

Global Liquidity, Capital Inflows and House Prices in ASEAN Economies

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Summary

Quantitative Easing (QE) policies adopted by the advanced economies since 2009 have led to abundant global liquidity. Total liquidity generated by the three central banks (US Fed, BoE and BoJ) is estimated to be of the order of US\$3.95 trillion in the period from early 2009 to early 2013. At the same time, the ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Singapore and Thailand) have recorded strong capital inflows, particularly portfolio inflows. These five countries are the major economies of the ASEAN region, accounting for about 72 percent of the ASEAN population and 90 percent of GDP. Asset prices in these economies, in particular house prices, have also experienced excess buoyancy. In 2011 and 2012, residential property prices rose by between 5 to 11 percent annually.

This paper studies the empirical relationship between global liquidity, house prices and capital flows. Capital inflows have had a positive effect on the residential house prices of Indonesia, Malaysia, the Philippines and Singapore. After accounting for domestic demand (using real GDP growth as a proxy), capital inflows still have had a positive impact in Indonesia and Singapore. The authorities of these economies have implemented similar macro-prudential measures to safeguard financial stability and cool down speculative activity. The effectiveness of the measures has been mainly seen in a reduction of housing transaction volumes.