The Monetary Policy of Real Estate Industry Implemented by the Government under the Covid-19

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Abstract: Recently, the real estate become more and more prosperous and turn out the mainstay industry of China's economy. And monetary policy is a wise choice to control the development of the real estate industry. In the history of the development of China's real estate industry, different periods have different monetary policies implemented by the government. Recently, with the influence of COVID-19, the real housing industry has been in a recession. This essay summarizes the past monetary policies implemented by government and extends to the status quo of the real housing industry to find out the fitting monetary policy which can relieve the pressure brought by the COVID-19. The expansive monetary policy would reduce the bubbles of real estate industry while the constrictive monetary policy would enhance the real estate industry. And finally get the conclusion that government should choose to implement a tight monetary policy to boost the economy of the property sector.

Keywords: The real estate industry, monetary policy, COVID-19

1. Introduction

Depending on the data coming from the Chinese National Bureau Statistics, China's realty business was worth $6,963.1 billion in 2019, increasing by 3% over the same period in 2018 [1]. Since the reform and opening up, the economy has been growing at a rapid pace. Among them, the real housing industry ranks first in the rate at which various industries progress in China. The real estate industry drives a great number of other kinds of industries. Moreover, real estate is also the basic industry having relation to the happiness of residents and the national economy, hence the real estate industry takes a vital role in the development of the whole Chinese economy. However, with the emergence of COVID-19, the whole real estate industry experiences a large external shock, slipping into depression. Therefore, the government has been using various economic and administrative means to regulate the property industry, with the influence of COVID-19. The real estate industry which owns a long and extensive is the main industry of China's economy, the improvement of real estate, to what extent, enhances the development of the whole economy. According to Ma [2], real estate accounts for about 7% of GDP and 14% of GDP when added to the construction industry; Revenues from land concessions and real estate-related taxes account for nearly half of the consolidated local financial resources and 60% of the assets of urban households; real estate loans and loans with real estate as collateral account for about 39 % of the total balance of all loans, and have a significant impact on financial stability, making it a strong spillover and a systemically important industry. Monetary policy influences the macro-economy significantly and works as a tool of controlling, the government often

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uses it to control the economy. There is much research about the development of the real estate industry and monetary policy, however, there is less research that combines the monetary policy and the real estate industry with the shock of COVID-19. This essay makes a description of how the government should flexibly use monetary policy to control the housing market in the context of COVID-19, based on the previous monetary policy the China’s government conducting. This essay describes the impact of the COVID-19 shock on the real estate industry and detailly illustrates the monetary policy that the Government should pursue, with reference to previous years' currencies without COVID-19.

2. Description and Suggestion on the Real Housing Industry

2.1. The Description of Real Estate Actuality

Real estate is defined as the type of property that is based on land and buildings or the land only [3]. real estate around the whole world develops in its way. Recently, Real estate in China has developed rapidly which has created a great amount of wealth. The real estate in our country has a long history of development. The first stage is the period between 1989 and 1991, before this year, the economic system of China was a planned economy, and the government implemented a public housing distribution system. After the reform and opening up, the China’s real estate industry starts to warm up. In the following year, real estate in China develops rapidly, and the price of buildings dramatically increases. The government is aware of the emergence of a housing bubble, hence in the next stage from 1994-1997, China has adopted fiscal and monetary macro-control measures to control the progress of real estate. After the year of 2003, the real estate, in general, began to develop properly under the control of the government until 2020 when the COVID-19 outbreak. After 2020, the real estate of China hits a trough. Real estate in China has continued to boom recently; this is due to the following facts. Firstly, the gross investment in the real estate is on the rise. In 2020, China invested 14.14 trillion yuan in real estate development, which represents an increase of 7.0% as compared with 2019 while China’s total investment in real estate in 2021 is 14.76 trillion yuan with an increase of 4.4% [4]. Secondly, due to the unreasonable investment in the real estate capital market, the real housing industry grows dramatically. With the increase of living standards, people have a great desire to manage capital, and real estate acting as a high-quality financial product become a main field of investment. A lot of capital crowds into the real estate industry to earn huge profits which makes the bubble occurs. Then the price of the house stays high, take the number of cities whose prices of houses increase as an example.

