



China's Great Housing Slump: Fiscal Fallout, Financial Risks, and Global Spillovers

Tianlei Huang, Senior Fellow, PIIE

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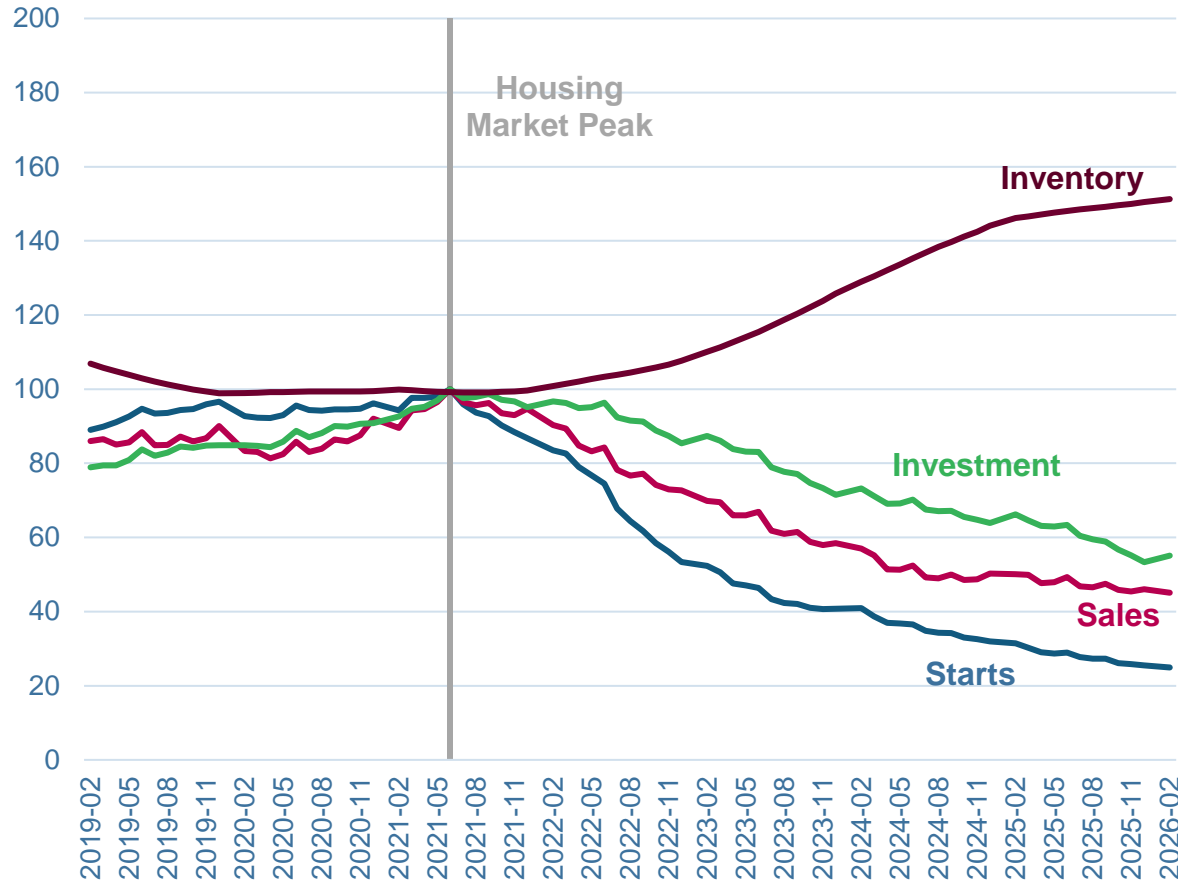
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Agenda

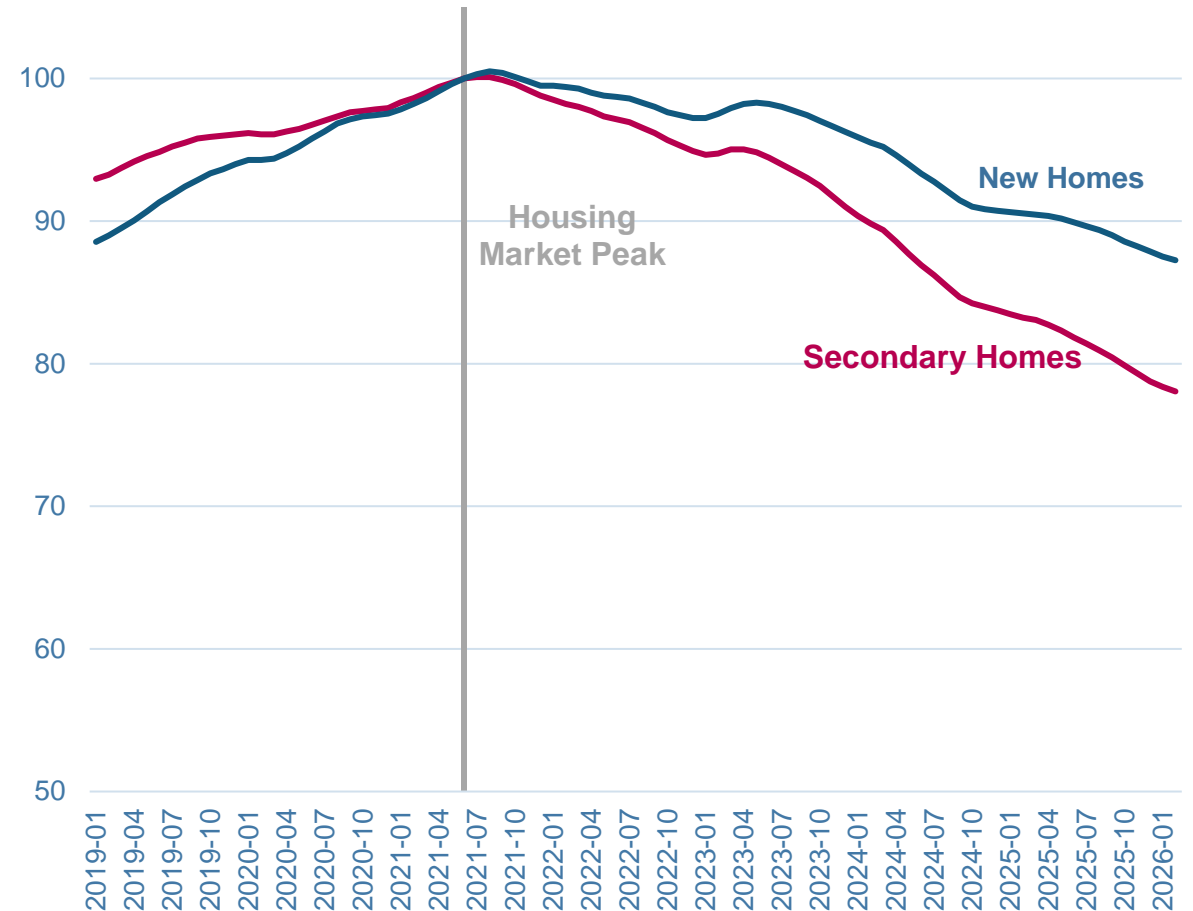
1. Why has Beijing's rescue strategy struggled to revive the housing market?
2. How much damage has the housing slump inflicted on local government finances, and how have local governments responded to growing revenue pressures?
3. Why has the downturn not yet triggered a financial meltdown?
4. How is the housing slump contributing to China's growing external surplus?

