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The Chinese Real Estate Market Crisis: Causes, Development Mechanisms, and Global Economic Consequences

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Abstract

This article examines the Chinese real estate market crisis as one of the most significant structural tests of the country's modern economy. It analyses the causes of the massive housing bubble, including the role of real estate as the primary means of preserving household capital, the dependence of economic growth on the construction sector, the shared-equity construction mechanism, and the accumulation of debt burdens among developers. Particular attention is paid to the crisis of the largest construction corporations, primarily Evergrande, and the consequences of declining investor and buyer confidence in the primary housing market. The paper examines government regulatory measures aimed at stabilising the sector and explains the Chinese authorities' choice of gradual market correction over large-scale financial stimulus. It also examines possible scenarios for the crisis's further development—from controlled adaptation to a deeper economic downturn—and assesses their potential impact on the global economy through international trade and supply chains. This analysis demonstrates that the Chinese real estate crisis is not only a problem for the construction industry but also a manifestation of broader structural limitations of an economic model based on investment, debt financing, and the constant expansion of housing construction.

Keywords: Chinese economy; real estate market; housing bubble; financial stability; debt burden; development companies.

Introduction

Real estate traditionally holds a special place in the economies of most countries, serving as both a consumer commodity, an investment asset, and a key driver of economic activity. In a context of rapid economic development, the construction sector can stimulate industrial production, employment, infrastructure development, and domestic demand. However, excessive reliance on the real estate market can create significant structural risks, particularly in the event of prolonged price increases, debt accumulation, and inflated expectations for further market expansion.

The Chinese experience is particularly interesting for economic analysis, as real estate has long been a central element of the country's development model. The expansion

of housing construction was closely linked to urbanisation, infrastructure modernisation, and the transformation of the national economic structure. At the same time, the gradual strengthening of real estate's role has created a complex system of interdependencies among households, financial institutions, construction companies, and government agencies.

The changing operating conditions of the real estate market in China have become an important example of how a successful economic model can face internal constraints. Imbalances in a key economic sector can affect not only market participants but also broader economic development, financial stability, and international cooperation.

This study is relevant because it seeks to better understand the mechanisms that lead to large-scale economic imbalances and how to regulate them in today's highly interconnected global economy. An analysis of the Chinese real estate market allows us to examine the broader patterns of economic models based on investment growth, credit expansion, and the significant role of individual sectors in driving economic growth.

This article examines the causes of the crisis in the Chinese real estate market, analyses the factors that shaped its development, and assesses the potential consequences for the national and global economy. This study examines the role of real estate in the Chinese economic system, the mechanisms for the accumulation of structural imbalances, the impact of the debt-based financing model, and possible directions for further market transformation.

The study's methodological basis includes a review of scientific literature, an analysis of statistical materials, a review of official documents, and a comparative analysis of other real estate market crises.

The Role of Real Estate in China's Economic Model

According to various estimates, up to 80 million apartments are empty in China—a housing stock comparable to the amount of housing required to house the entire population of Germany. Most of these properties were purchased by private individuals and fully paid for, but they are not actually used for their intended purpose. Moreover, a significant portion of owners did not initially consider the purchased properties as permanent residences. To explain this situation, it is necessary to address the widespread notion of real estate as the most reliable means of preserving capital.

In the public consciousness, real estate is traditionally perceived as an asset with a high degree of resilience to financial risk. Unlike cash, which is subject to inflationary depreciation; bank deposits, which are associated with institutional risk; or securities, which are characterised by high volatility, real estate is a tangible asset that can be used for residential purposes, generate rental income, and is expected to appreciate over the long term. It is precisely this investment logic that has become unprecedentedly widespread in China. For decades, hundreds of millions of households have invested a significant portion of their savings in residential property. Rapid demand growth has driven a massive expansion of the construction sector. Significantly, in just three years, China consumed more cement than the United States did in the entire 20th century, demonstrating unprecedented rates of urbanisation and housing construction.

