

# Research on Exchange Rate Risk Management in Corporate Foreign Currency Debt Financing: A Case Study of Evergrande Group

Luyao Liang\*

School of International Business, Yunnan University of Finance and Economics, Kunming Yunnan, 650221, China

\*Corresponding author: Luyao Liang

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**Abstract:** Amid China's ongoing reform and opening-up, the scale of foreign currency debt financing among Chinese enterprises has expanded steadily. In this context, firms face two core challenges: mitigating exchange rate risks via financial markets and managing foreign currency debt effectively. Taking Evergrande Group as a case, this paper systematically examines the exchange rate risk management framework for foreign currency debt financing and identifies key risk exposures in the process. Based on an analysis of Evergrande's current status of foreign currency debt financing, practical risk management measures, and existing deficiencies, this study proposes targeted optimization strategies. Findings indicate that strengthening the exchange rate risk management system, optimizing hedging instruments, and improving performance evaluation mechanisms have significantly reduced Evergrande's exchange rate vulnerabilities. Finally, this study extracts lessons and best practices from the Evergrande case to summarize core principles of exchange rate risk management for enterprises relying on foreign currency liabilities. It provides actionable guidance for peer firms, helps small, medium, and micro enterprises (SMEs) enhance resilience against exchange rate volatility, and supports the sound and sustainable development of foreign currency debt financing activities in China.

**Keywords:** Foreign Currency Debt; Exchange Rate Risk; Risk Management Strategy; Hedging; Case Study

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## 1. Introduction

With deepening economic globalization, enterprises operate in an increasingly complex and volatile financial environment. Foreign currency debt financing has become a critical strategy for firms to diversify funding sources and lower financing costs. Nevertheless, foreign currency borrowing entails substantial exchange rate risk; large unexpected exchange rate movements can severely impair corporate financial stability. As a leading real estate developer in China, Evergrande Group relied heavily on foreign currency debt to fund its expansion amid persistent exchange rate fluctuations. Therefore, an in-depth investigation into its exchange rate risk management practices carries important practical implications.

This study collects data and documentation on Evergrande's foreign currency debt financing to analyze the status quo, deficiencies, and effectiveness of its exchange rate risk management. It also reviews domestic and international literature to draw on advanced theories and empirical findings while identifying research gaps.

## 2. Basic Concepts and Theoretical Foundations

### 2.1 Basic Concepts

#### 2.1.1 Foreign Currency Debt Financing and Exchange Rate Risk

Exchange rate risk refers to the potential for economic losses arising from unanticipated exchange rate movements during cross-border transactions and foreign currency holdings <sup>[1]</sup>. It is typically categorized into three types: transaction risk, translation risk, and economic risk. For multinational and export-oriented firms, appropriate foreign currency borrowing can effectively hedge exchange rate risks associated with foreign assets. However, for firms with net foreign currency liabilities, foreign currency debt primarily increases exposure to transaction and translation risks <sup>[2]</sup>.

#### 2.1.2 Exchange Rate Risk Management

The selection of financial derivatives depends closely on the maturity structure of risk exposures. Forwards, options, and similar instruments are commonly used for short-term export risk hedging, whereas foreign currency debt and currency swaps are more suitable for long-term exchange rate risk control. Operational hedging achieves risk reduction through operational and strategic adjustments, while financial hedging relies on derivatives or structural arrangements of foreign currency debt <sup>[3]</sup>. Existing literature provides limited discussion of standardized practices for risk management in foreign currency debt financing. In practice, hedging remains the most widely adopted approach for managing exchange rate risks associated with foreign currency liabilities.

### 2.2 Theoretical Foundations

#### 2.2.1 Purchasing Power Parity (PPP) Theory

Purchasing power parity theory states that exchange rates are determined by the relative purchasing power of two currencies, and long-run exchange rates tend to reflect inflation differentials <sup>[4]</sup>. Enterprises can use inflation differentials to forecast long-term exchange rate trends, match foreign currency debt maturities with hedging horizons, and reduce long-term exchange rate mismatch risks.

## 3. Current Status of Foreign Currency Debt Financing Risk Management of Evergrande Group

### 3.1 Introduction to Evergrande Group

Founded in Guangzhou in 1996 and headquartered in Guangzhou, Guangdong Province, Evergrande Group is a Fortune Global 500 conglomerate. It takes livelihood-oriented residential real estate as its core business, cultural tourism and health preservation as its coordinated sectors, and new energy vehicles as its leading industry <sup>[5]</sup>. Established by Xu Jiayin, the company initially focused on real estate development. With flexible market-oriented operation strategies and accurate judgment of market demand, Evergrande quickly secured a stable position in the Guangzhou real estate market and gradually realized diversified expansion of its business landscape.

