



Macro Policy Research under the Goal of Housing Price Stabilization

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Abstract. The real estate market, as a pillar industry of China's national economy, plays a crucial role in the overall economic landscape. However, under the pressure of economic downturn, the real estate market has shown a general trend of sluggishness in recent years. This paper analyzes and studies macroeconomic policies from both the supply and demand sides, integrating the main findings of current scholars. It concludes that demand-side regulation can effectively correct economic structures but may suppress welfare, which is inseparable from the coordination of policies. Meanwhile, stimulating supply can stabilize housing prices in the short term. However, in the long run, if the increase in supply does not fully consider the actual demand situation of the market, it may further exacerbate the distortion effect of the market, leading to new difficulties in the real estate market. Based on a comprehensive analysis of the current situation, the paper proposes recommendations for future policy development at the end.

Keywords: real estate market, housing price control, structural macroeconomic fluctuations, monetary policy

1 Introduction

The real estate sector, with its long industrial chain and wide-ranging impact, serves as a pillar industry of the national economy, contributing approximately 6% of GDP. Land sales revenue and real estate-related taxes and fees make up nearly half of local government finances and close to 60% of urban household income. Therefore, the real estate industry significantly impacts the macroeconomy, driving GDP growth through real estate and land finance-backed infrastructure investments.

Since the implementation of the housing monetization policy in 1998, the real estate market has undergone a prolonged period of rapid expansion. However, with the economic downturn pressures in the post-pandemic era and changes in domestic and international economic conditions, the real estate market has shown signs of fatigue. Currently, major first-tier markets in China are experiencing a general slowdown in housing price growth, narrowing fluctuations, declining transaction volumes and development investment growth rates, and increasing regional disparities^[1].

The negative fluctuations in the real estate market, particularly housing prices, have triggered a series of impacts on the macro-economy. First, household consumption in China has been adversely affected. Faced with a declining real estate market, residents are more inclined to invest in other markets or increase savings^[2]. Second, reduced construction activity by real estate developers has impeded investment, financing, and innovation in the broader real economy^[3]. Third, household and local government debt levels are distorted. With the failure of local real estate development, households and local governments shift from ‘active debt’ to ‘passive debt’, further affecting local land financing and the speed of real estate market stabilization^[4,5]. In summary, the volatility in the real estate sector has intensified structural macroeconomic imbalances, underscoring the urgency of policy measures aimed at stabilizing housing prices and correcting broader economic distortions. Existing literature on housing price regulation mainly focuses on the supply and demand sides. Supply-side measures include land supply adjustments and affordable housing construction. On the demand side, current policies mainly include purchase restrictions, transaction tax policies, and credit policies^[6]. Based on existing literature, this paper aims to explore the impact and effectiveness of various macroeconomic policies on real estate market trends and further analyze the future trends of the real estate market under the current economic situation and policies.

The subsequent sections of this paper are arranged as follows: Section 2 reviews current facts, indicating the research motivation; Section 3 offers a detailed analysis of policy impacts; and the final section provides a summary and policy recommendations.

2 Current Facts

2.1 Analysis of Current Real Estate Market Development

In recent years, China's real estate market has experienced rapid development, especially in first-tier and some second-tier cities, where housing prices once soared, becoming a focal point of social attention. According to the data released by the National Bureau of Statistics of China, the average price of urban real estate in China has increased by 4.8 times since 2000. In first-tier cities such as Beijing, Shanghai, and Shenzhen, the increase in real estate prices has even reached between seven- and nine-fold. Soaring housing prices have increased the pressure on home purchases, severely affecting the quality of life and social stability for some groups. Additionally, the real estate industry's over-reliance on debt financing has exposed the entire financial system to risks, with debt crises in some real estate companies exacerbating market instability.

Housing prices have endogenous volatility. Since 2008, China's housing prices have experienced several complete cycles of fluctuations. Under the influence of macroeconomic control policies, the housing price fluctuations around 2018 were delayed. The outbreak of the COVID-19 pandemic caused stagnation in the real economy, including the real estate industry. As the domestic and international economies gradually recover, the delayed housing price fluctuations have significantly erupted. Around 2023, the real

estate markets in major first-tier cities across the country have shown obvious signs of decline (Wind Information) .

Excessive housing price fluctuations reflect the imbalance between housing supply and demand, with land being the main factor determining housing supply. Despite the total available housing supply unchanged nationwide, excessive housing supply tilting towards first and second-tier cities intensifies human-land matching contradictions, worsening housing price pressures in major cities and reducing the efficiency of population distribution^[7].

In response to these challenges, relevant government departments have adopted relatively loose monetary policies for the real estate market. Financial institutions are also continuously easing loan approval standards for developers and residents, providing relatively relaxed financial support for the current real estate market. However, due to the overall market downturn, economic downturn pressures, and declining land sales revenue, local governments are shifting from 'active debt' to 'passive debt'. The imbalance in government debt increases investments in industries such as manufacturing, further increasing the difficulty of achieving a sustained recovery in the real estate market.