Just as what shown in figure 1. The number of cities whose housing prices increase accounts for the vast majority. The last half year of 2011 has no decreasing-price city almost and the price-increasing part takes almost the whole. However, excessively fast-rising house prices have led to an increased risk of price bubbles. Recently, investment in the real estate industry has had a significantly high return, hence, people have invested a huge amount of capital into the real estate with the purpose of speculation. The current price exceeds its intrinsic price value, in essence, is a class of false value-added. The real estate bubble exerts a negative impact on the economy of China, and the unreasonable prosperity of real estate limits the innovation of technologies in the context of economic transformation [5]. Meanwhile, the development of real estate gives a boost to the downstream industry, which means improving the real estate equal to improving the downstream industry

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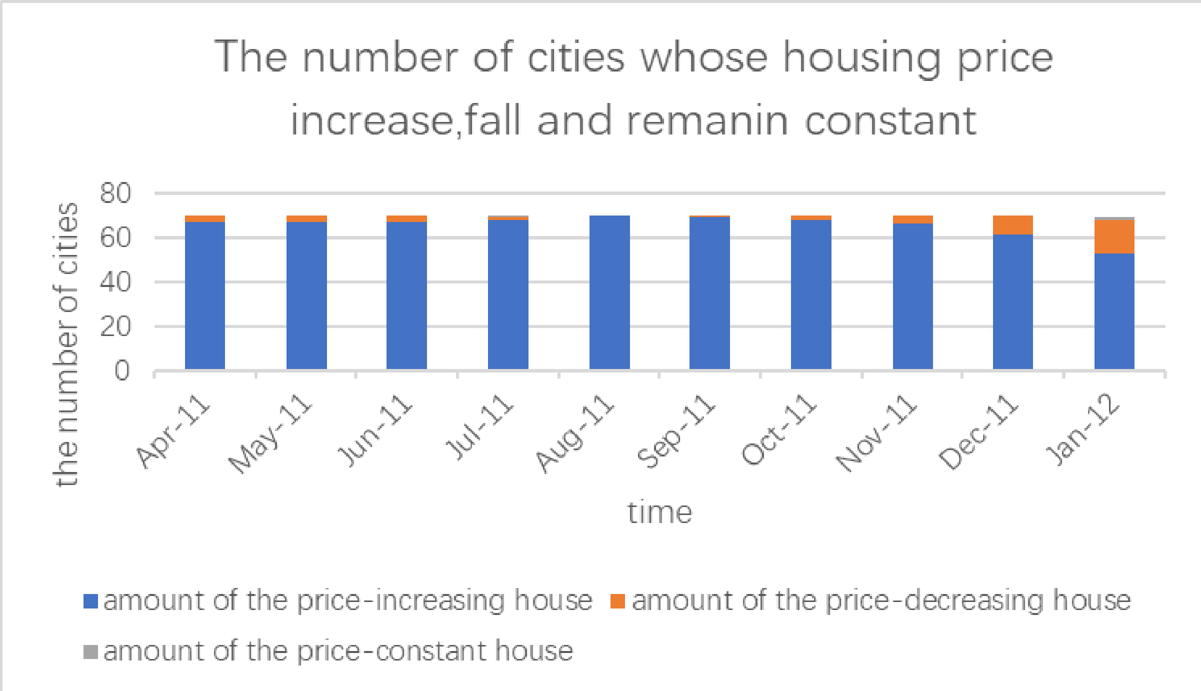

Figure 1: The number of cities whose housing price increase, fall and remain constant

2.2. The Impact of Different Monetary Policies on the Housing Estate Economy

The housing estate industry as the pillar industry of China developed rapidly in the past, however, there are many problems, such as the extremely rapid rise of the cost of buying house, the overheating of real housing investment, and the bubble of the property sector. With the purpose of steady development of real estate, the Chinese government implements a series of monetary policies. According to the characteristics of "small shock-large fluctuation" in the financial accelerator theory, when the monetary policy alters, an initial external shock will be caused to the real housing industry, which will gradually amplify the final influence of the initial shock on the real housing industry through the financial accelerator mechanism [6]. Based on the progress of Chinese real estate, this essay analyses the related monetary policy of the different periods. They are the real estate reform period, rapid development period of real estate, and temporary decline period of real estate.

