CHINA: Quasi-bailout of the housing market gains momentum

When financial regulators announced 16 measures to support financing for the housing sector on 11 November, we declared that the package represented a clear pivot towards rescuing the market, following a year of ineffective half-measures. But we also flagged the risk that commercial banks would respond only halfheartedly to the government's call to increase lending to developers, given that doing so involved exposing their balance sheets to risky loans.

Several weeks later, lenders do appear to be responding actively to Beijing's appeal. Six of the largest state-owned commercial banks have pledged around RMB 1.3tn (USD 172bn) to 12 of the strongest property developers.

Demonstrating political will

Following the 16 measures, which focused on easing restrictions on property lending, policymakers have offered further initiatives that provide positive incentives to lend. The People's Bank of China (PBoC) reportedly plans to provide RMB 200bn in interest-free loans to commercial banks that will be earmarked for re-lending to property developers for completion of unfinished housing projects. Similarly, China Bond Insurance, a state-owned company, will expand an existing guarantee program to backstop an additional RMB 250bn in bond issuance by developers.

Meanwhile, the securities regulator relaxed longstanding rules that restricted developers' access to equity market fundraising. The banking regulator is also enabling developers' access to presale funds from residential projects if the developer obtains a bank letter of credit. Local governments had previously restricted access to this money to ensure that developers used the funds only to complete the specific local projects to which pre-sales were linked.

Taken together, these policies mark a clear escalation of government support for the property market compared to the incremental measures implemented previously. Beyond the specific effects, they also send a political signal by effectively committing regulators to bailing the largest developers as well as the strongest among the mid-tier players. Beijing's previous commitment to rely on "market-oriented" support measures has fallen away, and policy is now much closer to a "whatever it takes" orientation.

Uncertain recovery

Still, the outlook for property sales remains cloudy. Recent policies are primarily designed to prevent systemic financial risk by limiting further defaults by developers. Easier financing for developers should eventually revive in confidence among homebuyers that developers can deliver pre-sold homes as promised, but that will take time. Covid-19 restrictions are diminishing but may still constrain sales for a few more months.

An additional risk is that political will for a housing rescue is still tenuous. Notably, regulators have declined to announce specific numbers for several of bailout-like initiatives, including the direct PBoC lending program mentioned above. This reluctance may reflect ongoing concerns about implicit government guarantees and moral hazard.

Yet without clear bailout signaling and/or arm-twisting by regulators, commercial banks may remain reluctant to increase lending substantially. In that scenario, the series of commercial bank announcements pledging support for developers may turn out to be largely window dressing. Lenders might do just enough to appear to be following Beijing's instructions but still too little to revive the market.

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