### 3.2 Foreign Currency Debt Financing

#### 3.2.1 Motivations and Advantages of Foreign Currency Debt Financing

The real estate industry is a typical capital-intensive sector, and overseas financing is a common approach for enterprises to broaden funding sources <sup>[6]</sup>. After the Central Economic Work Conference clearly put forward the principle that “houses are for living in, not for speculation” in 2016, relevant regulatory authorities successively issued policies to strengthen supervision over real estate enterprise financing and individual housing loans. Against this backdrop, domestic external financing channels for real estate enterprises tightened continuously, and internal funding channels mainly relying on sales collections were also restricted. As a result, enterprises in the industry stepped up overseas financing efforts .

With the continuous tightening of domestic regulation on the real estate industry, overseas bond issuance by real estate enterprises has also been regulated. In July 2019, the National Development and Reform Commission issued Document No. 778 (2019), stipulating that overseas debts issued by real estate enterprises could only be used to replace medium and long-term overseas debts maturing within the next year. This indicates that the scale of foreign currency debts in the real estate industry will hardly expand in the short term.

After the global financial crisis, economies such as the United States and the United Kingdom cut benchmark interest rates to near zero to boost economic recovery and implemented quantitative easing policies. These measures drove down medium and long-term treasury bond rates, with yields significantly lower than those in emerging economies including China, leading to large capital inflows into emerging markets. Since 2021, the China-US interest rate spread has remained high in most periods. The low US dollar interest rate environment has created favorable conditions for Evergrande Group to leverage overseas financing channels and borrow low-cost funds.

Promoting international layout is an important part of Evergrande Group's long-term development strategy. In 2017, Evergrande officially entered the overseas market by cooperating with high-quality overseas real estate enterprises. Later, it continuously expanded overseas businesses by acquiring overseas companies and projects, carrying out real estate development and asset management in many cities around the world. To support the implementation of the international strategy and the advancement of cross-border mergers and acquisitions of domestic real estate businesses, the Group's demand for foreign currency funds rose sharply. To this end, Evergrande actively integrated high-quality overseas resources, fully utilized overseas financing platforms to issue bonds, and continuously expanded the scale of overseas financing.

### **3.2.2 Scale and Structure of Foreign Currency Debt Financing**

Evergrande's foreign currency debt financing mainly relies on bank loans and overseas bond issuance, with long-term loans as the main component of foreign currency borrowings. The US dollar and Hong Kong dollar are the core borrowing currencies. Data from 2023 show that US dollar borrowings and Hong Kong dollar borrowings accounted for 49.9% and 47.11% of the Group's total foreign currency borrowings, respectively. In addition, due to overseas real estate projects in Singapore and the UK, Evergrande also has a small amount of liabilities in Singapore dollars and British pounds. All overseas bonds issued by the Group are medium and long-term, with US dollar bonds as the dominant type and Hong Kong dollar bonds as the secondary type.

## **3.3 Exchange Rate Risk Management Model**

### **3.3.1 Exchange Rate Risk Management Strategies and Systems**

Exchange rate risk management is a highly professional task that requires professionals with solid financial knowledge, rich market experience and keen risk awareness. Evergrande Group has improved the exchange rate risk management capabilities of existing financial staff through internal training, external exchanges and university cooperation. At the same time, it has actively introduced high-end talents with international financial market experience to strengthen the exchange rate risk management team, providing intellectual support for formulating scientific and reasonable exchange rate risk management strategies.

To ensure the effective implementation of exchange rate risk management strategies, Evergrande Group has established a performance appraisal mechanism compatible with exchange rate risk management, incorporating the effectiveness of exchange rate risk management into the performance appraisal indicator system of relevant departments and personnel. Through reasonable performance incentives, employees are guided to actively participate in exchange rate risk management, raise their awareness and attention to exchange rate risks, and encouraged to take initiatives to reduce exchange rate risks in daily work, forming a sound risk management culture.

