

Hot Money Flow, Money Supply, Credit and

Residential Property Prices in China

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This paper assesses the linkages between economic activity, foreign reserve, money, credit, inflation and house prices in China over last decade. The analysis is based on a structural VAR estimated using monthly data spanning the period June 2001-December 2011.

We find important responses of house price to economic activity, monetary policy and credit shocks as well as to a foreign reserve shocks for overall average residential property price. In Beijing, foreign reserve shock had much stronger impacts on average residential property price during the late 2004 to the early 2005 and thereafter hot money inflow continued to contribute to the rise of house price till the middle 2008. After the Lehman Shock, the contribution of foreign reserve shock shrunk largely and sometimes turned to negative but the loosening monetary policy and the expansionary credit policy were the main sources driving the average house the residential price in Beijing. However, the variances of residential property price are predominantly due to its own shocks.

JEL Classifications: G21, G15, G28

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