China's housing market has been in sustained decline since peaking around mid-2021

a. Monthly Housing Starts, Sales, Investment, and Inventory



b. NBS 70-City Housing Prices

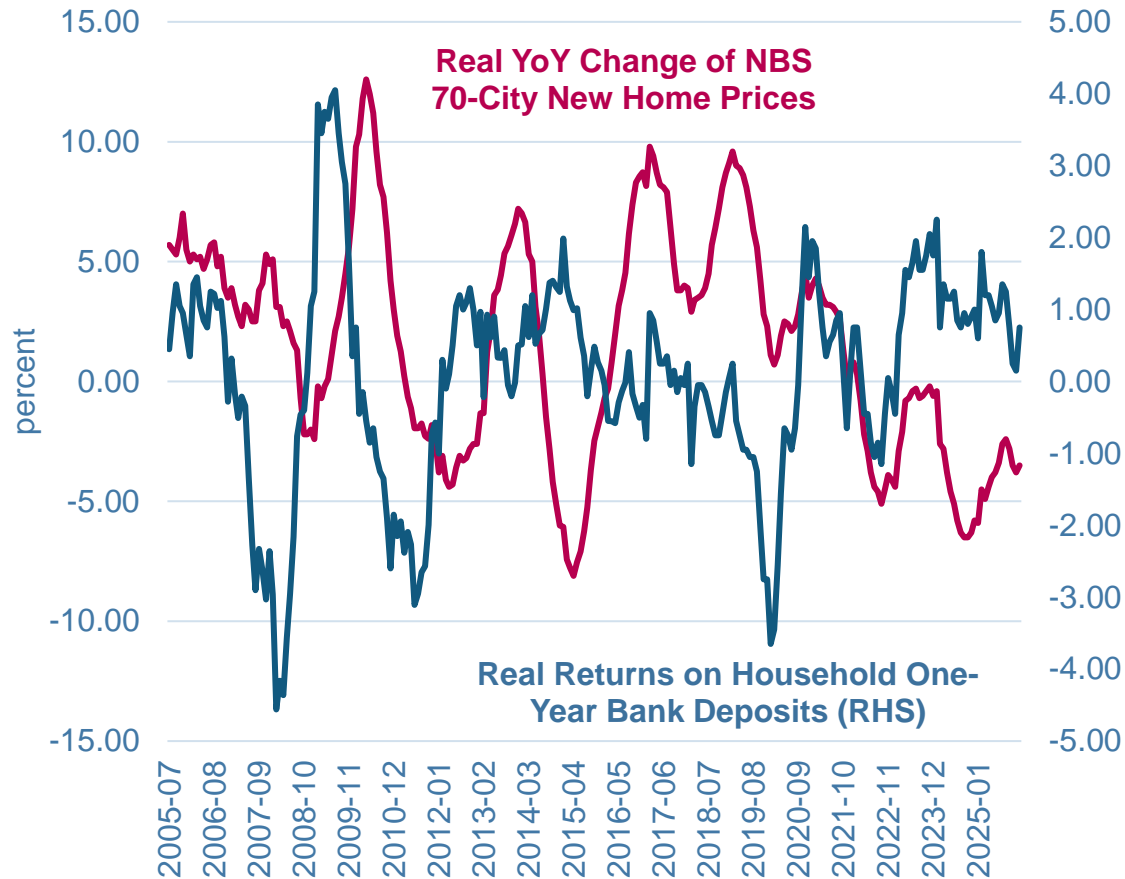


Notes: (1) Data in panel a are 12 month moving averages and indexed with the June 2021 levels as 100. (2) NBS = National Bureau of Statistics of China. Data in panel b are indexed with the June 2021 levels as 100.

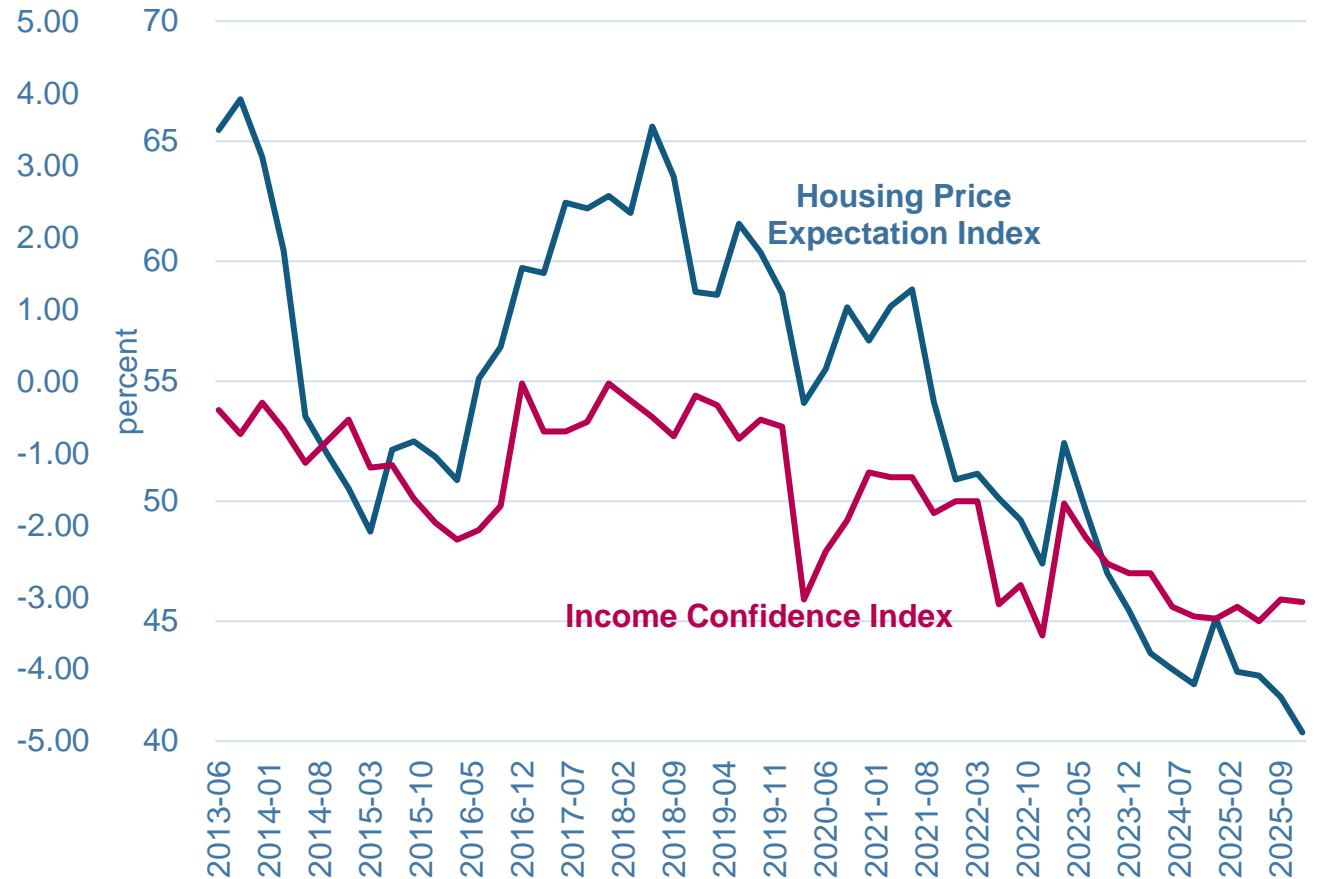
Sources: National Bureau of Statistics of China, and author's calculations

