

China cuts taxes, rates to boost housing market

October 23, 2008 - 16:00 BJT (08:00 GMT) China Daily

Potential home buyers at a real estate exhibition in Weifang, Shandong province. China announced Wednesday an array of policies to boost the falling real estate sector amid the global economic downturn. [China Daily]

The central government yesterday stepped in to bolster the sagging real estate market by lowering transaction taxes, reducing down payments and lowering mortgage rates.

But analysts said the measures may not hold back price corrections because the current prices have surged far out of reach of many buyers.

Fleshing out a directive issued last Friday by the State Council for lowering the cost of home buying, the Ministry of Finance and the central bank yesterday announced that property purchase tax would be lowered to 1 percent for people buying their first home if it is smaller than 90 sq m.

The previous rate was 3 percent, with those buying houses smaller than 140 sq m paying 1.5 percent.

The new rate will be effective Nov 1.

For people buying their first home, the down payment ratio will be lowered to 20 percent, and banks will be allowed to charge as low as 70 percent of benchmark lending rates for such mortgages. Both measures are effective next Monday.

The current down payment ratio is 30 percent, or even higher, for those buying large luxury houses or in areas where property prices were deemed to be rising too fast.

The ministry and the central bank said the moves are aimed at increasing consumption to shore up the national economy amid the global and domestic economic slowdown.

The global financial turmoil is expected to further drag down the world economy, which will reduce demand for Chinese exports. China's economic growth eased to 9 percent year-on-year in the third quarter of this year from 10.4 percent for the first six months. Last year, it was nearly 12 percent.

"The central government moves were expected as the housing market is in a downturn," said Wang Lina, economist with the Chinese Academy of Social Sciences. "But to what extent they will work remains unclear."

Property prices in 70 major cities rose 3.5 percent in September from a year earlier, the slowest pace in at least three years, down from 5.3 percent in August. In month-on-month terms, they fell by 0.1 percent in September, which was the second month that prices dropped.

Official figures show that prices have at least doubled since 2004, making property unaffordable for many and home sale volumes plunged 55.5 percent, 38.5 percent and 32.5 percent year-on-year in Beijing, Shanghai and Zhejiang province in the eight months through August.

"Given the high prices, those who cannot afford them would still be hard pressed to buy," Wang said.

China's property prices may drop by about 20 percent from the 2007 level in the coming months, said a research note of the Standard Chartered Bank (China), an assertion backed by Guo Tianyong, economist with the Central University of Finance Economics.

"We expect 2009 will see a further downturn in the housing market, followed by a healthier 2010," the bank report said.

Print