

The Money Supply Effect on Hong Kong's Post-1997 Asian Financial Crisis Property Market

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Abstract : The soaring prices of residential properties in Hong Kong has become a social problem that even the middle class is having difficulties in purchasing homes. In making policies to curb the prices, it is important to determine the factors that contribute to the property inflation. Many researches attribute this inflation to macroeconomic factors especially the interest rate. However, it is important to remember that Hong Kong is under a Currency Board system which makes its interest rate exogenously determined. This research aims to show the significance of the money supply on Hong Kong residential property prices in post-1997 Asian Financial Crisis period. Using money supply data, macroeconomic fundamentals, and demographic variables from 2000Q1 to 2013Q2, the factors contributed to residential property price inflation are estimated to calculate the share of each explanatory variable in disparity. It is found that the Hong Kong property market is mainly driven by investment and that the inflation on Hong Kong residential property prices can be explained by the increase in the Hang Seng Index and in the money supply M2.

Keywords : real estate, Hong Kong, property market, monetary economics, monetary policy

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