB13.4 trillion(41), this means that 11.2% of LGFV bonds will be replaced with local-government bonds via the refinancing-bond mechanism. Local-government bonds are recorded on the balance sheet of the local government concerned and carry lower interest rates than LGFV bonds, so "refinancing bonds" have the advantage of making LGFV debt, which is "hidden debt," more visible, while at the same time making debt reduction easier by reducing the interest burden of LGFVs.

Breaking down the allocation to each region, which had been decided by October 2023, Yunnan Province received the biggest allocation at RMB107.6 billion, followed by Guangxi Zhuang Autonomous Region at RMB49.8 billion, Inner Mongolia Autonomous Region at RMB40.3 billion, and Shandong Province at RMB28.2 billion(42). Since Jiangsu and Zhejiang provinces, which have large amounts of LGFV bonds outstanding, are not included here (Miura [2023b]),

the "refinancing bonds" are likely to have been mainly allocated to regions away from the coast that have issued LGFV bonds at high interest rates. The issuance of "refinancing bonds" through October totaled RMB564.5 billion, only about one-third of the RMB1.5 trillion envisioned by the Ministry of Finance, and further issuance is expected from the end of 2023 and into 2024.

The second initiative of note was to allow local governments to increase issuance of special bonds called "revenue bonds" for the purpose of injecting capital into SMBs. "Revenue bonds" were formerly issued to finance infrastructure projects, but in October 2020 issuance of them to fund recapitalization of SMBs was given the green light(43). To distinguish them from conventional "revenue bonds," they are also referred to as "Special bonds for SMB," and it is estimated that more than 600 SMBs received capital infusions via these bonds over the three-year period from 2020 to 2022(44).

In the first seven months of 2023, the issuance of "Special bonds for SMB" totaled RMB147.3 billion, less than the figure for "refinancing bonds," but 2.3 times the RMB63 billion issued in 2022(45). The backdrop to this was that at the Politburo meeting in July 2023, it was stated that "it is necessary to play a more leading role in government investment and to speed up the issuance and utilization of special bonds by local governments." Guangdong Province, Liaoning Province, Hebei Province, Inner Mongolia Autonomous Region, Yunnan Province, Sichuan Province, Shaanxi Province, and Xinjiang Uygur Autonomous Region are among the regions that have issued the bonds.

2) Prevalence of moral hazard

"Refinancing bonds" have not only advantages but also disadvantages. The biggest problem is that, as mentioned above, the sense of crisis among the parties involved has not increased at all, and this could even result in moral hazard. The market began to expect the central government to bail out the LGFVs because the expression "it is essential to determine and implement a package of debt reduction measures" was used at the July Politburo meeting, and because this choice of words went further than the "local-government debt management needs to be strengthened and new hidden debts strictly controlled" used at the same meeting in April(46).

In fact, the environment surrounding the LGFVs changed dramatically following the Politburo meeting. In August 2023, the popularity of Tianjin Infrastructure Investment Group's short-term bonds soared, with yields dropping from the 5-6% range to the 3-4% range(47). The Group had only managed to repay its debt thanks to a bank loan, and the yield on its bonds was one of the highest among LGFVs, indicating that it was seen as a major credit risk. However, the Politburo meeting seemed to have squelched that risk. Once it was confirmed that the central government would move to bail out the LGFVs through "refinancing bonds," market tensions eased further, and the average yield on LGFV bonds as a whole fell to below 4% in October 2023. Furthermore, by the end of 2023, Chinese financial institutions were reportedly buying LGFV offshore bonds, which foreign investors had been shunning, in the hope that they were covered by "implicit government guarantees(48)."

Such optimism hinders debt reduction by the LGFVs. "Refinancing bonds" are no more than a stopgap measure. They serve as a "carrot" for the LGFVs, so unless they are coupled with a "stick" to drive non-viable LGFVs out of the market, LGFV debt will not decrease. Bailouts of LGFVs via "refinancing bonds" have occurred three times in the past: 1) RMB12.2 trillion in cumulative issuance from 2015 through 2018, 2) RMB157.9 billion in 2019, and 3) RMB4.5 trillion from December 2020 to June 2022(49), so this fourth round was quickly decided on without any such discussions(50).

However, assuming that the LGFVs' return on invested capital and return on infrastructure investment will decline, it is clear that resuscitating them with "refinancing bonds" is unsustainable and will likely end up only contributing to the moral hazards of the LGFVs and local governments. While "refinancing bonds" may have helped to parry a financial crisis originating from the LGFVs, the bonds have the major drawback of

raising expectations of "implicit government guarantees" for the LGFVs and the local governments that sponsor them, which erodes their motivation for debt reduction.

