

With the Impact of the Coronavirus, Will Family Loans in the Korean Real Estate Market Become a New Financial Crisis?

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ABSTRACT

Affected by COVID-19, the land business has been incredibly loose to advance the improvement of the land business, which has prompted another financial issue in South Korea. The objective of the current government is to control the development pace of family credits beneath the financial development rate, to make a delicate arriving of family obligation trouble. This is since, supposing that family advances are decreased temporarily, they might be joined by significant secondary effects. Indeed, family advances expanded in twofold digits (around 11%) from 2015 to 16, diminished to 5.6% in 2018, and 4% in 2019. However, with the flare-up of COVID-19, the circumstance switched, as of August 2020, the development rate has reached 6.2%. To this end family obligation the board is critical once more. In view of the factual information model of the extent of family obligation in GDP given by BIS and IIF, this paper concentrates on the size of family obligation in South Korea. The examination shows the earnestness of the family obligation issue, yet it additionally advocates that the expansion of South Korea's obligation is fixated on the major league salary and high credit class, so it is somewhat protected. Nonetheless, with the ascent of house costs in the capital circle, the weight of big league salary and high credit classes has likewise expanded. When the unforeseen inside and outer shocks lead to a sharp decrease in house costs and increasing loan fees, the quantity of individuals who can't bear obligation might increment. Accordingly, in the Korean housing market under the effect of the pestilence, family advances will turn into another monetary circuit.

Keywords: *Economic growth, Covid-19, Family loans, Korean Real Estate Market*

1. INTRODUCTION

With the sendoff of the "concurrence with the COVID-19" model in South Korea, individuals' assumptions for financial recuperation are expanding. Nonetheless, the spread of the freak infection actually adds numerous factors to the world monetary recuperation. The IMF brought down the worldwide monetary development rate to 5.9% in 2021. Different emergencies, for example, consistent interference of store network and rising natural substance costs are deferring the recuperation of the world economy from the scourge. Nations should keep on elevating relating approaches as indicated by their emergency stage, control the spread of the plague and guarantee financial recuperation. In any case, around 6-7 years prior, the extent of family obligation in the size of South Korea's economy has taken off to the most elevated level on the

planet. The extent of family obligation in GDP surpassed 80% toward the finish of 2014, outperforming the United States (79.7%), and surprisingly incredible the United Kingdom in mid-2016. Since the foundation of the current government, the vertical pattern has proceeded. Subsequently, in light of the factual information model of the extent of family liabilities in GDP of significant nations given by BIS and IIF. This paper concentrates on the size of family liabilities in Korea, and observes that family credits will turn into another monetary breaker in the Korean housing market under the effect of the scourge. The purpose is to speed up the solution to the overheating of the Korean real estate market. In other words, accelerate the solution of the problem of shrinking consumption and negative impact on economic growth caused by excessive household debt.

2. LITERATURE REVIEW

The research of his research team of the bank for International Settlements shows that the affordable household debt of a country's economy accounts for about 85% of GDP. This figure is based on the survey results of the economic situation of 18 developed countries from 1980 to 2010. In other words, household debt can increase consumption in the short term and have a positive impact on economic growth, but if it exceeds this level, it will have a negative impact on the economy. The most representative is the subprime mortgage crisis from 2007 to 2008. Household debt in the United States accounted for more than 85% of GDP in 2004, and then continued to rise, soaring to 98% in 2008, the peak of the crisis. Finally, the debt reduction measures were not implemented until the financial crisis came. The ratio decreased to less than 90% in 2011 and less than 80% in 2014. In this process, the debtor's house was seized, caught up in the streets and suffered great pain. South Korea exceeded 85% for the first time in the third quarter of 2016. Although as early as the Roh moo Hyun government, household debt became a big problem with the soaring house prices, the ratio was less than 70% at that time. Then it exceeded 70% for the first time in the second quarter of 2008, and exceeded 80% in the fourth quarter of 2014 after a lapse of six years. The problem is that the upward trend has continued since the establishment of the current government. This ratio has increased by nearly 10 percentage points only since the establishment of the current government. First of all, it rose to 88.3% in the second quarter of 2017. In 2018, as housing prices rose, loans increased by more than 90%, and in the first quarter of 2020 reached 97.9%[1]. After the second quarter, housing prices skyrocketed and COVID-19 overlapped, and household loan demand increased[1].

