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Analysis of the Impact of China's Monetary Policy on the Real Estate Market in the Post-epidemic Era

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Abstract: Monetary policy is an effective measure for the government to intervene in the real estate market. The ups and downs of China's real estate market in recent decades cannot be separated from the influence of monetary policy. After COVID-19 ended, the country's focus returned to economic reconstruction, and the real estate industry, as one of the pillar industries of the national economy, has attracted more attention from policymakers. Various policy combinations for the real estate industry, including monetary policy, have been introduced, and have achieved some results so far, but the final effect remains to be seen. This paper examines the effects of various national monetary policies on China's real estate market. A series of latest real estate policies have been implemented, both sides of supply and demand are expected to reverse, and the real estate market can be improved. In the medium and long term, the improvement demand has a broad prospect, and there is still a large room for development in the future. The study of real estate policy theory is of great significance to the sustained and healthy development of real estate enterprises and also plays an important role in China's economic construction and development. Real estate enterprises need to deeply understand the policy, and make scientific and reasonable planning, to promote the stable and sustainable development of real estate enterprises.

Keywords: Monetary policy, real estate, epidemic

1. Introduction

Since 2020, China's real estate market has entered a new round of downward cycle due to factors such as domestic and international political and economic situation and the novel coronavirus epidemic. The government implemented several measures to stimulate the real estate sector. This essay examines the effects of various national monetary policies on the real estate market in China. It analyzes the effects of the most recent monetary policies on the market's response to the pandemic on a review of the effects of earlier monetary policies.

2. Impact of China's monetary policies on the real estate market

The real estate market is comprehensively affected by many factors. The regulation means of the Chinese government on the real estate industry are becoming more and more diversified. Monetary policy is one of the important factors affecting the real estate market, and it is also one of the main means used by the Chinese government to regulate and control the real estate industry.

In 1998, the first year of China's real estate marketization, the state began to reform the housing system. In 1998, the People's Bank of China successively issued the Measures for the Administration of Individual Housing Loans, the Guiding Opinions on the Development of Personal Consumption Credit, the Notice on Adjusting the Term and Interest Rate of Individual Housing Loans and other documents, which stipulated for the first time the issues of personal housing loans, down payment and term. During this period, the price and sales volume of China's real estate market increased steadily. With compound annual growth rates of 23.11% and 29.10%, respectively, China's commercial housing sales area and volume increased from 134 million square meters and 218.874 billion yuan in 1999 to 250 million square meters and 470.996 billion yuan in 2002. All things considered, the real estate market is expanding and stabilizing [1].

China's property market started to exhibit overheating symptoms in 2002. The People's Bank published the "Notice on Further Strengthening the Management of Real Estate Credit Business" in June 2003, imposing several limitations on loans for land reserve projects and real estate development. The benchmark interest rate and loan reserve ratio were repeatedly raised by the People's Bank of China between 2005 and 2007, which had some detrimental effects on the real estate market. However, due to the increase in money supply and the weak strength of other control measures, the overall housing price at this stage was still on the rise.

In 2008, due to the global financial crisis, both the sales area and the average sales price of commercial housing in China fell sharply. At the end of 2008, the Chinese government launched the "4 Trillion Plan", which changed the monetary policy, and carried out successive interest rate and reserve ratio cuts. Coupled with regulatory measures, China's real estate market rebounded sharply in 2009. The sales area of commercial housing in China in that year was 937.13 million square meters, an increase of 42.1% over the previous year. The sales volume of commercial housing was 4,399.5 billion yuan, up by 75.5% over the previous year [1].

Due to the excessive increase in housing prices in 2009, The State Council proposed to "curb the rapid rise of housing prices", and a series of regulatory policies were subsequently promulgated. In January 2010, The State Council issued the "Notice of The General Office of the State Council on Promoting the Steady and Healthy Development of the Real Estate Market", raising the down payment ratio of second homes, and then proposed the "housing and loan recognition"; In September 2010, the People's Bank of China jointly issued a notice to suspend the issuance of the third and above housing loans, and the down payment ratio of the first house loan was adjusted to 30% or above; In January 2011, The State Council issued another notice to raise the down payment ratio of the second house. At the same time, due to the large inflationary pressure brought by the moderately loose monetary policy in the early stage, the monetary policy turned steady and slightly tightened at the end of 2009. Affected by the above control policies, the growth rate of the national commercial housing sales area and the average sales price began to decline in the second half of 2013 [2].

In 2014, the prosperity of the real estate industry declined further. In September 2014, the People's Bank and the Banking Regulatory Commission jointly issued the Notice on Further Improving Housing Financial Services, which lowered the limit of the interest rate of the first house loan, and also lowered the down payment requirement for the second house improvement. In February 2016, the People's Bank of China and the CBRC issued a paper to reduce the down payment ratio of the first and second sets of commercial loans in non-restricted cities. In 2015, the People's Bank of China cut interest rates six times and lowered the reserve ratio four times, while the monetary policy was relatively loose, which brought the rapid rise of housing prices in first-tier and second-tier cities and the recovery of the real estate market in third-tier cities [3].