2.2.1. The Real Estate Reform Period

It is the real estate reform period (1998-2003). Due to the Asian Financial Crisis, inflation in China become serious, the real estate industry is filled with bubbles, and the price of real estate rapidly increases exaggeratedly. The economy of China faces a tendency to the downward, hence, the government decided to implement a loose monetary policy, to promote consumption. Firstly, the government chooses to reduce the loan interest rate on many occasions continuously. Beginning in 1998.3, the interest rate was cut 5 times, and the interest rate of real estate-related loans was lowered to 5. 76 %, down to 45. 3%, the deposit interest rate was flat down 25% [7], which would encourage people to buy real estate assets. At this stage, China's monetary policy is to promote the development of the real estate industry and stimulate the prosperity of the real estate industry. Secondly, the government chose to increase the number of M2 investments in the property market, which means Chinese government providing a huge amount of currency for the real estate market. The following chart shows figures regarding the supply of the number of M2 [8].

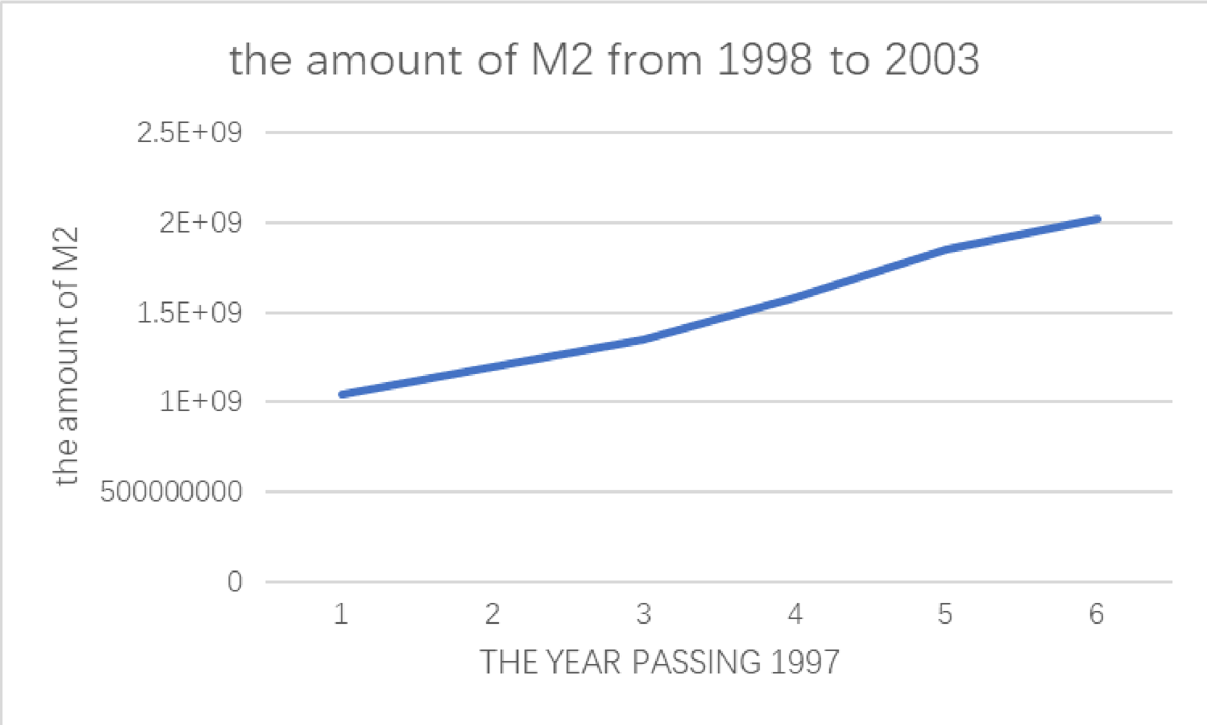

Figure 2: The amount of M2 from 1998-2003.