From the research, we can know that too much household debt will lead to the contraction of consumption and have a negative impact on economic growth. In addition, once the household income and expenditure face the limit, the deficit will intensify, which will increase the possibility of financial turmoil. In particular, if unexpected internal and external shocks occur, it may become a catalyst for the crisis.

3. CURRENT SITUATION OF REAL ESTATE IN KOREA

3.1. *What are the main phenomena in Korean real estate*

In September 2020, the first vaccination rate in Korea was over 70%, and the increase in social immunity was the main reason why the Korean government was optimistic about the economic prospects. Meanwhile, the total number of COVID-19

confirmed in Korea was much lower than that of the major developed countries such as the United States and Britain. On the other hand, exports showed steady growth, providing support for South Korea's economic recovery. In September 2020, South Korea's export volume reached the US \$55.83 billion, an increase of 16.7% year-on-year. This is the highest in 65 years since trade statistics began in 1956. The number of commencement days in the same month decreased by 2 days year-on-year. The average daily export volume calculated by the number of commencement days is the US \$2.66 billion, also breaking the historical record. As a result, South Korea's exports have increased for 11 consecutive months and maintained a double-digit growth momentum for seven consecutive months.

However, in the past two years, there has been a wave of the price increase and house grabbing in Korean real estate. In May 2020, the price of apartments in Seoul, Korea jumped to 1.29 billion won from 840 million won in May 2017, with an average increase of 450 million won, or 53%, the highest in recent 30 years[2]. The sharp rise in house prices is accompanied by the large-scale volume of transactions. According to the data recently released by South Korean officials, in July 2020, the transaction volume of real estate in South Korea reached 141000 units, a significant increase of 110% over the same period last year. From January to July 2020, the cumulative trading volume was as high as 762000 sets, almost doubling compared with the same period last year. The monthly trading volume and cumulative trading volume both reached the highest level since data statistics were available. The market price of house leasing increased by 2.4% before the promulgation of the amendment to the law on the protection of house leasing in 2020 and reached 16.7% after its implementation[3].

3.2. *Main causes of this phenomenon*

In addition to the economic production and living difficulties caused by the rapid spread of the new crown variant strain, China's power cut-off in 2020 is also further aggravating the rise in the prices of major raw materials in the world. Due to the decline of China's thermal power output in August 2020, power rationing and shutdown measures have been taken in many regions of China since September, which also limits the power consumption of ordinary residents. The resulting supply chain disruption has affected the normal operation of the global industry. The supply of semiconductors, automobile and mobile phone parts is insufficient. The rise of prices affects production and consumption. The surge of international oil prices further exacerbates the panic of the market.

The South Korean economy, which is greatly affected by the external environment, is also hard to escape this crisis. The surge in international oil prices

led to the rise of gasoline prices in domestic gas stations in South Korea for three consecutive weeks. In the first week of October, gasoline prices rose to 1554.4 won per liter, an increase of 8.7 won over the previous week. In addition, in September 2020, South Korea's consumer price index increased by 2.5%, rising at a rate of 2% for six consecutive months, and agricultural, livestock, and aquatic products, processed food and rent all rose. After the outbreak of the epidemic, the loose monetary policy adopted by the government led to a sharp rise in the scale of household liabilities. The measures to curb lending in the Korean financial sector for several months led to the pain of the reform of the loan market. The actual demand for loans felt powerless due to the rising interest pressure and suddenly harsh loan conditions.