In July 2016, the government began to worry about the bubble bursting risk caused by the rapid rise of housing prices in hot cities, and proposed to "curb asset bubbles", "no speculation in housing,

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and implement policies based on the city". In the case of high housing prices in first - and second-tier cities and high inventories in third - and fourth-tier cities, the central government no longer implements unified policy regulation but emphasizes and calls for accelerating the establishment of a housing system featuring multi-agent supply, multi-channel guarantee, and rental and purchase, and improving the long-term mechanism for promoting the steady and healthy development of the real estate market. Since 2016, China has mainly implemented a tight monetary policy, tightened liquidity, strictly restricted the flow of credit funds to speculative and investment real estate, and reduced investment in the real estate sector. The over-rapid development of China's real estate market has been curbed.

3. Overview of China's real estate market

In the past two years, real estate companies have been plunged into crisis, which has further weakened public confidence in the property market. 2022 will be the most difficult year for China's real estate market development in more than 20 years, with a negative growth of 10% in real estate development investment. Residential sales fell by 28.3%; Floor space under construction fell by 39.8%; And personal mortgage loans fell by 26.5%. In the first half of 2023, the overall performance of the real estate market rose first and then fell. In the first quarter, driven by factors such as the concentrated release of overstocked demand and the apparent effect of earlier policies, the market activity increased. Especially in February-March, there was a "small Yang spring" market in hot cities. The strength of the real estate policy is less than expected, and the market has failed to continue the trend of recovery.

It can be said that since the outbreak of the COVID-19, China's real estate market has been performing poorly, with frequent news of rotten houses around the country, and some listed real estate companies have also been "thunderstorms". In 2019, to implement the policy of "no speculation in housing and housing", the country introduced three red-line policies to limit bank loans. This led to real estate enterprises that rely on high leverage to operate in an instant into trouble. Coupled with the impact of the late epidemic, rising raw material prices, falling demand for housing, and other multiple reasons, the domestic real estate market has entered a "cold winter".

Since the marketization of real estate in 1998, China's real estate market has developed rapidly, driven by factors such as demographic dividend, shantytown reform, and urbanization, and has become an important engine driving the country's economic growth. However, with the tightening of housing policies, the aging of the population, and the urbanization rate approaching saturation, the relationship between supply and demand in the real estate market has undergone fundamental changes.

On the supply side, the domestic market has gradually shifted from short supply to oversupply. According to the National Bureau of Statistics, by the end of 2022, 563.66 million square meters of commercial housing were available for sale, up 10.5% from the previous year. Among them, the area of residential buildings for sale increased by 18.4%. These data show that the inventory of commercial housing in China has exceeded the peak level, especially in some second - and third-tier cities, where the inventory pressure is more significant. In addition, under the influence of the strong deleveraging policy, the debt defaults of real estate enterprises have been spreading, dozens of real estate enterprises have defaulted, real estate enterprises are facing financing difficulties, coupled with work stoppages and other problems that have led to a decline in market sales, and the vast majority of real estate enterprises have fallen into the dilemma of self-rescue. The supply side is still in a period of deep adjustment.

On the demand side, the real estate market has changed from being "dominated by just demand and improvement demand" in the past to "dominated by speculative demand". However, the level of residents' housing debt is already high, the expectation of the continuous rise of housing prices has

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been broken, and confidence is insufficient, while the ratio of housing prices to rents is also high, and the motivation of residents to buy houses has decreased significantly.

The National Bureau of Statistics published an overview of the country's real estate market's fundamental conditions from January to August on September 15, 2023. The sales area of commercial housing was 739.49 million square meters from January to August, down 7.1% from the previous year. Of this, the sales area of residential property decreased by 5.5%. Residential sales decreased by 1.5% while commercial housing sales volume decreased by 3.2% to 7,815.8 billion yuan. "Since the beginning of this year, the real estate market has improved in the first quarter as the economy and society have fully returned to normal operation," stated the NBS. " Affected by different elements, the general deals and improvement of the housing market have shown a descending pattern since the subsequent quarter." According to the circumstances in August, the housing market is still in the change stage [4-5].

4. Latest real estate regulation measures

As a point of support industry of the public economy, land interfaces the two significant requests of utilization and venture, and assumes a significant part in monetary development. The land business is connected with more than 60 ventures and a huge number of work. As per measurements, land and related enterprises represent around 13-14% of China's complete monetary result, land-related advances represent almost 40% of bank credit, land-related pay represents half of the nearby exhaustive monetary assets, and land represents 60% of metropolitan resources. , It is estimated that a 1% decline in real estate development investment will drag down GDP growth by about 0.1 points. Since the second quarter of 2023, the real estate market has significantly cooled, dragging down the economy. Stabilizing the property market is to stabilize the economy and employment [6].

Since 2023, the government has continuously introduced policies to stabilize the property market, and local governments have gradually promoted the implementation of relevant policies. The frequency of policy support has been significantly accelerated and the intensity has been increased, including easing credit, recognizing housing loans" and canceling policies such as purchase and sale restrictions.

