

The effectiveness of capital control on housing prices*

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Abstract

Policymakers increasingly use capital control policies (i.e., capital flow management) to manage capital flows. However, whether the implementation of such policies can effectively dampen the volatility of housing price is less discussed. In this paper, we study the effectiveness of four types of capital control policies to real housing prices for a large cross-country panel of 53 economies from 1995 to 2017. We find that the actions of implementing “capital control policies not related with real estate transaction” are broadly effective in reducing real housing prices. In addition, the effectiveness is distinct for different capital flow types, capital inflows and outflows, advanced economies and emerging markets, before and after crisis, boom and slump periods. At the same time, we show that the actions of implementing capital control policy on real estate transaction are also effective in reducing real housing prices and credit variables. Since the endogeneity of capital control indices on real estate transactions, we further use IPWRA method to rebalance capital control actions and we find that IPWRA estimators attenuate the negative effect on housing prices, but amplify the negative effect on credit variables.

Keywords: capital control policy, housing price, local projections, Inverse probability weighted regression adjusted estimator

JEL classification: F21, F32, F38, F41, G28

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