### **3.3.2 Application of Exchange Rate Risk Management Tools**

To achieve optimal exchange rate risk management results, Evergrande Group does not rely on a single tool. Instead, it comprehensively uses a variety of tools to build a hedging portfolio strategy based on its own risk profile, market expectations and cost-benefit factors. While signing forward foreign exchange contracts to lock in the basic exchange rate, the Group purchases foreign exchange options to obtain opportunities for additional benefits from favorable market changes. This combination strategy increases profit flexibility on the premise of ensuring basic control over exchange rate risks. When market exchange rates fluctuate sharply, Evergrande increases the proportion of financial derivatives, raises the purchase volume of foreign exchange options or adjusts the scale of currency swaps. When market exchange rates tend to be stable, it appropriately reduces the use of financial derivatives to lower risk management costs.

## **4. Analysis of Exchange Rate Risks in Foreign Currency Debt Financing of Evergrande Group**

### **4.1 Types of Exchange Rate Risks**

Evergrande Group mainly faces two types of exchange rate risks: transaction risk and translation risk. Transaction risk refers to the possibility of economic losses arising from exchange rate differences between the transaction date and the actual settlement date after an enterprise forms foreign currency claims or undertakes foreign currency debts. In 2024, foreign currency borrowings accounted for 20.47% of Evergrande's total interest-bearing liabilities. The debt currencies were highly concentrated in US dollars and Hong Kong dollars, making risk hedging difficult due to the single currency structure. Coupled with the complex global economic environment and increasing uncertainty in RMB exchange rate fluctuations, Evergrande faced significant transaction risk pressure. Between 2016 and 2024, Evergrande incurred large exchange losses in four years due to sharp fluctuations in US dollar and Hong Kong dollar exchange rates. Although the impact of exchange gains and losses on net profit was generally controllable, the transaction risk caused by foreign currency liabilities cannot be ignored. Some overseas subsidiaries of Evergrande use non-RMB currencies as their functional currencies. When preparing consolidated financial statements, foreign currency-denominated items must be translated into RMB, resulting in translation risk. This risk is reflected in the foreign currency translation difference under other comprehensive income in the statements. Since the foreign currency translation difference is only an accounting adjustment item, not a real operating profit or loss, and has no substantial impact on corporate cash flow and net profit, Evergrande's risk hedging operations mainly focus on controlling transaction risk.

### **4.2 Exchange Rate Risk Exposure**

According to the 2022 earnings announcement, as of December 31, 2022, China Evergrande's interest-bearing liabilities reached 612.391 billion yuan, accounting for 25.12% of total liabilities. Short-term interest-bearing liabilities accounted for 24.08% of total debt, a decrease of 14.53% from the end of 2020. However, the company's available cash was only 14.305 billion yuan (including restricted funds). This indicates that Evergrande Real Estate fell into a debt repayment dilemma between 2021 and 2022, shifting its business focus from expansion to "ensuring housing delivery". The disclosed long-term borrowings were mainly unmatured bonds and US dollar senior notes. In the interest-bearing liability structure, RMB-denominated and US dollar-denominated debts accounted for 75.95% and 21.23% respectively, forming obvious exchange rate risk exposure.

### **4.3 Impact Analysis of Exchange Rate Fluctuations**

The depreciation of RMB increased the RMB-equivalent amount of Evergrande's foreign currency debts, exacerbating its debt repayment pressure. For example, Evergrande suffered exchange losses of 9.59 billion yuan in 2022, which directly increased financial expenses and weakened debt solvency. Due to the high proportion of foreign currency debts, Evergrande's short-term debt repayment pressure was particularly prominent. In 2022, short-term interest-bearing liabilities accounted for 24.08% of total debt, while cash was only 14.305 billion yuan, far insufficient to cover short-term debts. Translation risk caused by exchange rate fluctuations increased the amount of foreign currency liabilities on Evergrande's balance sheet, further deteriorating its financial position. This not only affected Evergrande's financial indicators but also triggered market concerns about its financial health.

## **5. Problems and Suggestions on Exchange Rate Risk Management of Foreign Currency Debt Financing of Evergrande Group**

### **5.1 Existing Problems in Exchange Rate Risk Management**

#### **5.1.1 Exchange Rate Risk Management System**

Evergrande Group lacks a unified internal awareness of exchange rate risk management, leading to inconsistencies in the implementation of risk management measures among different departments and impairing overall effectiveness. The exchange rate risk management system has not been updated in a timely manner to adapt to changing market conditions and business development, making it unable to effectively address new risk challenges. Exchange rate risk management involves finance,

business, legal affairs and other departments, but the coordination mechanism among departments is imperfect, resulting in poor information transmission and failure to form an effective risk management synergy.