On July 24, the Political Bureau meeting of the Central Committee set the tone for the real estate industry, and suggested that "we ought to successfully forestall and stop gambles in key regions, adjust to the new circumstance of significant changes in the organic market relationship of China's housing market, ideal change and upgrade land strategies, and utilize a decent strategy tool kit to all the more likely meet the unbending and further developed lodging needs of occupants, and advance the consistent and solid improvement of the housing market." Balance out the tone of the property market. From that point forward, a few services and commissions have acquainted a progression of strategies with infuse certainty into the property market from the two sides of market interest [7-8].

On July 27, the Ministry of Housing and Construction said that it additionally carried out strategy measures, for example, lessening the upfront installment proportion and credit financing cost for the acquisition of the primary home, further developing the expense decrease and exception for the acquisition of lodging, and don't bother recognizing advances" for individual lodging credits.

On August 31, the People's Bank of China and the General Administration of Financial Supervision issued a notice to reduce the interest rate of the stock of first home loans, and the minimum down payment ratio of the first and second sets of policies is unified to not less than 20% and 30%, which means that the down payment ratio of second homes in hot cities is reduced by 10%-40%. The lower limit of the policy of the interest rate of the second set of housing loans was significantly lowered.

At the end of August and the beginning of September, Beijing and other places announced the implementation of the policy of recognizing housing and not recognizing loans.

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Since September, most second-tier cities have completely lifted restrictions on home purchases [9].

5. Analysis of the impact of policies

The meeting of the Monetary Policy Committee pointed out that China has adhered to the principle of stability in our macro policies and sought progress while maintaining stability since the beginning of this year. China has made precise and effective prudent monetary policies, intensified counter-cyclical regulation, and made comprehensive use of policy tools such as interest rates and reserves to effectively serve the real economy, effectively prevent and control financial risks, and create a suitable monetary and financial environment for economic recovery.

The effect of the cut from the People's Bank on the housing market is complex. Its cut implies that the general market has more plentiful capital, which is helpful for the better improvement of the housing market. The cut itself can assist with helping the capital activity and exploration capacity of business banks, advance the increment of the size of loanable assets of business banks, and further advance the credit backing of banks for the land area. According to the point of view of land endeavors, it can empower land undertakings to acquire more credit support, and the monetary strain will be facilitated. For individual borrowers, the pressure on bank loans will be reduced after it, and the phenomenon of long-term non-lending will be effectively improved [10].

In general, it has a positive impact on the real estate market, which is conducive to easing the financing pressure of enterprises and stabilizing market expectations.

Falling demand is a key factor in the current downturn in the market. China's property market boomed in the 1990s, partly due to the 1960s generation, who were settling down and needed to buy homes, and at the same time, the population was at its peak. When this generation gradually came of age, they began to buy houses, and this huge market demand drove the rapid growth of the real estate industry. In addition, the country's need for modernization is also driving the development of the real estate industry, with various regions actively investing in infrastructure construction and a large number of tall buildings springing up in cities. However, today's generation has retired and already has their own homes, while the younger generation, most of whom are only children, inherited the property accumulated by their families. As a result, they do not have an urgent need to buy a home, nor do they have enough capacity to do so. After decades of development, the residential buildings in various cities are saturated, there are a large number of empty houses, and the development potential of the real estate industry is gradually diminishing. Statistics show that the per capita living area in urban areas has increased from less than 20 square meters to nearly 40 square meters, the ratio of household units in urban areas has exceeded one, and the per capita exceeds one room. Residents' basic housing needs have been met. China's population dividend is coming to an end, and urbanization is slowing down. The momentum released by population, urbanization level, and other support housing demand is gradually weakening. In addition, most people's consumption concept has also changed after the epidemic, and they are more willing to save to avoid risks rather than spend money on real estate. Therefore, in recent years, especially after the epidemic, the relationship between supply and demand in China's real estate market has undergone significant changes, and the sales area of new homes in China has also entered a stage of decline after peaking.

According to the point of view of the focal government, the acknowledgment of the long-haul strength of the housing market is the fundamental feature of the ongoing administrative arrangement. To prevent the real estate market from blowing out too fast and producing bubbles again, the introduction of this round of regulation policies is also limited. Although the recent policy does not mention "no speculation in housing", it does not mean a complete shift in real estate regulation. The financing control of housing enterprises and the centralized management policy of real estate loans have not been relaxed. The main purpose of this cut is to consolidate the foundation for economic recovery, maintain reasonable and sufficient liquidity, provide long-term liquidity to the market, and support the recovery of the real economy. The funds released by the RRR cut will flow more to the real economy, especially in areas that are in line with national industrial policies, such as new energy and high technology, which will help to optimize and upgrade the economic structure and promote high-quality development. Therefore, how much of the funds released by the cut will enter real estate is still uncertain, and the impact on the real estate market has not been reflected for the time being.

6. Conclusion

To sum up, the decline in demand is the main reason for the downturn in China's real estate market. Although COVID-19 has ended, the fundamental problem of the real estate market being at a trough has not been solved. Until the central government's other active policy mix is fully introduced and intensified, the impact of monetary policies such as lowering the reserve ratio and interest rate on the improvement of China's real estate market remains to be seen.

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