High real interest rates and deteriorating household expectations continue to depress housing activity

a. Real Deposit Returns and Real Housing Price Growth



b. Income Confidence and Housing Price Expectations

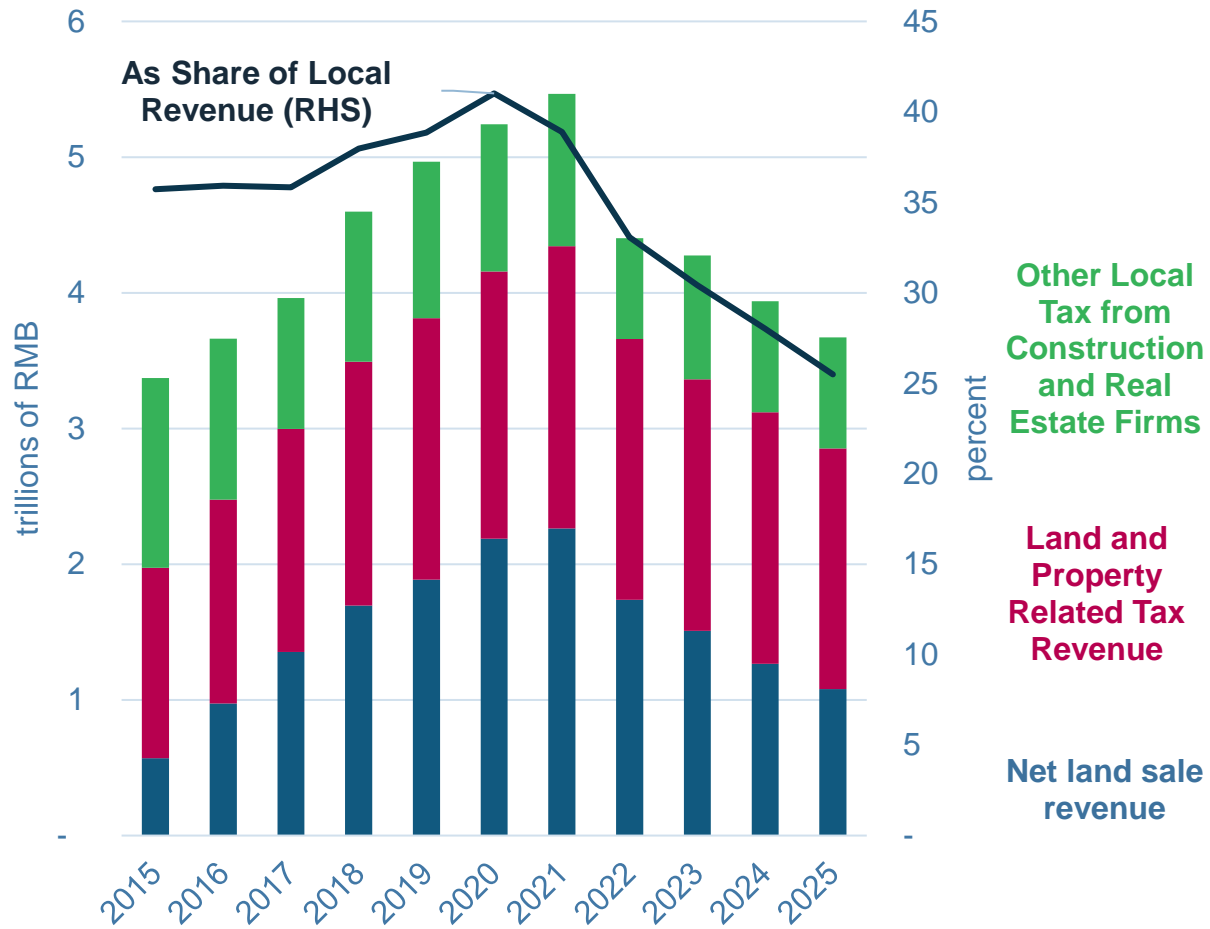


Notes: (1) The real returns on one-year deposits before October 2015 are the benchmark deposit rates published by the PBOC adjusted for CPI inflation and those after reflect the actual deposit rates paid by China’s “Big 5” commercial banks. (2) The Income Confidence Index is published directly by the PBOC in its quarterly urban depositor survey reports. It is a diffusion index calculated by excluding uncertain responses and assigning weights of 1 to the share of households expecting income to increase and 0.5 to those expecting it to remain unchanged. The Housing Price Confidence Index is constructed by the author using PBOC survey data and applying the same methodology as the Income Confidence Index.