And the same can be said for the "Special bonds for SMB." Banks are supposed to scrutinize the creditworthiness of borrowers before deciding whether to grant them loans, but screening of LGFVs, which are state-owned enterprises, has been negligible because of the "implicit government guarantees" in place. Local governments bail out SMBs using "Special bonds for SMB" only because they are not in a position to unilaterally hold the banks accountable as the "implicit government guarantees" affect the availability of loans.

However, it is clear that as the number of viable LGFVs declines, SMBs that have relied on "implicit government guarantees" and expanded their lending to LGFVs will soon find themselves in a quandary. To reduce the number of SMBs content to sit back and lend to LGFVs with no risk of default, it will be essential to review the "implicit government guarantees" and evict non-viable LGFVs from the market. Nevertheless, "Special bonds for SMB" have revealed the hard-to-break interdependence of LGFVs, local governments, and SMBs, and that all three parties regard maintaining that status quo as the easiest option.

Conclusion - Baseline scenario is looking less feasible

China is facing twin crises in the real-estate and local-government debt realms. With the former, the focus is on how far defaults by real-estate developers will spread, and with the latter, on when the LGFVs will default, and there are worries that the crises could develop into a full-blown financial crisis. Can the Xi Jinping administration overcome the two crises? It is not surprising that concern about the future is becoming more widespread.

At the risk of being blunt, however, the problem with the real-estate crisis is not that more and more real-estate development companies are defaulting, but that even now none of them are proceeding with bankruptcy or restructuring procedures under the Enterprise Bankruptcy Law, despite the fact that defaults are increasing. The background to this has been repeated bolstering of measures to keep real-estate development companies afloat, such as expanded credit lines and longer loan periods, as well as steps to revive housing demand such as "equal treatment for second mortgages."

Meanwhile, the problem with the local-government debt crisis is not when the LGFVs will default, but that they do not default at all, despite the fact that the number of LGFVs with the potential to default is on the rise. Background factors here have been local governments calling on banks to switch to low-interest loans and establish credit lines. Another big factor is that with the issuance of "refinancing bonds" and "Special bonds for SMB," the burden of rescuing LGFVs has shifted from local governments to the central government.

The problem is that none of these can be regarded as sustainable policies. Housing demand is certain to taper off as the population in the main age group for home purchases declines. Due to depleted earnings from their infrastructure investments, LGFVs are no longer able to cover the interest on their bank borrowings and outstanding bonds. The raft of policies rolled out by the Xi Jinping administration are fatally flawed, as they just seek to postpone the problem. There is no fundamental reform scenario, i.e., reducing indebtedness through the bankruptcy and restructuring of real-estate development companies and LGFVs.

It is not default risk that is raising concerns about China's economic outlook, but rather policy risk, as policies seem to lack a clear "end goal." This is why China's economic prospects look shaky, and certainty regarding the outlook for the country's economy is bound to decline. In its October 2023 World Economic Outlook, the IMF contended that China's economic growth rate would gradually slow to 3.4% in 2028. This is the baseline scenario, and is neither optimistic nor pessimistic. The likelihood of a downturn in the Chinese economy has never been greater, and even the realization of that baseline scenario must be viewed as doubtful.

End Notes

1. There was a possibility of Evergrande Group being issued a winding-up order by the Hong Kong High Court if it failed to settle on a restructuring plan by December 4, 2023. However, the hearing was postponed to the end of January 2024, ostensibly to give time for the creditors to examine the debt restructuring proposal presented by Evergrande. "Evergrande liquidation hearing pushed to Jan, focus on new debt revamp plan," Reuters, December 4, 2023. (https://jp.reuters.com/markets/japan/funds/FMKH3RUNYVMJPBEQLP7CFIL23E-2023-12-04/)

2. "2023年三季度国内生产总值初步核算结果," October 19, 2023, National Bureau of Statistics. (http://www.stats.gov.cn/sj/zxfb/202310/t20231019_1943720.html)

3. "住建部重磅発声：降低首套房首付比，落实認房不認 貸," July 28, 2023, NetEase. (https://www.163.com/dy/article/IANIH4E00512D3VJ.html?clickfrom=w_house)

4. However, some point out that the housing price data published by the National Bureau of Statistics is gathered from real-estate development companies and deviates from market transaction prices. For more details, see "China's housing slump much worse than official data shows," August 17, 2023, The Strait Times. (https://www.straitstimes.com/business/china-s-housing-slump-much-worse-than-official-data-shows)

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