

China Policy Moves Risk Property Price Bubble, PBOC Adviser Says

By Bloomberg News

(Bloomberg) -- China's monetary policies have encouraged investors to pour money into real estate, inflating prices in cities such as Beijing, Shanghai and Shenzhen and increasing the risk that bubbles could form, central bank policy adviser Bai Chongen said in an interview.

At the same time, smaller property markets are struggling with excess inventory, making it difficult to craft a unified policy response and requiring careful coordination with fiscal measures, he said Wednesday on the sidelines of a joint symposium hosted by the People's Bank of China and the Federal Reserve Bank of New York in Hangzhou.

"I can't say whether there are bubbles right now, but we're worried about such a problem," said Bai, an economics professor at Tsinghua University in Beijing. Government goals to cut oversupply in smaller cities and controlling the bubble in bigger ones "are contradictory," he said.

China has sought to balance sustaining economic growth while controlling capital outflows and managing the yuan and stock markets. It has had to weigh the impact of those moves with the risk of destabilizing the property sector.

Bai is one of three outside academic advisers on the PBOC's 15-member monetary policy committee led by Governor Zhou Xiaochuan. The trio offer analysis to policy makers but don't set policy themselves.

Bai said previous policy measures to encourage people to buy homes included reducing down payments and loosening restrictions on purchases in certain locations. "Interest rates have gone down a lot, and it would certainly boost asset prices in tier-one cities, but that doesn't help tier-three or four cities with their overly high inventories," he said.

The overhang of excess housing supply continues. While new construction is running at about 10.5 million units a year, demand is for less than 8 million units per year, according to an analysis by Bloomberg Intelligence analyst Fielding Chen in Hong Kong.

"There won't be new investment in tier 3 and 4 cities," Bai said. "And there shouldn't be any new investment -- there's already so much in inventory."