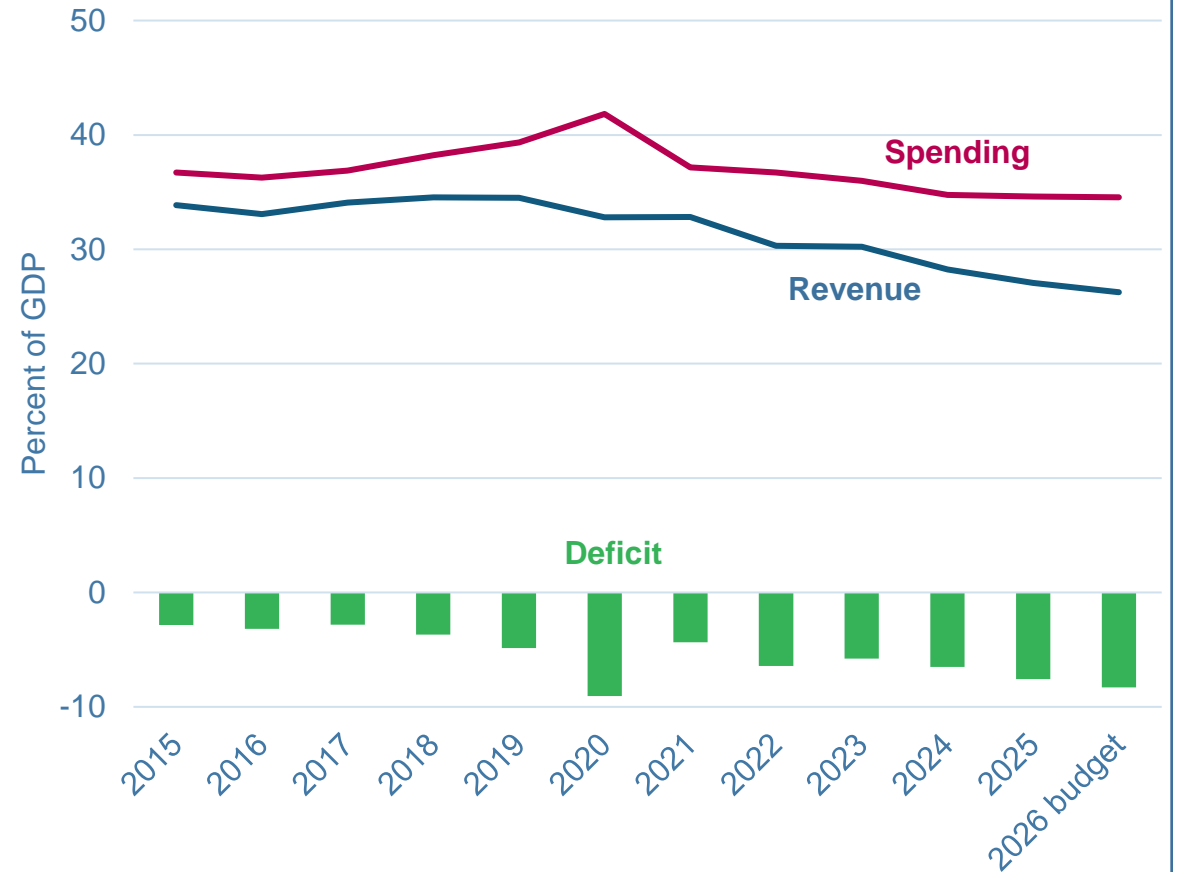
Sources: People’s Bank of China, China’s Big 5 commercial banks (i.e., ICBC, CCB, ABC, BOC, BOCOM), National Bureau of Statistics of China, and author’s calculations

Housing slump erodes a key source of fiscal revenue and drags down government spending, exacerbating China's deflationary pressures

a. Local Governments' Land Revenue



b. Consolidated Government Revenue and Spending



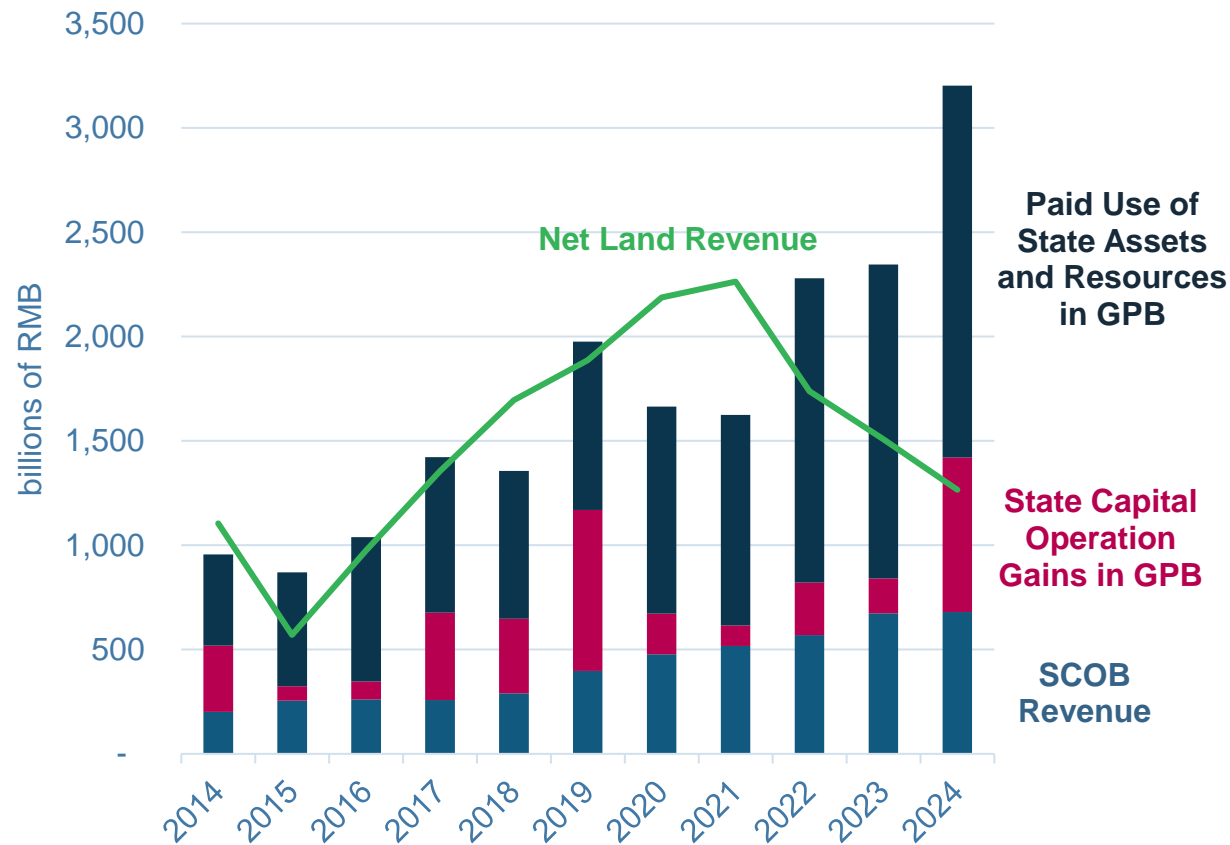
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Notes: (1) In panel a, total local revenue include revenues in General Public Budget and Government Funds Budget, with land development costs removed. (2) Net land sale revenue is gross land sale revenue minus land development costs. (3) In panel b, "consolidated" refers to the four government budgets combined, with duplicates removed.