### **5.1.2 Application of Exchange Rate Risk Management Tools**

Evergrande Group lacks the initiative to use hedging tools in exchange rate risk management and failed to hedge exchange rate risks, leading to huge exchange losses when RMB depreciated. When selecting hedging instruments, Evergrande may rely too heavily on a single tool such as forward foreign exchange contracts, without fully considering the combined use of other instruments including foreign exchange options and foreign exchange swaps, reducing risk management effectiveness. Non-standard operations may exist in hedging practices, such as failure to comply with hedging accounting standards for bookkeeping, leading to inaccurate reflection of hedging effects in financial statements. The adjustment of asset-liability matching strategies takes a long time and incurs high costs, which may affect corporate capital liquidity. Evergrande faces great pressure in capital liquidity management and struggles to adjust its asset-liability structure timely to cope with exchange rate fluctuations.

## **5.2 Improvement Suggestions**

### **5.2.1 Improve the Exchange Rate Risk Management System**

The core objective of Evergrande Group's foreign exchange risk management is to minimize the potential negative impacts of exchange rate fluctuations on the company's financial position. To achieve this goal, the Group has established a sound exchange rate risk management system with the following principles: first, take prevention and control of exchange rate risks as the fundamental orientation and strictly prohibit speculative operations; second, optimize the matching of investment and financing scale and currency structure, and rationally apply hedging instruments; third, select appropriate hedging tools based on real business background, combined with transaction currency, amount and maturity; fourth, continuously track the dynamics of the foreign exchange market and flexibly adjust hedging strategies.

### **5.2.2 Optimize the Application of Exchange Rate Risk Management Tools**

To mitigate the negative impacts of exchange rate fluctuations and reduce the repayment risk of foreign currency debts, Evergrande Group and its overseas subsidiaries have long taken the initiative to carry out foreign exchange hedging operations. When selecting financial contracts, the Group comprehensively considers factors such as exchange rate trends, transaction currencies, contract maturities and transaction scales to choose appropriate financial instruments. The foreign exchange derivatives actually used mainly include non-deliverable forwards (NDF), deliverable forwards (DF) and cross-currency swaps (CCS). The use of these derivatives has effectively reduced Evergrande's foreign exchange risk exposure and alleviated the adverse impacts of exchange rate fluctuations on the company's net profit.

## **6. Conclusion**

### **6.1 Research Conclusions**

Taking Evergrande Group as a case, this study conducts an in-depth analysis of the current status and existing problems of exchange rate risk management in foreign currency debt financing, and puts forward corresponding optimization strategies. The study finds that Evergrande has various deficiencies in exchange rate risk management, which not only reduce the effectiveness of risk management but also increase corporate financial and operational risks. Specifically, shortcomings exist in the implementation of risk management systems, the application of risk management tools and the evaluation of management effectiveness. These problems make it difficult for Evergrande to effectively respond to exchange rate fluctuations, resulting in significant impacts on its financial position and operating performance. Targeted optimization strategies are proposed to help Evergrande improve its exchange rate risk management system, optimize the use of risk management tools and refine the management effectiveness evaluation system, thereby enhancing its overall risk management capacity. Furthermore, this study provides useful references for other enterprises engaged in foreign currency debt financing, helping them operate steadily in the complex international financial market and improving the overall risk management level of Chinese enterprises in international financing.

### **6.2 Deficiencies and Prospects**

This study mainly relies on the financial reports and relevant data publicly disclosed by Evergrande Group, which may have certain limitations and cannot fully reflect all details of the Group's exchange rate risk management practices. In addition, due to the timeliness and integrity of data, some analysis results may lack precision. This study mainly adopts case analysis and literature research methods. Although these methods can reveal the current status and problems of Evergrande's exchange rate risk management to a certain extent, the connection between different methods may be insufficient in integrated application, leading to weak persuasiveness of some analysis results.

Future research can further expand data sources. In addition to publicly disclosed financial reports, internal data and information can be obtained through field investigations and interviews to comprehensively understand Evergrande's exchange rate risk management practices. Big data analysis technology can be used to deeply mine and analyze Evergrande's risk management data, improving the accuracy and reliability of research results. Future studies can conduct multi-case comparative research by selecting enterprises in different industries and of different scales, summarizing experiences and lessons in exchange rate risk management of foreign currency debt financing for different types of enterprises, and providing more targeted references for other enterprises.

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## **Conflict of Interests**

The authors declare that there is no conflict of interest regarding the publication of this paper.

## **Reference**

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