

В. М. Жудро, Т. П. Шакель, Л. Т. Ёнчик // Актуальные вопросы переработки мясного и молочного сырья: сб. науч. тр. / РУП «Институт мясо-молочной промышленности»; редкол.: А. В. Мелешня (гл. ред.) [и др.]. – Минск, 2022. – Вып. 16. – С. 32–40.

CHINA'S FINANCIAL INNOVATION IN RESPONSE TO EVERGRANDE'S BANKRUPTCY

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Annotation. At certain specific times, financial institutions will adopt new processes and establish new channels to solve problems. Evergrande Group filed for bankruptcy protection in New York, USA. For the Chinese financial market, this is exactly the moment that requires financial innovation. In this situation, the relevant departments of the Chinese government adopted the method of issuing special bills by wholly-owned state-owned enterprises based on the principle of "not breaking down the trust of banks and not breaking down insurance licenses" to basically eliminate systemic financial risks.

1. The whole story of Evergrande's bankruptcy.

China Evergrande Group and its affiliated companies had liquidity problems caused by debt problems. Eventually, Evergrande defaulted due to insufficient liquidity to repay debts, and is currently in the process of debt restructuring. Since the failure of Evergrande Real Estate's backdoor listing of Shenzhen Real Estate in 2020, Evergrande has faced the risk of a capital chain break for the first time. Although Evergrande successfully quelled the incident in September, its financial situation has not improved. In November 2020, Evergrande's commercial bills were overdue for the first time, and then the wave of overdue commercial bills intensified. It was recognized for the first time in June 2021, and the market reacted strongly. After the Evergrande Fortune storm in September 2021, Evergrande's debt problem became the focus of the market. In the second half of the year, Evergrande's debts of US \$669 million matured one after another. Evergrande avoided default at the last minute twice in a row until December 3, 2021. Declared unable to meet debt obligations. After the incident, the government and regulatory agencies quickly followed up and established a risk resolution committee on December 6 to organize the restructuring, triggering the largest debt restructuring case in Chinese history. According to media statistics, the debt scale is as high as RMB 1.97 trillion and there are also a large number of hidden liabilities. The Evergrande crisis has intensified the turmoil in the real estate market. After Evergrande, well-known real estate companies such as Kaisa, Sunac, and R&F have had debt problems one after another. The real estate crisis has also indirectly impacted the upstream and downstream industrial chains and financial markets. The real estate crisis has resulted in the postponement of a large number of real estate projects, and relevant

owners have also begun to suspend lending in 2022, further affecting financial and social stability.

2. Specific measures for China's financial innovation.

Faced with Evergrande's debt crisis and the financial problems of filing for overseas bankruptcy, relevant Chinese government departments adopted the method of issuing special bills by wholly-owned state-owned enterprises based on the principle of "not breaking down the trust of banks and not breaking down insurance licenses". Systemic financial risks are basically eliminated.

In terms of banking: Shengjing Bank announced that the company has entered into a RMB 176 billion asset sale agreement with Liaoning Asset. Liaoning Asset has conditionally agreed to purchase the assets sold, and the consideration will be paid by Liaoning Asset's targeted issuance of special notes to the company.

In terms of insurance: The State Administration of Financial Supervision and the Shenzhen Supervision Bureau of the State Administration of Financial Supervision have successively issued announcements, announcing that they have approved the establishment and opening of Harbor Life Insurance Co., Ltd., and agreed that Harbor Life will transfer the insurance business of Evergrande Life Insurance Co., Ltd. as a whole. Corresponding assets and liabilities.

3. The specific significance of China's financial innovation.

First of all, Evergrande Group's total debt reached 1.97 trillion yuan, equivalent to 2 % of China's GDP, which is a gray rhino incident. Problem-solving solutions are necessary. Secondly, the use of special bills to liquidate bank non-performing assets essentially trades time for space, allowing future earnings to be used to hedge risks, solving current problems and saving the market credit of real estate. Finally, solving bank bad debts through special bills has also become a learning template for other real estate companies to save their book funds.