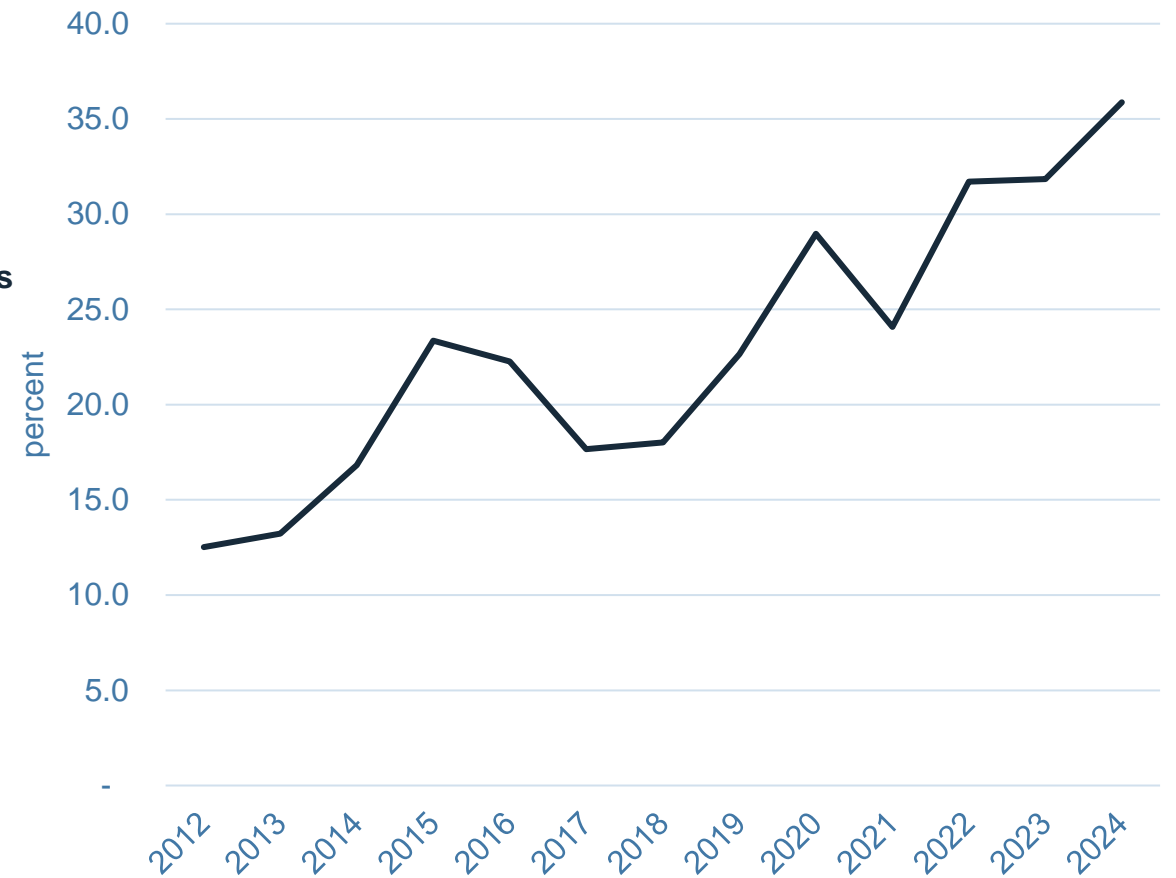
Sources: Ministry of Finance of China, State Taxation Administration of China, and author's estimates

Local governments increasingly tap public assets to fill budget gaps, but current asset monetization approach relies on one-off transactions while SOE dividends remain limited

a. State Asset-Related Revenue vs. Net Land Sale Revenue



b. Dividend Rate on Net Profits of State Nonfinancial Enterprises

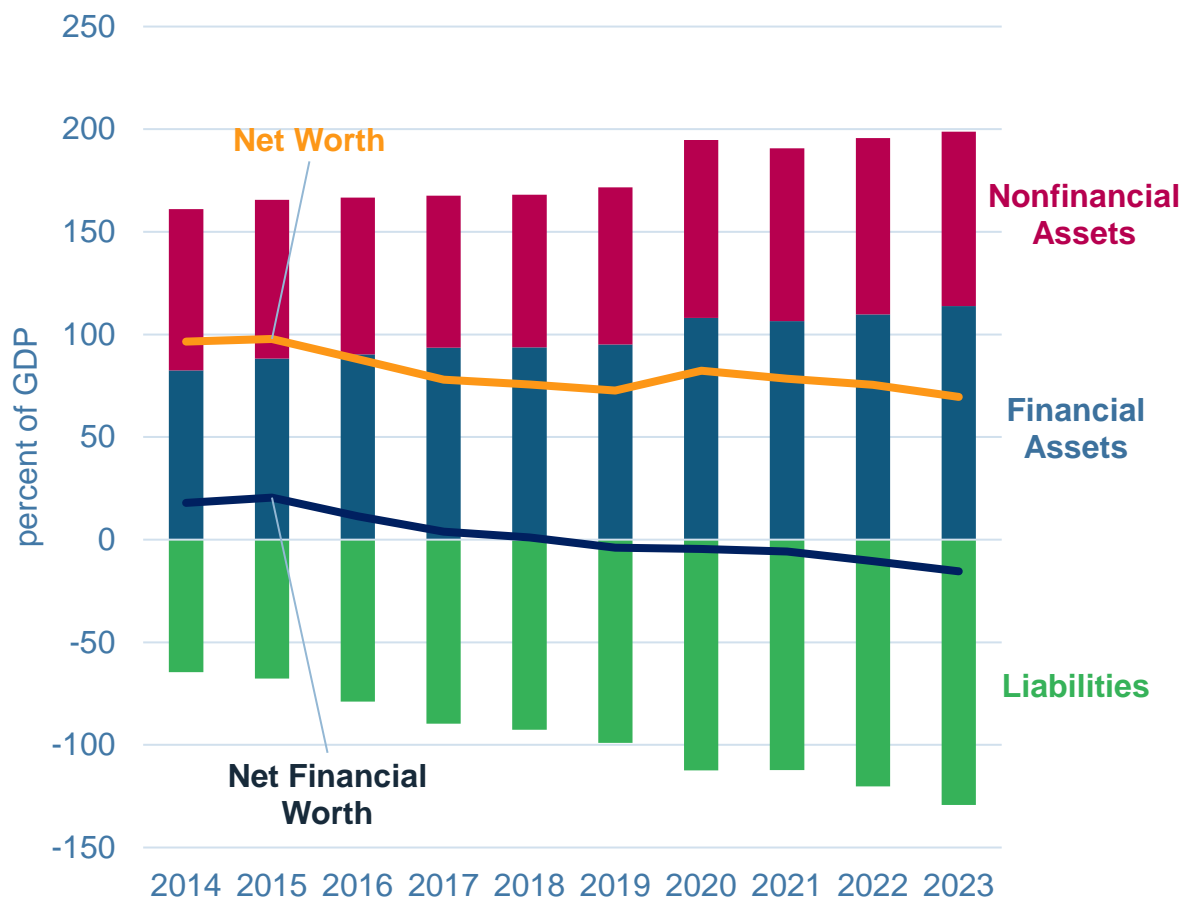


Notes: (1) In panel a, GPB = General Public Budget, SCOB = State Capital Operation Budget. (2) State Capital Operation Gains in GPB include mostly dividends from state financial institutions, proceeds from the sale or liquidation of state financial assets, and special profit remittances by state-owned tobacco companies. (3) SCOB revenue includes mostly remitted profits and dividend payments by state nonfinancial enterprises. (4) Dividend rates on net profits of state nonfinancial enterprises are estimated by the author based on data from the Ministry of Finance of China.