2.2 Impact of Macro Policies on the Real Estate Market

Fluctuations in housing prices can induce structural macroeconomic imbalances, with sustained increases contributing to prolonged economic distortion. Therefore, the goal of regulation policies should not be limited to suppressing housing prices but should also focus on adjusting macroeconomic structures and correcting macroeconomic distortions.

To stabilize housing prices and promote real estate market recovery, the government has adopted a series of macroeconomic policies, mainly including the following aspects. First, purchase and loan restrictions have been implemented. Local governments use purchase and loan restrictions to curb speculative housing demand, especially in cities with rapidly rising housing prices. Purchase restrictions limit the number of homes non-local residents can buy and even set minimum residency requirements. Loan restrictions increase down payment ratios and loan interest rates to limit the issuance of home loans, slowing market overheating. Second, the government effectively promotes mortgage interest rate adjustments. To regulate market demand, the central bank and relevant departments adjust mortgage interest rates to influence borrowing costs for homebuyers. When prices rise fast, the central bank raises interest rates to curb speculative demand; during downturns, it cuts rates to stimulate demand. The government also implements inventory reduction policies, especially in third - and fourth - tier cities, by easing purchase thresholds and offering tax incentives. Additionally, it collaborates with financial institutions to strengthen financial supervision, restricting real estate firms' excessive borrowing and reviewing capital flows since 2021.

These macroeconomic policies have had a stabilizing effect on housing prices. Data from various cities indicate that purchase and loan restrictions have somewhat curbed speculative demand, thereby slowing the rapid appreciation of housing prices. Espe-

cially in first-tier cities, housing price increases have slowed, and price surges in some hot second-tier cities have been effectively curbed. However, these policies have limited effects on alleviating the pressure on 'rigid demand' home-buyers, especially in second and third-tier cities, where housing prices remain high due to insufficient land supply and large population inflows.

Simultaneously, the recovery of the real economy, led by the real estate market, can alleviate local governments' fiscal pressures to some extent. The introduction of property taxes helps stabilize local fiscal revenues, especially in local governments reliant on land sales revenue, as land finance revenue is difficult to rely on in the long term. This policy can fundamentally solve the structural problems of 'land finance'. However, as property taxes have not been fully promoted, local governments' progress in this reform is relatively slow^[8].

Besides, the stabilization of the real estate market can effectively solve developers' funding chain issues. By strengthening supervision of real estate companies' financing, the government has effectively limited excessive leveraged financing by some real estate companies. This policy has directly led to funding chain breaks for some real estate companies, especially those with severe debt, resulting in frequent bankruptcy and debt default incidents. For example, the debt crisis of Evergrande Group exposed the risks of the real estate industry's over-reliance on debt financing. Nevertheless, this has effectively curbed the excessive bubble in the real estate industry, laying the foundation for the healthy development of the future market.

Finally, with the implementation of a series of macroeconomic policies, the real estate market's inventory reduction effect is significant. In some third and fourth-tier cities, the inventory reduction policy initially achieved significant results, with real estate sales volumes rebounding for a period. However, the effects of this policy are not long-lasting. In regions with rapid population outflows, inventory issues remain severe, and the inventory reduction process may lead to temporary housing price declines, contributing to renewed market instability.

3 The Impact of Housing Prices on the Macroeconomic Structure

Housing prices exert a broad and profound influence on macroeconomic structure, affecting consumption, investment, financial markets, income distribution, regional development, and government finance. Fluctuations in housing prices not only shape individuals' financial decisions but also influence the overall configuration and stability of the national economy. This section explores several key mechanisms through which housing prices affect macroeconomic dynamics.

3.1 Wealth Effect and Consumption Expenditure

Rising housing prices typically bring about a 'wealth effect'^[9], where increased household wealth promotes consumption expenditure. When property values rise, homeowners feel wealthier and may increase non-property-related consumption ex-

penditures, such as durable goods, travel, and cars. This increase in consumption stimulates economic growth, especially in consumption-driven economies. Conversely, falling housing prices may lead to wealth shrinkage, suppressing household consumption expenditure, increasing uncertainty, and potentially slowing overall economic growth.

3.2 Real Estate Investment and Capital Flows

Real estate is a major investment area in many countries, especially in regions with active real estate markets. Rising housing prices attract more capital into the real estate industry, driving growth in construction, building materials, home furnishings, and related industries, creating new investment and employment opportunities. The prosperity of the real estate industry can effectively stimulate economic growth, especially in countries where industry and services are not fully developed. However, over-reliance on real estate investment may lead to imbalanced economic structures. Once housing prices fall or a real estate bubble bursts, financial market instability may occur, affecting the overall economy.

