Economics Letters 236 (2024) 111612

Contents lists available at ScienceDirect

Economics Letters

journal homepage: www.elsevier.com/locate/ecolet

Impact of macroprudential policies on house price expectations- evidence from survey data

Debasis Rooj [a,*,1], Anurag Banerjee [b,2], Reshmi Sengupta [a,1]

[a] Department of Economics, Flame University, Pune, Maharashtra, India
[b] Accounting and Finance, Delhi School of Business, New Delhi, India

ARTICLE INFO

JEL classification:
E32
E58
G510

Keywords:
Macroprudential policies
House price expectations
Household finance

ABSTRACT

This paper investigates the impact of macroprudential policies (MPP) on house price expectations using novel data from the Inflation Expectation of Households survey across 19 major Indian cities released by the Reserve Bank of India. MPP negatively impacts house price expectations, especially borrower-based macroprudential policies. We also find that tightening MPP impacts the retired group more than other occupational groups.

1. Introduction

Housing is one of the key components of household wealth, consumption, and collateral (Hjalmarsson and Osterholm, 2020). It is also one of the crucial sectors in many economies across the globe (Leamer, 2015). One prime factor determining the housing ownership decision is house price expectations (Landvoigt, 2017). The expectations of future house prices also play pivotal roles in forming actual house prices, mortgage choices, and leverage decisions (De Stefani, 2021; Bailey et al., 2019).

The above studies, therefore, provide evidence of the importance of house price expectations in the housing market and their association with leverage decisions. Following the global financial crisis, macroprudential policies are one of the critical tools that are being increasingly applied in many economies to regulate the housing market finance, directly impacting the home buyers' leverage decisions (Kuttner and Shim, 2016; Saha et al., 2023). Several studies also show that MPP tools such as minimum capital adequacy ratio and LTV limits are also effective in moderating house prices (Kuttner and Shim, 2016). However, there is limited evidence of MPP's role in house price expectations (Igan and Kang, 2011). Therefore, we aim to examine the role of MPP on house price expectations for an emerging economy like India using novel survey data.

2. Data

We use the individual-level data from the Inflation Expectation of Households (IESH) survey by the Reserve Bank of India (RBI) across several survey rounds spread over 19 major Indian cities.[3]. This study uses data from Round 13 (September 2008) to Round 66 (January 2022). In every round, approximately 5,500 respondents are asked to express their opinion about their inflation expectations, including their expectations on house prices three months ahead and one year ahead. We define EHP3M=-1 if the households expect house prices to decline, 0 if they expect no changes in price, and +1 if they expect prices to increase from the current rate in the next three months. Similarly, EHP1Y=-1 if the households expect house prices to decline, 0 if they expect no changes in price, and +1 if they expect prices to increase from the current rate in the next year. Furthermore, the survey also records certain demographic information of the respondents, such as age, gender, and occupation (Table 1).

* Corresponding author.
E-mail address: roojdeb@gmail.com (D. Rooj).
[1] Postal Address: Dr. Debasis Rooj & Dr. Reshmi Sengupta, Gat No. 1270, Lavale, Off. Pune Bangalore Highway, Vadzai district, Pune, Maharashtra-412115, India.
[2] Dr. Anurag Banerjee: AU Block Outer Ring Road, Pitampura, New Delhi, Delhi-110034, India.
[3] The data is publicly available on the RBI website for the following cities: Ahmedabad, Bangalore, Bhopal, Bhubaneshwar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Kolkata, Kolhapur, Lucknow, Mumbai, Nagpur, Patna, Raipur, Ranchi and Thiruvananthapuram.

https://doi.org/10.1016/j.econlet.2024.111612
Received 13 October 2023; Received in revised form 26 January 2024; Accepted 18 February 2024
Available online 20 February 2024