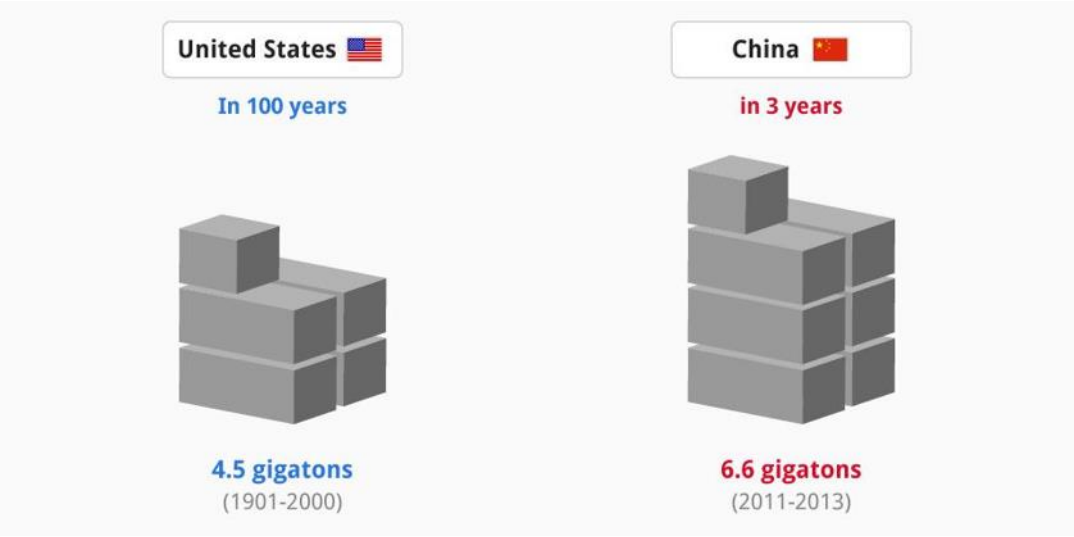

Figure 1. Cement consumption U.S. vs China

Source: Gatesnotes, USGS, Cement Statistics, Mineral Industry of China

Over time, the real estate sector has become a key driver of the national economy. Construction, housing sales, and related industries have supported nearly a third of the Chinese economy. However, over the past five years, the sector has been in a protracted crisis. After years of continuous growth, residential property prices have begun to decline, and this downward trend continues today.

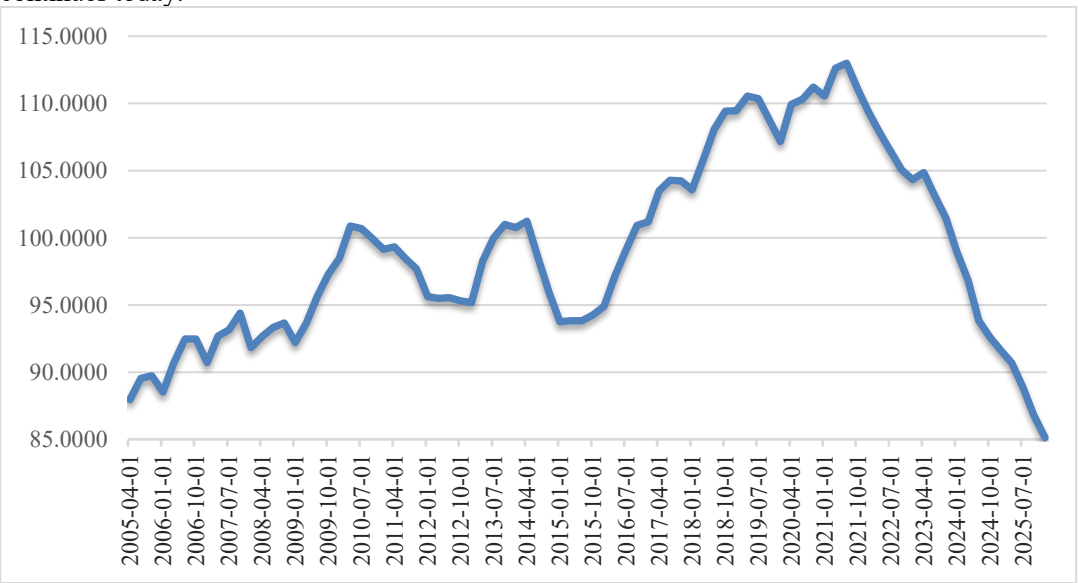

Figure 2. Dynamics of residential property prices in China in 2005–2026 (index, 2010 = 100)

Source: compiled by the authors based on data from the Bank for International Settlements (BIS Residential Property Price Database) and national statistics of China

The significance of these ongoing processes extends far beyond China's domestic market. The country accounts for approximately one-fifth of global gross domestic product, meaning crisis events in the Chinese economy inevitably affect global financial and commodity markets. In this regard, the following questions are of research interest: how did China's economy

become so closely linked to the real estate market? Why is one of the world's most successful housing markets facing a systemic crisis? What consequences might the final collapse of the existing price bubble entail? And does real estate retain its status as the most reliable means of preserving capital amid such structural changes?