3.3 Financing Costs and Financial Markets

Housing prices directly affect mortgage loan amounts and financial institutions' risk assessments. When housing prices rise, banks and other financial institutions are more willing to provide loans, as the collateral value of properties increases. This encourages households and businesses to borrow more, further driving economic activity and demand. However, if housing prices rise too quickly, financial institutions may accumulate risks, increasing systemic financial risks. Especially when housing prices fall, bad debts may increase, leading to credit crunches and financial crises, affecting the overall economy^[10].

3.4 Income Distribution and Social Inequality

Rising housing prices may exacerbate income and wealth inequality, especially in large cities or popular regions. Property value increases mean that households owning property can accumulate more wealth, while those without property cannot enjoy this wealth effect. As housing prices continue to rise, housing burdens become a major pressure source for many households, especially low-income and young families, who find it difficult to enter the real estate market, further exacerbating social inequality. This increasing inequality may lead to social instability, affecting long-term social development and sustainable economic growth.

3.5 Regional Economic Development

Changes in housing prices also affect regional economic structures. Typically, cities or regions with better economic development have higher housing prices, attracting more

businesses and investments. Rising housing prices may lead to the relocation of low-income groups and businesses, causing ‘over-concentration’ in some areas and further exacerbating regional economic imbalances. On the other hand, long-term low housing prices may lead to declining local government revenues, limiting government investments in infrastructure and public services.

3.6 Labor Market and Talent Mobility

High housing prices may constrain labor market flexibility, especially in large cities or economically developed regions. High housing prices make it difficult for many young people, wage earners, and migrant workers to settle in these areas. Unable to afford housing, these individuals may choose to move to lower-cost cities or regions, affecting overall urbanization and labor market efficiency. Conversely, low housing prices may attract more population inflows to some regions, but long-term real estate bubbles or market instability may also lead to talent loss and reduced economic vitality.

3.7 Macroeconomic Policy Adjustments

Housing price fluctuations are a key consideration in macroeconomic policy adjustments. Central banks typically influence the real estate market through interest rate and credit policy adjustments, indirectly affecting other areas of the economy. For example, to stimulate economic growth, the central bank may lower interest rates, reducing home loan costs, stimulating the real estate market, and thereby boosting consumption and investment. However, if the real estate market overheats, the central bank may raise interest rates and tighten loan standards to suppress rapid housing price increases, avoiding asset bubbles, which has profound impacts on the overall economy.

3.8 Government Finance and Local Economy

Real estate is an important source of revenue for many local governments, especially through land sales and property taxes. Rising housing prices and active real estate transactions increase local government revenues, driving local economic development and increasing public investments and infrastructure construction. However, excessively high housing prices may also increase residents’ burdens, leading to social conflicts and affecting political stability. Additionally, housing price fluctuations may affect local governments’ fiscal health, especially during real estate market instability, when local governments may face declining revenues, affecting the sustainability of public services and social expenditures.

4 Conclusion

Research on housing price fluctuations and real estate regulation is always relevant. The vision of ‘promoting balanced development of finance, real estate, and the real economy’ was included in the *Proposal of the Central Committee of the Communist*

Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and Long-Range Objectives Through 2035. The surge in housing prices in first and second-tier cities in 2020 and the new round of housing price regulation policies have given this paper stronger research significance.

This paper focuses on current macroeconomic policies related to real estate market regulation and proposes the following three policy recommendations for further stabilizing the real estate market: First, demand-side and supply-side regulation policies have different advantages in stabilizing housing prices and correcting macroeconomic distortions. Demand-side regulation policies are more operable and can better correct economic structures but often suppress welfare. Supply-side regulation policies often improve welfare but require more urban construction land and fiscal investment, with higher policy costs. Second, warnings should be issued against unilaterally supporting supply-side increases in land supply. Indiscriminate increases in residential land supply not only consume vast land resources but may also lead to sudden increases in speculative housing purchases, further crowding out household consumption, raising financial market financing costs, and crowding out the real economy. Only by stripping the transaction, investment, and collateral attributes of real estate and targeted increases in non-property affordable housing supply can the above dilemmas be overcome. Third, regulating housing prices may affect local governments' land sales revenues, threatening local fiscal sustainability. Faced with the dilemma of 'stabilizing housing prices' or 'protecting local finances', 'fiscal and tax system reforms should be deepened, and local governments' incentive mechanisms should be improved.

It is important to note that this paper primarily draws upon national-level policies, public data, and recent academic research. A more comprehensive study of regional housing price disparities and local real estate market dynamics would require more detailed and granular data. Furthermore, the present study focuses on literature from recent years, with a limited historical scope and without incorporating empirical analysis. Future research could build upon this literature review by integrating relevant data and identifying policy shocks, thereby enabling more robust analysis and more accurate forecasts of real estate market trends.

It should be pointed out that this article is mainly based on national policies, public data, and academic research in recent years. If we want to study the differences in housing prices between regions and the real estate market situation, further detailed data is needed. At the same time, this article only reviewed the literature in recent years, with insufficient time span and no relevant empirical analysis. In the future, based on the current literature review, relevant data and policy shocks can be introduced to further analyze and predict the current trend of the real estate market.

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