



Evergrande Group and China’s Debt Challenges

Since 2021, some Members of Congress have raised issues about debt levels of the People’s Republic of China (PRC or China) and possible risks of U.S. exposure to China in the event of PRC corporate defaults or a broader financial crisis. The 2021 default on its domestic and foreign debt by Evergrande Group, China’s second largest property developer, highlights: (1) ongoing issues in China’s property sector; (2) the structure and operations of PRC firms in China and offshore; and (3) the role of the state in PRC firms, in general and in times of crisis. The Evergrande case also raises broader issues for Congress, including (1) foreign creditor rights in PRC corporate restructurings; (2) potential opacity and risks in how PRC firms are structured, operate, and report; and (3) the extent to which China market risks are sufficiently disclosed.

Evergrande Group

Evergrande is a state-tied property conglomerate based in Shenzhen that also operates energy, entertainment, health, insurance, and technology businesses. It was founded in 1996 at a time when PRC central and local governments were liberalizing investment in the property sector. Tax reforms in 1994 had shifted a large amount of local revenue flows to the central government. This shift prompted local governments, including Shenzhen, to turn to the sale of land-use rights and bond issuances for revenue, including through the use of local government financing vehicles (LGFVs). Property transactions and property values became ever more important to local governments.

In this context, the Shenzhen government became a major shareholder in Evergrande. In 2017, Evergrande moved its real estate assets into Hengda Real Estate Group Co., Ltd. Hengda in turn then sold 25% of its shares to the Shenzhen government and other state investors. Evergrande also is tied to the central government through shareholding by the Ministry of Finance’s CITIC Group. Additionally, in 2018, Evergrande signed a \$16 billion agreement with the PRC government’s China Academy of Science to invest in foreign technologies on its behalf. Under this arrangement, Evergrande acquired electric vehicle firms in the United States, the United Kingdom, and Sweden, and invested in biotechnology research at Harvard University.

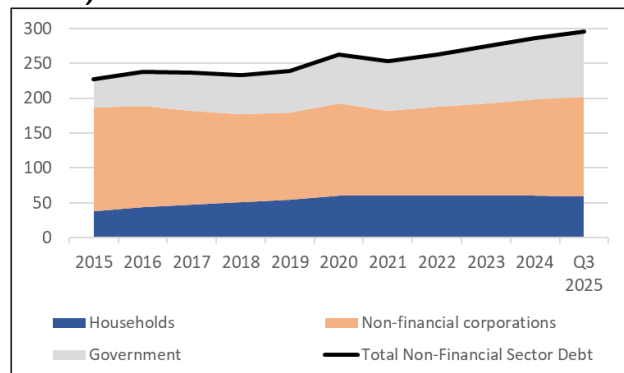
Evergrande’s overseas presence allows it to raise and transfer funds in and out of China. In 2022, Evergrande had more than 500 domestic and overseas subsidiaries and was listed in Hong Kong. While Evergrande was delisted in 2025, three of its subsidiaries—China New Energy Vehicle, China Ruyi Holdings Ltd., and Evergrande Property—are still listed in Hong Kong. Evergrande’s CEO controls two firms registered in the British Virgin Islands—Xin Xin (BVI) Ltd. and CEG Holdings (BVI) Ltd.

Evergrande’s Debt and Restructuring

In 2021, Evergrande was unable to repay \$305 billion (2% of China’s GDP in 2021) it owed to PRC and foreign creditors and defaulted on its debt. That figure did not

include off-book liabilities. In 2024, a Hong Kong court ordered Evergrande to liquidate assets tied to its Hong Kong unit after a failed restructuring deal among PRC banks and foreign creditors. The court ruling does not apply to Evergrande’s PRC subsidiaries, which constitute 90% of its business. Since 2021, the firm’s PRC assets have been mostly redistributed to domestic creditors, particularly local governments. In 2021, Hong Kong and PRC authorities agreed to mutually recognize liquidation orders. In 2024, PRC securities regulators fined the firm \$580 million and banned its founder from financial markets. Liquidators sought to recover \$6 billion and initiated legal action against Evergrande’s auditors. In 2024, PRC authorities fined Pricewaterhouse Coopers (PWC) \$62 million, and, in 2026, Hong Kong authorities fined PWC \$166 million for overstating Evergrande’s revenues. According to Bloomberg, as of 2025, Evergrande owed \$300 billion and held about \$240 billion in assets. Holders of the firm’s debt in Hong Kong were seeking to recover \$45 billion.

Figure 1. China’s Debt in Nonfinancial Sectors (as a % of GDP)

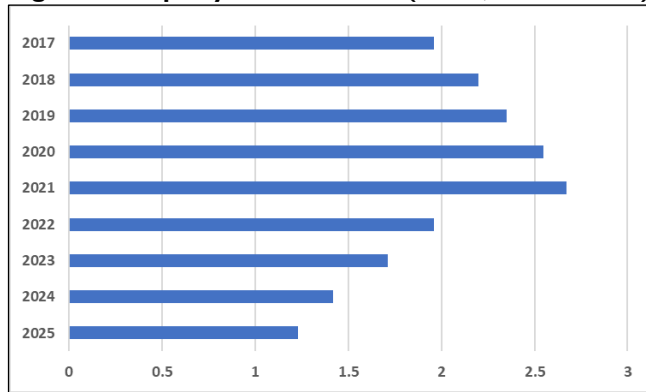


Source: CRS, with data from the Bank for International Settlements.