To understand the reasons for such a large-scale concentration of capital in the real estate sector, it's necessary to consider the investment opportunities available to the average Chinese household. Bank deposits have long been characterised by extremely low returns because interest rates at the country's largest banks often did not exceed one per cent per year. Investing in the stock market was also perceived as a high-risk strategy due to the significant volatility of Chinese stock indices. At the same time, restrictions on cross-border capital movements significantly hindered the transfer of large sums of money outside the country and their investment in foreign assets.

As a result, for the majority of the population, the residential real estate market remained the only investment vehicle, combining relative affordability, tangible asset form, and the expectation of long-term value growth. According to the People's Bank of China, approximately 96% of urban households own at least one apartment, one of the highest rates in the world and exceeding similar figures in most countries in Europe and North America. Despite this high level of housing ownership, demand for new properties continued to grow.

As real estate prices increased, so did public belief in its exceptional investment value. Many families purchased a second apartment for rental income, a third with the expectation of subsequent resale at a higher price, while some properties remained completely unoccupied. In such cases, real estate was viewed not as a consumer good, but primarily as a means of preserving and accumulating capital.

In China, the notion of real estate as the most reliable means of preserving capital became systemic and effectively defined the national economic development model. To illustrate this relationship, consider a family living on the income of a single individual. As long as the sole breadwinner maintains a stable income, the family's financial stability is unquestioned. However, losing the ability to work inevitably affects each member's well-being. Similarly, the Chinese economy has long relied on the real estate sector as one of its key sources of economic growth.

Mechanisms of Housing Bubble Formation

The financial resources the population invested in purchasing housing created a steady flow of capital, which was distributed among numerous participants in the production chain. Development companies invested the proceeds in construction, procuring building materials, developing utility infrastructure, and paying wages. In turn, enterprises in the cement, metallurgy, furniture, and electrical engineering industries received a stable volume of orders, creating millions of jobs both directly in production and in related sectors, including transportation, logistics, and raw material supply. An additional source of revenue for local governments was the sale of land to construction companies, which contributed a significant portion to regional budgets. Collectively, housing construction and related industries supported nearly a third of the Chinese economy.

This model remained sustainable as long as real estate prices continued to rise. Rising housing prices stimulated further demand, construction activity expanded steadily, the industry received new orders, and local budgets maintained high revenues. Amidst sustained growth, market participants paid virtually no attention to potential structural risks, as the established system was perceived as self-sustaining.

However, the fundamental vulnerability of this model lay in the organisation of the primary housing market. In China, most apartments were purchased during the construction phase—eighteen months to two years before the building was commissioned. Analysts estimate that the share of such transactions reached approximately 90%, demonstrating the dominance of shared-equity construction.

Under this model, the buyer entered into a contract to purchase an apartment that existed only in the design documentation, made a down payment or took out a mortgage, and over the next several years made regular payments on the property, which was not yet completed. Thus, the financing of development projects was carried out primarily at the expense of future homeowners.

Initially, this system ensured high liquidity in the construction sector, but as the market expanded, its functioning became dependent on a constant influx of new buyers. In practice, funds received from the sale of apartments in new residential complexes were often used not for the construction of the corresponding buildings, but to complete previously launched projects that were experiencing funding shortages. Consequently, the completion of each subsequent residential complex required the attraction of new market participants, whose investments covered the liabilities incurred on previous projects.

As a result, a model of continuous refinancing emerged, in which the sustainability of the entire system was determined solely by maintaining high sales levels. While demand remained stable, developers actively expanded their operations, implementing ever larger projects: individual residential complexes were transformed into new neighbourhoods, and then entire cities. At the same time, the debt burden of construction companies also increased, but with constantly rising prices and high demand, the accumulation of liabilities was not perceived as a critical issue, as future sales were expected to provide the necessary cash flow. However, even this massive investment activity fails to explain one of the most paradoxical features of the Chinese real estate market. Despite record levels of demand for housing and significant construction volumes, a huge number of unoccupied residential complexes have emerged across the country. This circumstance naturally raises the question of why entire urban areas were built in areas where there was initially insufficient solvent demand and where large-scale permanent residence was not anticipated.

