

Effects of Capital Flow on the Equity and Housing Markets in Hong Kong

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Summary

The revival of strong capital flows to emerging economies in the aftermath of the Global Financial Crisis in 2008-09 has rekindled the debate on the adverse effects of excessive capital inflows. We study the effects of official and illicit capital flows on Hong Kong, which is a small and open economy with minimal restrictions on cross-border fund movements. To illustrate the effects of different types of capital flows, we study official and illicit flows on Hong Kong's equity and residential housing markets. It is found that the official and illicit capital flow measures reflect different facets of flow movements and exhibit differential effects on the equity and residential housing markets. The results highlight the complexity of managing capital flows, and the relevance of policies targeting specific sectors.