At the same time, the global excess liquidity is regarded as an important reason for the rise of house prices in many countries, including South Korea. Since covid-19, the currencies of the world, especially developed countries, have released unprecedented water, the interest rates of many countries have dropped to the lowest level in history, and the prices of stocks, real estate, gold, and other assets in various countries have generally risen. Generally speaking, in developed countries where the urbanization process is basically over, their real estate market will gradually become stable. Without severe external stimulus, it is difficult for house prices to rise and fall rapidly. But South Korea does not seem to conform to this law. Especially after the epidemic, there was a panic wave of house purchases in Seoul, South Korea, and the house price increased significantly. In fact, in the past 3 years, since the establishment of moon Jae in the government, the Korean government has issued more than 20 new property policies to curb the overheated property market, but the effect is not obvious, and real estate prices continue to soar. With Seoul as the center, the national house price is still rising. The rich in South Korea want to buy a house in Seoul. Like some central cities in China, the real estate market in Seoul has been in short supply for a long time. In addition, the housing supply policy direction of the South Korean government does not adapt to the market, resulting in the increasingly prominent contradiction between supply and demand.

3.3. The relation between possible consequences and new financial crisis

In July 2019, the Korean government started to do "contract restoration demand framework" and different bills to secure the privileges and interests of the resident. As per its substance, the renter has the privilege to request a recharging of the agreement for a long time based on the primary agreement. At the point when the rent is re-established, the rental cost of the house will

not increment by over 5%. After the presentation of the bill, numerous tenants decided to expand the agreement, bringing about a critical decrease in the inventory of houses in the full lease market. Simultaneously, affected by the pinnacle moving season, the market was hard to fulfill the rental need, and the rental market cost took off. Also with the rising cost of the rental market, the issue of two-level separation of house costs between various locales is developing.

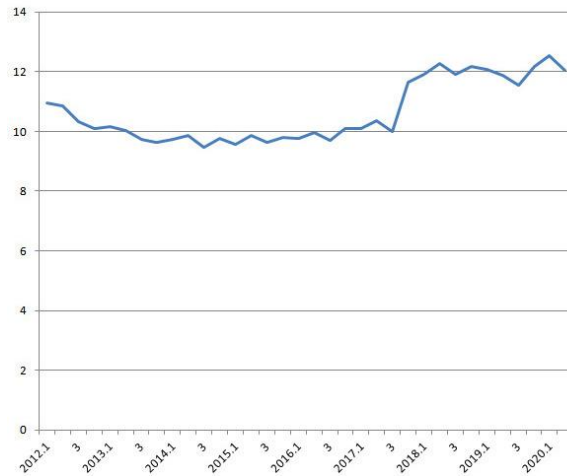


Figure 1 Change trend of PIR in Seoul

(x= times; y=year)

PIR is an estimation method adopted by quite several institutions in the world and is often used to compare the bubble level of housing prices in different countries. Experts believe that the appropriate level of this indicator is usually about 3 ~ 5 times. Of course, areas with high-income levels may be higher than this figure. Even so, if the ratio exceeds 10 times, it can be considered that house prices have risen excessively. According to this indicator, Seoul housing prices should be presumed to contain considerable bubbles. Based on the house price and urban household income statistics provided by the Korean appraisal institute and the statistics office, the PIR of Seoul in the second quarter of this year was 12.04 times[4]. This value is the result of dividing 645 million won between June this year by the middle-income class of all urban families (more than two people), that is, the quintile annual income of 54 million won. The annual income is the annual income converted from the average monthly income (4.5 million won) in the second quarter recently announced by the office of statistics. PIR hovered at a 9-fold level from the third quarter of 2013 to the third quarter of 2016, exceeded 10 times in the fourth quarter of 2016, and rose to 12 times in 2018 when house prices soared[5].