The most remarkable feature of the emerging model is that it was not the result of management error or coincidence. On the contrary, the institutional organisation of the real estate market created economic incentives that ensured continued construction remained profitable for virtually all participants, regardless of the subsequent occupancy rate of the properties. In other words, completion of the construction project and its actual operation were not the determining factors for profitability.

The scale of this phenomenon is confirmed by research conducted by scientists at the Southwest University of Finance and Economics in Chengdu. According to their estimates, approximately one in five apartments in Chinese cities remains unoccupied for a long time. This doesn't refer to unsold properties, but to homes that have already been purchased by private owners but are not used as permanent residences and often have no plans to commission them.

A natural question arises: why haven't the owners of such properties sought to offset their expenses by renting out their properties? The answer lies in the economic efficiency of this market segment. According to various estimates, the average rental yield from residential real estate in China is only 2-3% per year, which in many cases is lower than the cost of servicing a mortgage. When we factor in maintenance, renovations, taxes, and the risks of finding and

changing tenants, it becomes clear that renting out apartments does not always provide an acceptable investment return.

Consequently, a significant number of owners preferred to keep their purchased properties unoccupied. Real estate was viewed primarily as a means of capital accumulation, similar to the long-term storage of precious metals or other assets intended not for current use but for the preservation of value. An additional factor was the absence of a tax on vacant housing, while years of price increases created strong expectations of further increases in the market value of properties. Under these circumstances, holding onto an apartment without commercial use seemed to many investors a more rational strategy than earning a comparatively low rental income.

However, the housing oversupply was not solely due to the population's investment behaviour. The economic interests of development companies and local government bodies also played a significant role in the expansion of construction. In China's administrative system, the central government appoints regional leaders, and for many years one of the most important criteria for assessing their performance has been the economic growth rate of their respective territories.

Under these conditions, implementing large-scale construction projects has become one of the most effective ways to demonstrate positive economic momentum. Large-scale housing construction stimulated demand for cement and metallurgical products, provided jobs for many workers, increased land sales, and contributed to growth in key regional macroeconomic indicators. Meanwhile, the actual demand for housing built and subsequent occupancy had virtually no impact on the statistical results of the reporting period.

Thus, construction gradually emerged as an independent source of economic growth, depending less and less on actual consumer demand. On the one hand, the population sought to invest available funds in real estate, viewing it as the most reliable asset. On the other hand, regional authorities sought to implement new construction projects that would improve socio-economic development indicators. The convergence of interests between private investors, development companies, and government institutions led to a large-scale expansion of housing construction, including in areas where the objective need for new housing was minimal or completely absent.

Recognising the growing imbalances, the government attempted to stabilise the real estate market. Specifically, approximately $40 billion was allocated for the 2024 program to buy back unsold housing. Despite the significant absolute funding volume, the effectiveness of this measure was limited due to the scale of accumulated structural problems. According to Goldman Sachs analysts, approximately $2 trillion is required to fully stabilise the Chinese housing sector. Consequently, government support covered only a small portion of the necessary funding, leaving many residential complexes unoccupied. By this point, the real estate market had developed an extremely complex system of interdependencies, including large volumes of vacant housing, a mechanism for mass presales, high developer debt, and the industry's significant dependence on bank lending. The sustainability of this model was ensured by construction companies' constant access to relatively affordable credit, which had been actively provided by financial institutions for many years. However, in 2020, the government decided to significantly limit the possibility of further increases in debt financing, marking a turning point in the development of the real estate market crisis.

The Evergrande Case: A Symbol of Systemic Crisis

To better understand the scale of the crisis, it's useful to look at the example of one company that has become emblematic of the systemic problems in the Chinese real estate market. This is the development corporation Evergrande, whose total liabilities at the time of the financial collapse had reached approximately $300 billion. For comparison, this amount exceeds the annual government budgets of many countries worldwide. According to available data, this is the largest debt ever accumulated by a construction company in world history. Remarkably, just a few years before the crisis, the corporation's founder, Hui Ka Yan, was considered the wealthiest man in Asia.