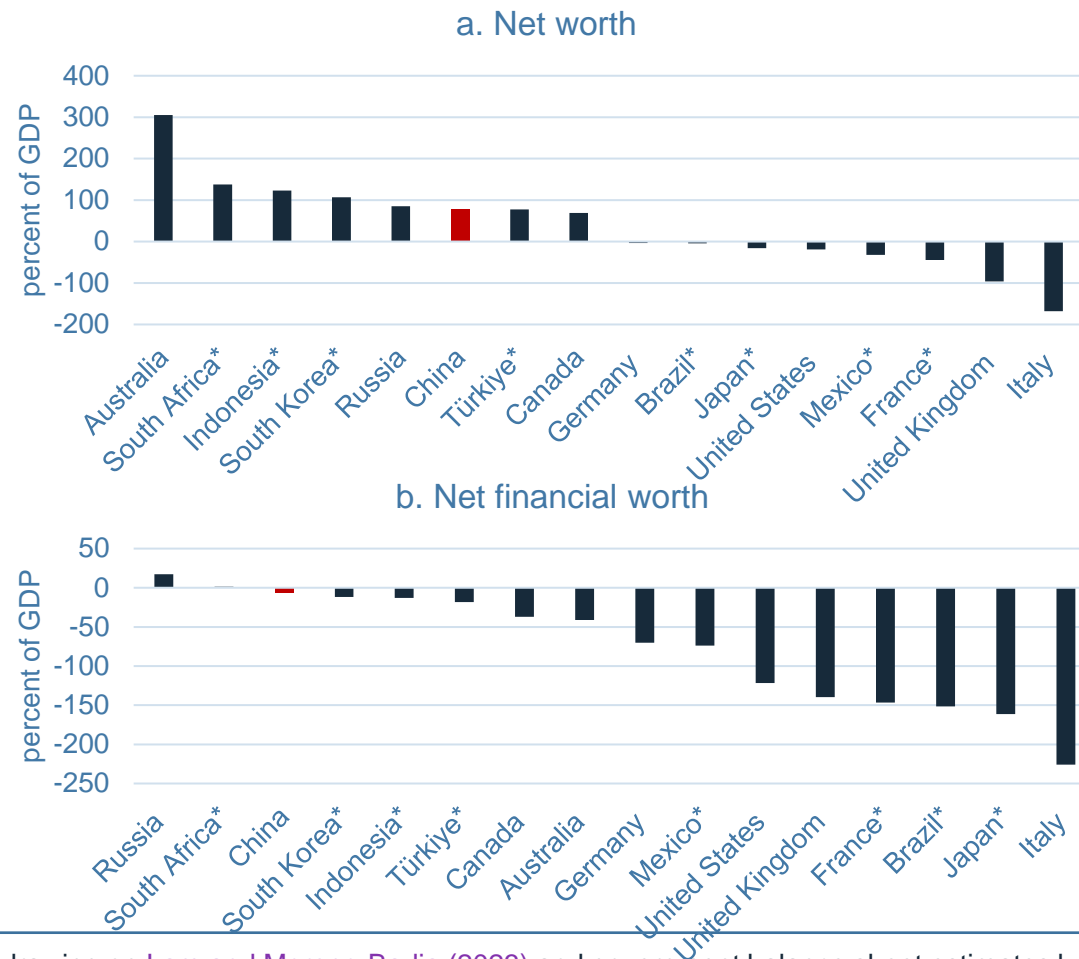
Sources: Ministry of Finance of China, and author's estimates

China needs stronger fiscal support to combat deflation, and a relatively strong general government balance sheet provides room to do so

a. General Government Balance Sheet



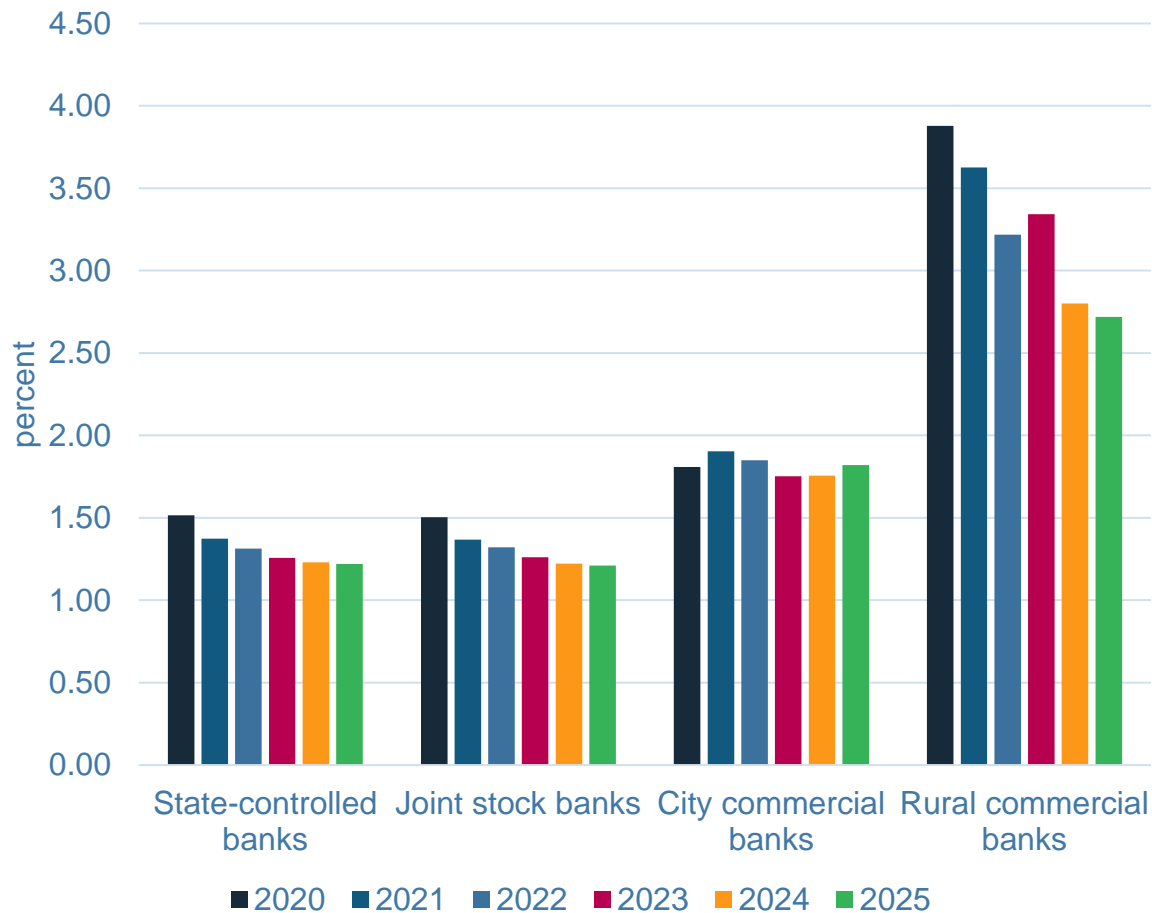
b. General Government Net (Financial) Worth of G20 Countries, 2020/21