At the same time, to limit real estate speculation, the government raised the transfer tax and imposed a 70% capital gains tax on those who resell their houses less than one year after purchase; 60% capital gains tax will be levied on those who resell their houses for more than

one year and less than two years. At the same time, the government also lowered the mortgage loan ratio (LTV) of high-priced houses and raised the loan requirements of banks. To combat the hoarding of housing by multiple homeowners, the government has raised taxes on real estate. The maximum tax rate levied on holders of more than three or two suites in key regulatory areas was increased from 3.2% to 6%[6]. The income tax implementation order issued in January this year stipulates that when the owners of two temporary houses sell alternative houses, they can enjoy the tax exemption policy from the old house and the alternative house held for more than two years to the second house. They can enjoy the tax exemption policy only after they hold and live for more than two years from the date of selling one house. In terms of rental, the government officially implemented the amendment to the housing rental protection law in July 2020 to safeguard the tenant's right to renew the contract and set the rent ceiling. At the same time, it also reduced the rental loan interest rate for young rental groups with actual needs and relaxed the loan income standard for people with real rental needs in key regulatory areas.

Due to the significant increase in the income tax on house transfer and the comprehensive real estate tax rate, from June 2021, many residents chose gifts to avoid high taxes. The number of apartment gift transactions increased from 4.5% in the first year of the moon Jae in 2020 to 14.2% in the year[7][8]. This series of regulatory policies not only did not curb demand but led to the reduction of housing supply in the market and further stimulated the rise of house prices. At the same time, the national land price and transaction volume also continued to rise. Affected by loan and resale restrictions, although house prices in the capital circle continue to rise, the overall transaction volume shows a downward trend.

Secondly, while house prices are rising rapidly, household income is growing slowly. The selling price and rental price of houses have soared across the board, making it more difficult for real housing demanders and low-income people to solve the housing problem. This is due to South Korea's quantitative easing policy, interest rates remain low, and investors are keener to invest in real estate. In addition to curbing some speculators, the government's regulatory policies have also increased the economic burden of people with real housing needs[9]. The increasing number of living alone groups in South Korea also makes the rental market hot. The government's regulation and control policies protect the rights and interests of renters to a certain extent, but make people with housing resale plans more reluctant to sell their houses. At the same time, the tax burden of ordinary people with multiple houses is increased, which may also transfer the burden to renters and buyers.

4. CONCLUSION

Because of the taking off family obligation and land costs, South Korea's land monetary circumstance has crumbled to the most unsound state since the worldwide monetary emergency in 2008. Assuming there is an emergency, there is an incredible danger of effect in general economy. As COVID-19 is quieted down, assuming loan fees rise and other monetary conditions change drastically, the land and securities exchange bubbles that will extend because of exorbitant liabilities will be broken and the economy will endure. In 2021, the family obligation of South Korea arrived at 1765 trillion won, the normal cost of condos in Seoul surpassed 1.1 billion won, and the housing market was overheated[10]. As such, exorbitant family obligation will prompt contracting utilization and hurt financial development. Furthermore, when the family pay and consumption face the cutoff, the deficiency will escalate, which will expand the chance of monetary strife. Specifically, assuming startling inward and outer shocks happen, they might turn into an impetus for the emergency.

Some suggestions can be put forward to solve such problems: Albeit all areas of society have incredible suppositions on the land guideline strategy of the Korean government, the public authority has no arrangement to present another land strategy until further notice. To take care of the overheating issue of the housing market brought about by pertinent family advances, keep on advancing the execution of existing approaches and improve and enhance a few arrangements. The public authority can likewise build the stock of lodging to fulfill the genuine lodging need of occupants, and seriously rebuff theorists who disturb the market.

Secondly, with the sharp rise in house prices and the increasing sense of deprivation of young people, the Korean government began to relax the restrictions on real estate loans to young people, but this is "a temporary solution rather than a permanent cure". Although it is possible to temporarily quell the anxiety of the youth caused by the sharp rise in house prices, it is possible to exclude the low-income youth who are unable to afford loans. In addition, the relaxation of loan policies has also become a factor contributing to the already unstable real estate market. Because of soaring asset prices and job instability, young people have to bear too much debt compared with the money they earn. Now, compared with relaxing loan restrictions and increasing their debt burden, what is more, urgent is the policy of stabilizing asset prices.

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