This debt stemmed from a business model that relied on continuously attracting external financing. The company actively used bank loans to acquire new land plots, after which it began selling apartments under construction. Funds raised from buyers through pre-sales were used to implement ongoing projects, while further expansion was again financed by new loans. Therefore, the growth in construction volumes was accompanied by a proportional increase in debt. As long as consumer demand remained strong and financial institutions continued to provide loans, this model was perceived by market participants as economically sustainable.

The turning point came in 2020, when the Chinese government introduced a regulatory system known as the "three red lines". This policy imposed strict restrictions on new debt financing for developers whose financial performance exceeded established standards. For most relatively stable market participants, these measures had no critical consequences. However, Evergrande's business model was almost entirely dependent on constantly refinancing debt through new loans. After access to bank financing was restricted, the company lost the ability to maintain its existing cash flow system.

This triggered a rapid chain reaction. A lack of liquidity led to the halting of a significant portion of construction projects, making it impossible to deliver completed homes to buyers and simultaneously complicating the servicing of existing debt obligations. At the end of 2021, Evergrande officially defaulted, marking one of the most significant events in the history of the modern Chinese real estate market. The company, long perceived as a systemically important player in the industry and considered essentially "too big to fail", found itself unable to meet its financial obligations.

Further developments confirmed the depth of the accumulated corporate problems. In April 2026, Evergrande founder Hui Ka Yan pleaded guilty in court to misappropriating funds and engaging in fraudulent activities related to raising funds. However, signs of the company's financial instability had been identified much earlier. Back in 2012, American analyst Andrew Left, founder of the research firm Citron Research, published a research report in which, based on an analysis of financial statements, he questioned the reliability of the company's data and warned of a high probability of serious financial problems. However, instead of conducting a comprehensive investigation, Hong Kong's financial regulator imposed a large fine on the analyst and temporarily banned him from trading in the city. Only nine years later did events confirm the validity of his conclusions.

Evergrande's bankruptcy generated widespread international attention. Media outlets actively covered protests by buyers of unfinished housing, massive construction delays, multibillion-dollar bond defaults, and the crisis's impact on the financial sector. However, after public interest waned, a false impression emerged that the crisis's most acute phase had ended. In fact, during this period, the country's largest developer finally collapsed.

In August 2025, Evergrande shares were finally delisted from the Hong Kong Stock Exchange after a lengthy trading suspension. During the lengthy bankruptcy proceedings, court-appointed liquidators recovered approximately $250 million in assets, representing less than one-

thousandth of the company's total debt. This figure clearly demonstrates the scale of the financial imbalance created by years of debt accumulation.

Even so, Evergrande's collapse was not an isolated event. Instead, it served as a catalyst for a widespread crisis of confidence across the entire property market. The realisation that even the country's largest developer could not complete construction projects and fulfil its obligations to buyers significantly changed the behaviour of potential investors. People became significantly more cautious about purchasing apartments off-plan, leading to a sharp decline in pre-sales. With buyers' down payments serving as the primary source of financing for new projects, many construction companies faced a severe liquidity shortage. This resulted in a series of subsequent corporate defaults. As early as October 2023, Country Garden, one of China's largest private developers, with over 3,000 residential complexes across the country, was unable to meet its financial obligations. Its total debt was estimated at approximately $190 billion. Similar problems subsequently affected other participants in the construction sector, indicating the spread of the crisis throughout the industry.

Macroeconomic indicators confirm the depth of these changes. According to official Chinese statistics, residential real estate sales in 2025 amounted to approximately 8.5 trillion yuan, almost half the peak recorded in 2021. A similar trend was observed in price dynamics. By the spring of 2026, the price of new buildings in China had been declining continuously for 33 months. The most pronounced decline was recorded in the largest urban agglomerations. Consequently, in Beijing's secondary market, the average price of residential real estate fell by about 8.5% over the year, showing the downward trend even in the country's most liquid regional markets.

For millions of Chinese households who viewed residential real estate as their primary means of capital accumulation, falling prices meant a gradual devaluation of a significant portion of their wealth. Since real estate occupied a central place in the structure of private assets, the prolonged decline in its market value directly impacted the financial situation of the population and significantly limited the ability to recover lost capital.