According to figure 2, it is easy to see M2 increases year by year from 1997.The number of the M2 is positive related to time. In July 1998, the volume of M2 investment was $9,631.4 billion, and in May 1999, the volume of M2 investment reached $1,106.1 billion, exceeding $1,100 million [8]. Additionally, the central bank decreases the reserve-deposit ratio(rr), hence the reserve would decrease which means the loans increase. Those loans would be used by people to invest in the housing estate industry. To a certain extent, the rr falling would stimulate consumption.

2.2.2. The Period When the Real Estate Industry Develops Rapidly

It describes the time from 2003 to 2008 when the real estate developed rapidly. In the last stage, because of the loose monetary policy implemented, the price of real estate assets rose dramatically. To protect the bubble, the Central Bank of China decided to publish a tighter monetary policy. Firstly, the benchmark interest rate on loans which is used for investing in real estate would be increased. The following graph is about the loan interest rate from the year of 2003 to 2008.

According to the figure 3, the interest rate rose continuously from 2003 to 2008 which increased the cost of long-term debts so that the flow of money into real estate would be reduced, therefore, the bubble in the real estate industry would be protected to some extent. Additionally, opposite to the last stage, the reserve-deposit ratio (rr) rises which means the reserve would increase while the loans used to invest real estate would decrease relatively. On April 25, 2001, the central bank raised the reserve-deposit ratio by 0.5 percent. From the beginning of 6 percent gradually increased, the reserve-deposit ratio gradually increased to 16.5 percent until May 2008. However, the number of M2 is still huge, the number of M2 supplied in 2005 is 29875600 million yuan, and the number of M2 in 2006 is 34560400 million yuan while M2 of 2008 become 47516700 million yuan with the high increasing speed [9]. It is easy to see that M2 of China represent the upward tendency. So that the effectiveness of constrictive monetary policy would be significantly declined.