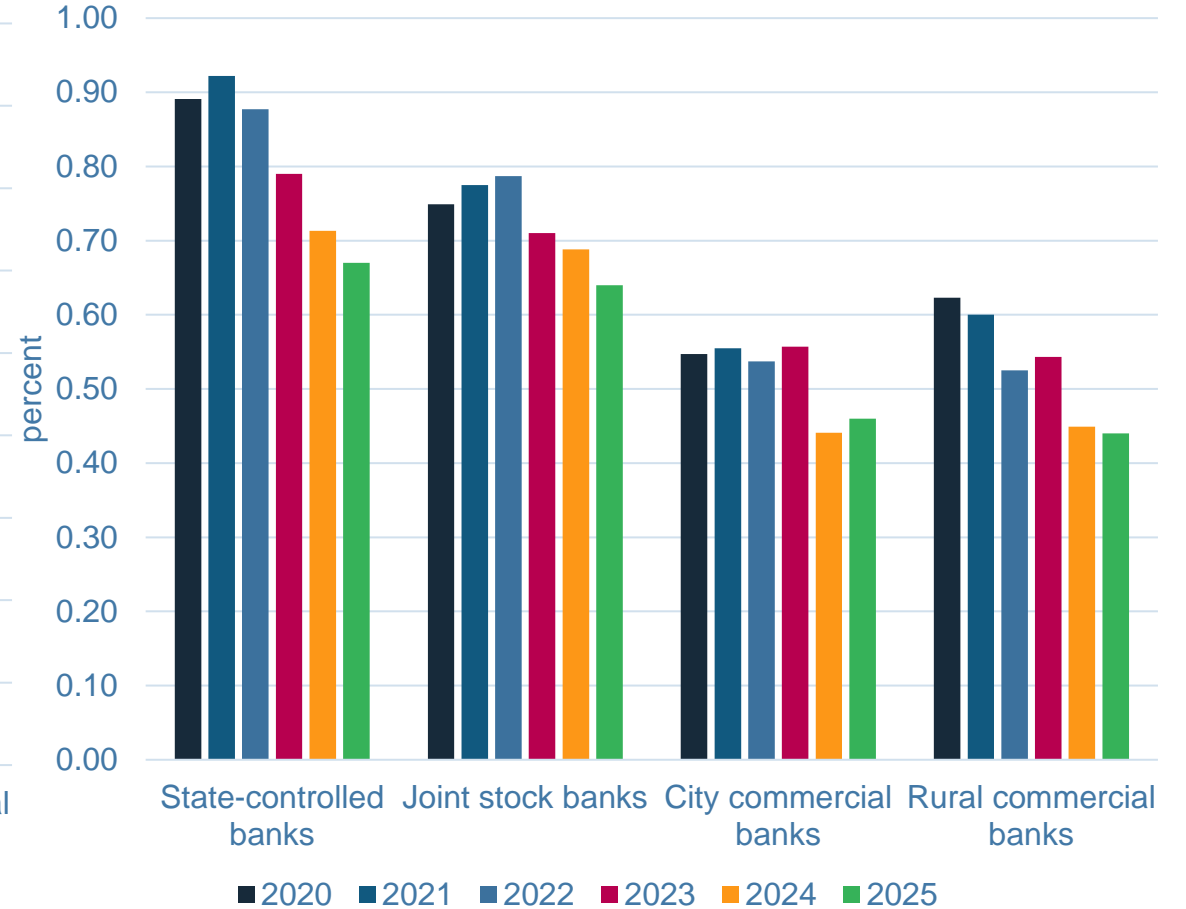
Notes: (1) General government balance sheet is constructed by the author drawing on [Lam and Moreno-Badia \(2023\)](#) and government balance sheet estimates by the Center for National Balance Sheets of Chinese Academy of Social Sciences (CNBS-CASS). (2) In panel b, asterisk after country name indicates 2020 data (otherwise 2021 data). Data for all countries except China are from the IMF Public Sector Balance Sheet Database, and data for China are estimated by the author. **Sources:** CNBS-CASS, IMF, People’s Bank of China, National Council for Social Security Fund, State Council of China, National Housing Provident Fund of China, National Bureau of Statistics of China, and author’s estimates.

China's banking system remains resilient partly due to proactive policy support, but faces growing pressures on asset quality and profitability