State Policy in Response to the Crisis

The state did not remain a passive observer of these processes. In recent years, Chinese authorities have implemented more than five hundred measures to stabilise the housing sector. These include lowering mortgage rates, easing restrictions on second-home purchases, providing financial support to development companies, and allocating funds to complete previously frozen projects. Despite the scale of these measures, they have failed to reverse the negative trend. Residential real estate prices continue to decline, demonstrating the depth of accumulated structural imbalances. A logical question arises: why didn't the Chinese government use traditional anti-crisis tools, repeatedly employed by other countries during periods of major economic upheaval? Globally, such crises are often accompanied by aggressive monetary stimulus, including sharp interest rate cuts, large-scale government support programs, buyouts of distressed assets, and a significant increase in budget spending aimed at quickly restoring economic activity.

Nonetheless, China chose a fundamentally different strategy. Instead of a large-scale liquidity injection that could have temporarily restored previous growth rates, the country's leadership opted for gradual, controlled market correction. The primary goal of this approach was not to maintain previous price levels at any cost, but to prevent a sharp and uncontrolled collapse of the largest sector of the national economy. In effect, the government opted for a lengthy adjustment process, hoping to minimise the systemic risks associated with a sudden

bursting of the price bubble. The consequence of this policy has been a prolonged decline in real estate values, which has continued for several years and shows no signs of abating.

Comparison with the 2008 US Housing Crisis

When analysing the current situation, historical parallels inevitably emerge with the global financial crisis of 2007–2009, which began with the collapse of the American mortgage market. Despite significant institutional differences between the two countries, the mechanisms underlying the crisis are largely comparable.

In the early 2000s, the United States also experienced rapid growth in residential property prices. The steady increase in the cost of houses and apartments created a persistent public belief that real estate was a virtually risk-free investment asset. The banking sector actively supported this trend, significantly expanding mortgage lending, including borrowers with insufficient creditworthiness.

The situation changed after interest rates increased. Rising mortgage servicing costs led to an increase in defaults, primarily among the most financially vulnerable households. Massive defaults reduced demand for real estate, causing prices to plummet. On average, home prices nationwide fell by approximately a quarter, while in the most overheated regions, the decline reached approximately 50%.

However, a key feature of the American crisis was the high degree of integration of the mortgage market into the global financial system. The mortgages issued did not remain on banks' balance sheets; instead, they were pooled into specialised financial instruments and distributed to investors worldwide. When millions of borrowers defaulted on their loans, the value of these securities plummeted. As a result, significant losses were incurred not only by American but also by European financial institutions, including banks in Germany, France, and the UK, which had actively invested in such assets.

The crisis culminated in the bankruptcy of investment bank Lehman Brothers in the fall of 2008 - the largest corporate bankruptcy in US history at the time. The consequences were enormous: between 6 and 10 million American families lost their homes, about 8 million people lost their jobs, and a significant portion of the population's savings was lost because financial assets devalued and real estate values fell.

Returning to modern China, several fundamental similarities with the American crisis stand out. In both cases, a persistent public belief in endless rises in real estate prices stimulated a massive redistribution of private savings toward housing assets. Furthermore, both economies developed financial mechanisms that sustained high market growth rates over a long period while simultaneously increasing systemic vulnerability.

Nevertheless, the specific mechanisms for risk accumulation differed significantly. In the United States, the main source of instability was the securitisation of mortgage loans, which transformed local problems in the American housing market into a global financial crisis. In China, a similar function is served by the system of mass pre-sales. Funds buyers deposited for unbuilt apartments were often used to service developers' pre-existing liabilities, which cut off new cash inflows and froze construction on a significant portion of projects. As a result, millions of households found themselves with mortgage obligations while the underlying property was either nonexistent or never built.

It is at this stage that the fundamental differences between the Chinese crisis and the global financial crisis of 2007–2009 become apparent. In the United States, the spread of the crisis beyond the domestic economy occurred primarily through the financial system. The mortgage obligations of American borrowers were securitised, transformed into complex

financial instruments, and placed in the investment portfolios of banks and funds around the world. As a result of their massive depreciation, significant losses were simultaneously incurred by financial institutions in London, Paris, Berlin, and other major global financial centres.

The Chinese financial system is organised differently. The bulk of the obligations of development companies and household mortgages are concentrated within the national banking system. Unlike the American model, these debt instruments were not widely disseminated internationally through securitisation. Consequently, the immediate impact of the crisis on foreign banking systems is significantly less pronounced. However, such relative financial isolation does not mean the absence of global risks. While international financial markets were the primary mechanism for transmitting the crisis in the United States, international trade serves this function for China. Foreign economic ties can transmit a crisis through the global economy.

