

The Nexus of Official and Illicit Capital Flows – The Case of Hong Kong

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Summary

This paper studies the effects of official and illicit capital flows on Hong Kong's equity and residential housing markets. The empirical results show that the official and illicit capital flow measures reflect different characteristics of flow movements and have different effects on the economy. The results highlight the complexity of managing capital flows, and the relevance of policies targeting specific sectors.

Relative to capital flows, economic variables tend to exhibit a greater impact on asset markets. For instance, China related variables usually show up as significant in affecting domestic equity prices. China's growth effect, captured by its GDP growth, puts upward pressures on Hong Kong's equity market. Our results support the view that China has an increasing influence on the Hong Kong economy, as commonly discussed in the media.