a. Nonperforming Loan Ratios

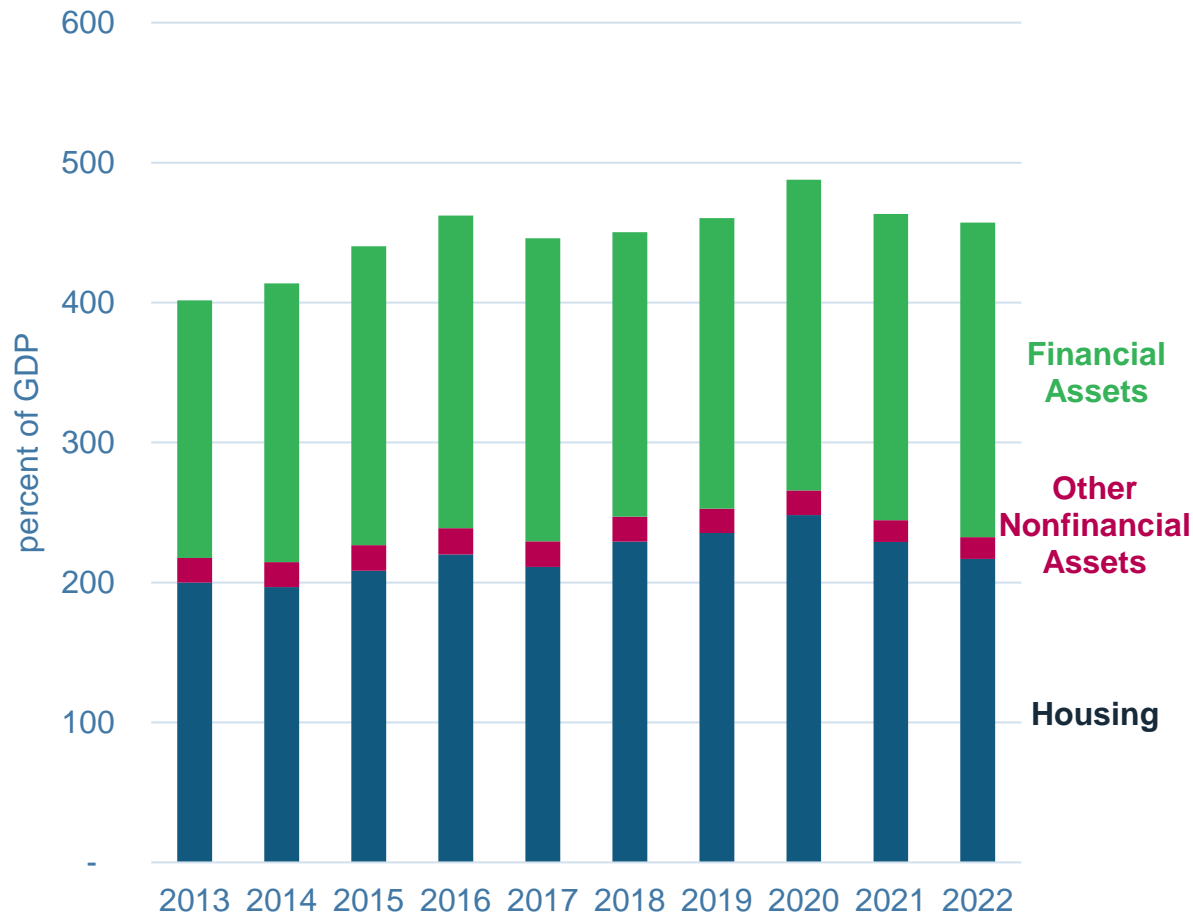


b. Return on Assets

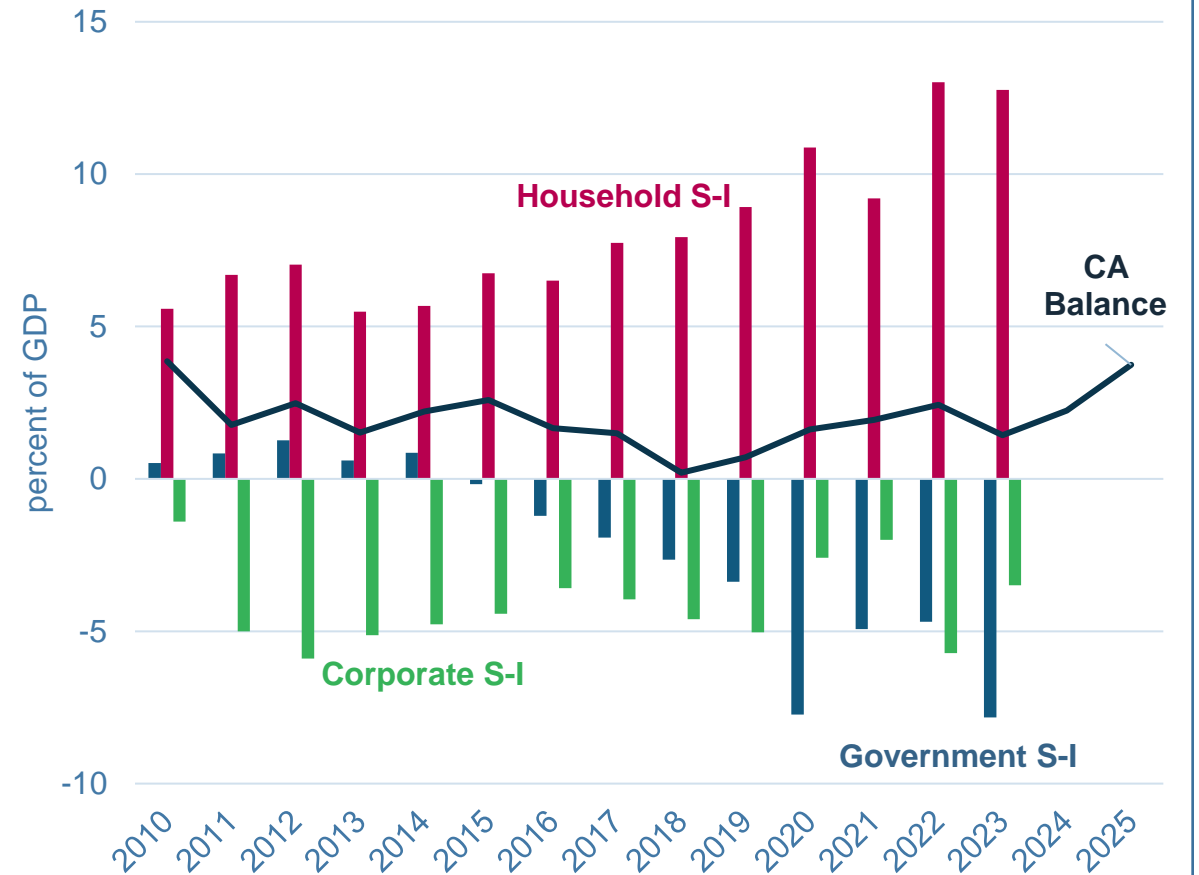


Housing bust is a key driver behind China's surging current account surplus

a. Composition of Household Assets



b. Sectoral Saving-Investment Balances and Current Account Balance



Notes: In panel b, the sectoral saving-investment balances are based on the flow of funds data published by the National Bureau of Statistics. The 2024 and 2025 flow of funds data are not yet available.

Sources: Center for National Balance Sheets of Chinese Academy of Social Sciences, State Administration of Foreign Exchange of China, National Bureau of Statistics of China

Conclusion

1. China's housing market has been in a sustained decline since peaking around mid-2021. Elevated real interest rates and deteriorating household expectations are prolonging the downturn.
2. The housing slump has eroded a key source of government revenue, dragging down fiscal spending and exacerbating deflationary pressures. In response, local governments have relied more on nontax revenue—particularly by tapping public assets—but current monetization strategies depend heavily on one-off transactions and are not sustainable. Stronger fiscal support is needed to combat deflation, and China's relatively strong government balance sheet provides room to act.
3. The banking system remains broadly resilient, in part due to policy support—including recapitalizations, rapid disposal of bad assets, and a strengthened financial safety net. That said, forbearance obscures underlying asset quality, and rising profitability pressures are constraining new credit growth.
4. The housing bust has widened China's saving-investment imbalance, contributing to a larger current account surplus in recent years.



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Tianlei Huang

thuang@piie.com