Global Consequences of the Crisis

The scale of China's involvement in global production chains makes it a key element of the modern global economy. A significant portion of consumer electronics, computer equipment, automotive components, household goods, clothing, and other industrial products are manufactured directly in China or include components of Chinese origin. Even products whose final assembly takes place in other countries are often critically dependent on supplies of materials, parts, and intermediate goods from Chinese companies.

By the end of 2025, China's export volume was expected to reach nearly $4 trillion, making it the largest goods exporter in world history. Furthermore, the country is a major trading partner for most countries, so major changes in the Chinese economy inevitably affect international commodity markets.

If the domestic crisis leads to a further decline in construction activity, industrial production, and consumer demand, this will inevitably impact China's import activity. The decline in industrial production will be accompanied by lower demand for raw materials, including oil, iron ore, copper, and other minerals. As a result, countries whose economies rely heavily on raw material exports to China will face lower foreign exchange earnings and deteriorating macroeconomic indicators.

This dependence is especially noticeable among major raw material suppliers. Kazakhstan exports oil, copper, ores, and other minerals to China and derives a significant portion of its export revenue from the Chinese market. Similarly, Brazil exported approximately $100 billion worth of goods to China in 2025, with soybeans, oil, and iron ore accounting for the bulk of these exports. A significant reduction in Chinese demand could negatively affect economic activity across entire regions in these countries.

The consequences of reduced domestic consumption in China itself could be no less significant. With household incomes declining, demand for imported goods, including South Korean electronics, Taiwanese semiconductors, German cars, French cosmetics, and a wide range of other goods, is declining. Consequently, companies in countries that export finished goods could face reduced production volumes, fewer orders, and a subsequent decline in employment. For this reason, the negative impact could spread far beyond the Chinese economy, affecting both Asian and European countries.

Consequently, the current crisis in the Chinese real estate market is characterised by a dual nature. On the one hand, due to the relatively closed structure of the national financial system, its direct impact on foreign banking institutions is significantly limited compared to the 2008 crisis. On the other hand, China's unprecedented integration into global trade creates an alternative mechanism for the spread of crisis phenomena. Through reduced foreign trade,

shifting global demand, and disrupted international production chains, the consequences of the Chinese crisis could reach a scale comparable to the largest global economic shocks of recent decades.

Recognising the potential systemic risks, China's leadership continues to pursue a strategy of gradual stabilisation of the real estate market, seeking to avoid an industry collapse. However, the persistently high debt burden, declining consumer confidence, and continued price declines indicate that the likelihood of further deepening remains significant, and its potential consequences continue to pose a serious risk not only to China but also to the global economy.

Possible Scenarios for Further Development

A logical question arises: what consequences might arise if the crisis deepens further and a sector that has supported nearly a third of the Chinese economy for many years collapses? Researchers are currently considering several possible scenarios, each with varying economic impacts.

The most favourable scenario is gradual stabilisation, which the Chinese authorities are currently implementing. Its main idea is a controlled reduction in accumulated imbalances without a sharp market collapse. The state continues to finance the completion of the most problematic projects, restructures some of the debt of development companies, provides targeted support to the banking sector, and simultaneously allows for a slow correction in real estate prices.

However, even this scenario carries high long-term costs. Since a significant portion of Chinese household wealth is concentrated in real estate, a prolonged decline in its value leads to a decrease in the perceived level of personal wealth. In economic theory, this mechanism is known as the wealth effect: a decline in asset prices stimulates the population to increase savings and reduce consumer spending. Weakening domestic demand, in turn, reduces business revenues, slows investment, and further depresses real estate prices, creating a self-reinforcing cycle of economic stagnation.

According to Atlantic Council analysts, even under the most favourable scenario, the Chinese economy could face a prolonged period of low growth. The duration of such stagnation remains a subject of academic debate, as its extent will depend both on the effectiveness of government policy and the dynamics of domestic consumer demand.

A more unfavourable scenario assumes a gradual loss of the state's ability to stabilise the situation. In this case, defaults could spread to new major developers, leading to an increase in the volume of bad debt in the banking sector. Simultaneously, local government revenues, traditionally dependent on land sales to construction companies, would decline significantly. As a result, a gradual decline in prices could accelerate into a much faster decline, accompanied by a significant deterioration in macroeconomic indicators. According to estimates published by the International Monetary Fund in an analytical review, a major housing crisis comparable in severity to the 2008 U.S. crisis could lead to a contraction of China's total gross domestic product by approximately 5% over five years. For the world's second-largest economy, such losses would represent not just a typical cyclical slowdown, but a full-blown systemic economic crisis.