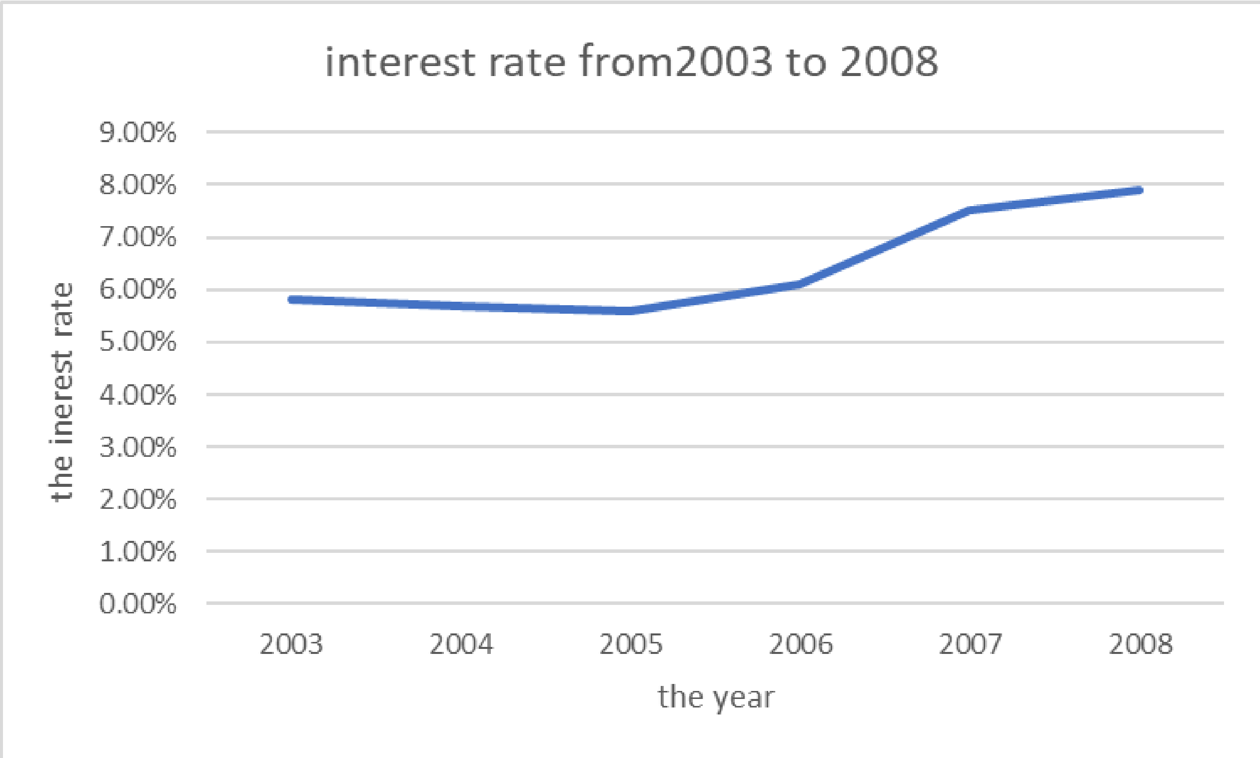

Figure 3: Interest rate from 2003 to 2008.

2.2.3. Temporary Decline Period of Real Estate

It is the time when beginning from the September 2008 to the December 2009. During this period, the international financial crisis broke out, therefore, the industry economy of all the countries was in recession and also including the real estate industry in China. The government of China adopted a loose monetary policy to reduce the range of the economic decline. The main methods are reducing the interest rate of home-purchasing loans and increasing the supply of M2. Those policies implemented by the government boost the investment in the real estate industry with the hope of driving the overall economic development. With the continuous development of the real estate industry, its downstream industries are becoming more and more. It requires more and more materials, land, labor, equipment, and other elements; hence the boom of the property sector will boost the other industry.

To conclude, the monetary policy of China changes according to the situation of the international economy and also the real estate market. The monetary policy has the proper cycle.

2.3. Suggestion About the Monetary Policies

Based on the analysis of the past policy, this essay provides the proper advice for the real estate industry economy. COVID-19 has had a major impact on the development of the economy, and real estate, as a pillar industry of the national economy, has been greatly affected. In 2022, the sales area of houses nationwide was 135,837 million square meters, going down 24.3% compared with the previous year, of which the sales area of residential buildings decreased by 26.8%. The sales of commercial housing were 13,330.8 billion yuan, decreasing 26.7%, of which the sales of residential property were down 28.3% [10]. The loan is used to invest in the housing industry. However, compared with the current situation of the real estate industry, the number of deposits made by residents has increased. Firstly, the government could stimulate the cash to flow into the real estate market by decreasing the reserve-deposit ratio (rr) which means the reserve would become diminishing, so that the loan would rise. The investment in the real estate industry would increase. This means that more capital will flow into the market, the probability of the real estate industry obtaining capital increases, and the cost will also decrease. Additionally, the central bank reduces the interest rate of loans, so that the cost of buying houses would reduce relatively. Moreover, the government can also support the reasonable financing needs of the real estate industry by increasing policy support and allowing some creditworthy enterprises to defer repayment and speeding up the processing of deferred loans, which would release the pressure of capital in the housing estate industry. Then, the government should beware of bubble economies in the real estate market.

3. Conclusion

Through the study, this paper found that the government will change the monetary policy introduced according to the current situation. When the real estate industry is in a boom, the government would prefer the expansive monetary policy while the real estate industry is in a recession, the government of China choose to introduce a looser monetary policy. And because of COVID-19, the real estate industry is in a recession. The government should introduce the appropriate looser monetary policies, for example, decreasing the interest rate of home-purchasing loans and declining the reserve-deposit ratio. However, the government should keep an eye on the strength of macro-control. This is because excessive macro-control can lead to overheating and depression in the real estate market. This essay first researches the history of the development of the real estate industry and then divides it into three periods. Secondly, this paper finds monetary policies implemented by the government of China during the corresponding period. Finally, this essay studies the impact of COVID-19 on the real estate industry and gives fitting suggestions about monetary policies. This essay will provide suitable references for the government that wants to introduce new monetary policies when facing external shock. However, the impact of COVID-19 on the downstream industries of the real estate market is not clear and the specific monetary policies on the downstream industries are not pointed out. In future research, the downstream industry should be divided into the relative services and the other material industries.

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