

*Perspective*

## Effects of monetary policy and real estate market

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Received: 04-Feb-2022, Manuscript No. AJEPM-22-59955; Editor assigned: 08-Feb-2022, PreQC No: AJEPM-22-59955 (PQ); Reviewed: 24-Feb-2022, QC No: AJEPM-22-59955; Revised: 01-Mar-2022, Manuscript No: AJEPM-22-59955 (R). Published: 08-Mar-2022

### DESCRIPTION

The real estate market is critical for economic growth and plays an important role in the transmission mechanism of monetary policy. To explore the asymmetrical impacts of monetary policy and output on the real estate market, a smooth transition vector auto regression model was used. The empirical findings support the efficacy of real estate based monetary policy as well as the asymmetrical impacts of monetary policy and output on the real estate market. Furthermore, because the real estate market responds less to output under a low-speed growth paradigm, negative output shocks (such as COVID-19) have a limited impact on the real estate market. Finally, in a low-speed economic environment, monetary policy has a more positive impact on the real estate market; hence, quantitative easing monetary policy may effectively promote the real estate market at the moment.

The effect of tighter monetary policy on bank loans and commercial credit financing for real estate and manufacturing enterprises was compared to uncover the influence of monetary policy on corporate financing (Del Giudice, et al. 2020). We also looked at how typical real estate corporations bought property under different monetary conditions. The findings revealed the following:

- Monetary policy had a variety of consequences on different industries. Tighter monetary policy stifled manufacturing enterprises' access to bank loans and commercial credit, but had little effect on real estate firms.
- Financing discrimination has been discovered among publicly traded Chinese enterprises. Both the real estate and industrial industries have shown a bias for state-owned firms when it comes to bank lending.
- Government intervention through monetary policy proved ineffectual when favourable expectations about real estate market development were not affected.

These insights can be used to help regulate the real estate

market and allocate loans. To minimise systemic financial risks produced by the real estate market, the government should work to adjust unduly optimistic expectations about house values and boost the establishment of a prudential regulating structure (Davis, 2004). Meanwhile, to eliminate credit discrimination, private-sector financing limits must be eased, and state-owned firms' soft budget constraints must be changed (Jovanovic, et al. 2020). COVID-19 financial impact on the aggregate value of commercial real estate is being calculated. Few industries have been affected as hard by the COVID-19 epidemic as commercial real estate, thanks to the cumulative impacts of telecommuting, social distance, commerce limitations, and firm closures (Lu, et al. 2019). Statistical estimates of the drop in commercial real estate values can be obtained by analysing traded REITs. We examine the influence of economic changes on commercial real estate values using commercial stock valuation models that leverage major economic parameters to value stocks (Nicola, et al. 2020). If not for the harsh monetary and fiscal policies implemented during the early months of the pandemic, real estate markets would have seen far bigger reductions. Empirical data on the monetary policy's diverse transmission to the housing market between and within nations. Using high-frequency data to identify the corresponding monetary policy shocks we find that monetary policy shocks have a twice as significant pass-through to rates on newly originated (fixed-rate) mortgages (Pike, 2020). Following an accommodating monetary policy shock, there is a bigger immediate and permanent increase in transitions from renting to owning, a sharper fall in rents, and an increase in the price-rent ratio in the housing market. In the northern areas, which have been regarded in the literature as more financially developed than the southern regions; there is a stronger pass-through to mortgage rates, housing tenure shifts, and the price-rent ratio (Rong, et al. 2016). Based on a sample of 37 countries experiencing severe pandemics, an event-study technique was used to quantify the influence of the COVID-19 pandemic on the transmission of monetary policy to financial markets. Government bond, stock, exchange rate, and credit default swap markets are examples of financial markets.

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The findings show that the development of the pandemic has significantly hindered the transmission of monetary policy to financial markets (Viscusi, 1989). Neither conventional nor unconventional monetary policies had substantial influence on all four financial markets throughout our sample period following the start of the pandemic. Unconventional monetary policies, on the other hand, are slightly more successful since they may influence stock and exchange currency markets to some extent. According to firm-level statistics, major enterprises spend much more on consumer capital once interest rates fall than small firms (Wu, et al. 2015). This is supported by data from a model with product market frictions in which heterogeneous enterprises promote strategically to create a client base. Customers' demand is shifted away from competitors when a company promotes. When enterprises have a large established customer base, this externality is extremely severe, deterring smaller rivals and making them less sensitive to interest rate shocks. The model explains why market concentration and market strength have increased in recent decades while interest rates have decreased.

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