The worst-case scenario envisions the simultaneous occurrence of several negative processes: large-scale corporate bankruptcies, a sharp decline in real estate values, financial instability in the banking sector, and a significant contraction in domestic demand. In this case, the crisis's consequences could become pronounced globally.

According to calculations by the U.S. Federal Reserve, a deep recession in the Chinese economy could trigger widespread changes in global financial markets, including a strengthening

of the U.S. dollar, a reduction in international trade, and a significant decline in global commodity prices, primarily oil and industrial metals. This dynamic stems from China being the world's largest consumer of a significant share of raw materials. Analysts at the Swiss bank UBS also indicate that, if the worst-case scenario materialises, the global economy risks losing approximately one trillion dollars in economic growth. Such losses are comparable in scale to the gross domestic product of countries such as Switzerland or Saudi Arabia. Countries whose economic development depends heavily on trade with China, raw material supplies to the Chinese market, or participation in global production chains linked to Chinese industry will be most at risk in this case.

Despite various forecasts, it is currently impossible to determine the most likely trajectory of further developments. Chinese leadership continues to pursue a strategy of gradual market stabilisation, aiming for the mildest possible economic adjustment scenario. Moreover, many economists acknowledge the possibility of further deterioration, while some researchers do not rule out the worst-case scenario.

Thus, the crisis in the Chinese real estate market is not a localised problem in the construction industry, but one of the most significant structural tests of the modern global economy. For decades, the world's largest housing market drove economic growth, stimulated investment, and supported the well-being of millions of households. Today, however, this massive price bubble is gradually correcting, and its consequences are already affecting global financial markets, international trade, and long-term global economic prospects. This is why the further evolution of the Chinese crisis remains a key focus for both the academic community and international financial institutions.

Conclusions

The analysis shows that the crisis in the Chinese real estate market is not a short-term downturn in a particular industry, but rather a manifestation of deep structural contradictions in an economic model that has evolved over several decades. For a long time, real estate served multiple functions in China: it served as the primary means of preserving capital for households, a source of revenue for local governments, a driver of industrial production, and one of the main mechanisms for maintaining high rates of economic growth.

However, this multifaceted role of real estate also led the economy to depend on the constant expansion of the construction sector. A model based on rising housing prices, active debt financing, and pre-sales enabled China to achieve large-scale urban infrastructure development but simultaneously led to the accumulation of significant debt risks. As a result, slowing price growth and declining demand exposed the vulnerability of the entire system, in which the interests of households, developers, banks, and government agencies were closely intertwined.

The crises of companies like Evergrande and Country Garden demonstrated that the problems in the Chinese real estate market are not only corporate but also systemic. The main threat lies not solely in the bankruptcy of individual developers, but in the destruction of the trust mechanism that has supported the market for many years. A decline in consumer confidence leads to reduced investment, lower construction volumes, and further weakening domestic demand, creating a vicious cycle of economic slowdown.

Unlike the 2008 US housing crisis, the Chinese problem is less closely linked to the global financial system, as the bulk of debt remains within the domestic banking sector. However, China's high degree of integration into global trade creates a different channel for the spread of consequences. A decline in Chinese demand could impact raw material

exporters, industrial manufacturers, and international supply chains, making the Chinese crisis a global economic risk factor.

The Chinese government's choice of gradual stabilisation over large-scale financial stimulus indicates a desire to avoid a more dangerous scenario of a sharp market collapse. Even so, this strategy presupposes a prolonged adjustment period, with lower growth rates, reduced investment activity, and the need to restructure the economic model. Thus, the study concludes that the Chinese real estate crisis does not mark the end of China's economic development, but rather the end of a stage of growth based on extensive construction and a steadily rising debt burden. The main challenge for the country is not restoring previous rates of housing construction, but rather transitioning to a more balanced development model, where economic growth is based primarily on domestic consumption, technological innovation, and increased production efficiency.

China's experience also shows a broader economic principle: any sector that becomes the primary source of growth and wealth accumulation over a long period can also become a source of systemic risk. Real estate can retain value and provide financial stability, but when it becomes the dominant mechanism for capital accumulation, it can create imbalances with consequences that extend far beyond a single market or country.

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