Notes: Government debt in nominal value. Comparable U.S. total nonfinancial debt as of Q3 2025 was about 256% of GDP.

PRC Debt and Deleveraging Efforts

PRC total debt in nonfinancial sectors—household, corporate, and government—reached 296% of GDP as of Q3 2025 (Figure 1), with the majority of debt held by companies, including property developers such as Evergrande. The IMF estimates that explicit local government debt in 2025 reached 39% of GDP (about \$8 trillion), while LGFV debt reached 51% of GDP (about \$10.4 trillion). China relies on debt-financed fixed asset investment (including property) and exports for growth. Reliance on the property sector for growth constrains PRC efforts to reduce debt without broader economic effects. Property is a main source of local government revenue and factors into household net worth and corporate valuations. Declining land revenue affects local governments’ ability to repay debt. The value of property sales in China has fallen 54% since 2021, potentially challenging local governments’ ability to service debt (Figure 2).

Figure 2. Property Sales in China (Value, US\$ Trillion)

Source: CRS, with data from Bloomberg Intelligence.

In 2016, the PRC government initiated a campaign to rein in corporate and local government debt and unauthorized lending. This included scrutiny of overseas real estate, entertainment, and sports investments by certain firms, including Anbang Insurance, Ant Financial, Dalian Wanda Group, Fosun International, and HNA Group. The government realigned these firms' investments with state goals, transferred assets to state investors, and established related state trusteeship. In 2018, the PRC government pledged to tackle financial risk as one of "three tough battles," and in 2019 bailed out several banks. In 2020, it launched a "three red lines" policy for property developers that set: a 70% ceiling on liability to asset ratios; a 100% cap on net debt to equity ratio; and a cash requirement to cover short-term liabilities. Since 2020, Beijing has raised quotas for special bonds and fast-tracked corporate bond issuances to raise debt financing and stabilize local banks. In 2026, it is to issue \$644.7 billion in local-government bonds to fund projects and fiscal transfers, and reduce debt.

PRC Approaches to Corporate Risk

The PRC government has sought to rein in some firms' activities and avoid broader market effects. PRC restrictions on capital flows have contained some risks, but property firms' large market exposure complicates these efforts:

- **PRC government actions can trigger firms' bankruptcy.** Evergrande's debt crisis followed government restrictions in 2021 that constrained its ability to raise new funds to pay its extensive debt obligations. Tightening domestic housing policies arguably also weakened Evergrande's position.
- **Restructuring assets and shareholding avoid direct bailouts.** The PRC government is a shareholder in Evergrande and other firms it regulates. It often directs state investors to acquire assets to cover liabilities and reposition troubled firms, at times realigning winners and losers within China's system. In 1999 and 2003, the government created asset management companies to offload pervasive non-performing loans in the state banking sector. Since 2012, the government has periodically directed a "national team" of state firms to purchase stocks to boost PRC capital markets. The Shenzhen government and other state investors had previously supported Evergrande through investment and assumption of its liabilities.
- **Creditors may not be repaid equally.** The PRC government typically prioritizes repayment for

domestic retail investors, suppliers, contractors, and banks and may not require repayment of unregistered investments and internal corporate transactions (among business units and executives). In 1999, after the collapse of the Guangdong Investment Trust Corporation, the government prioritized domestic creditors. HNA Group repaid \$25 billion of its \$60 billion in obligations during restructuring.

Investment and Accounting Practices

Evergrande's and other PRC corporations' investment practices can contribute to highly leveraged situations.

- **Counting unbuilt/unsold properties and interest payments as assets.** About 60% of the firm's \$240 billion in assets are unbuilt/unsold properties, and the firm counts loan interest payments as assets. This inflates the firm's position and increases default risks if property values fall.
- **Using previously financed deals as collateral for new loans.** This practice allowed Evergrande to accumulate debt and become leveraged. In the case of another PRC firm, HNA, the People's High Court of Hainan Province determined that its affiliates provided mutual guarantees for repayments. In 2019, the Swiss government charged HNA with using this practice to fund in its global acquisitions and operations.
- **Investing beyond the core business.** Some firms use insurance/wealth management firms to invest offshore.
- **Use of complex offshore structures tied to the CEO.** To facilitate financial flows offshore, PRC firms often use overlapping contracts and shareholding that make it difficult to assess liabilities. Evergrande's CEO and his family held a large share of the firm's offshore debt. In 2021, a Hainan court merged 320 of HNA's affiliates because: (1) it could not disaggregate complex ties and shareholding; (2) internal controls were fictitious; (3) internal credit and debit deals were impossible to align; and (4) shell companies were used extensively.

Options for Congress

Congress directed U.S. audit oversight of and reporting requirements for foreign firms in P.L. 116-222. Congress could consider expanding disclosure and audit requirements for PRC firms that list on U.S. exchanges or invest in the United States. Congress could require a study to ascertain (1) PRC firms' use of complex corporate structures, investment practices, and accounting methods, and ties to the PRC state; and (2) how such approaches affect the use of U.S. authorities regarding PRC firms and create risks.

In late 2025, Congress enacted legislation on outbound investment to China (P.L. 119-60). Congress could consider additional oversight or actions with regard to U.S.-China investment. Congress might assess China's property market and debt levels with an eye to U.S. investment exposure to China. Congress also could ask the Securities and Exchange Commission and the Treasury to regularly report on aggregate U.S. exposure to China's economy and PRC firms (including firms registered offshore), and any risks.

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