

Effects of Monetary Easing Policy in Japan on the Markets in Hong Kong and China after the Global Financial Crisis

Hideaki OHTA *

Abstract

Following the Global Financial Crisis, the Bank of Japan's massive supply of funds through quantitative and qualitative monetary easing (QQE) has had a significant impact on markets in Hong Kong and China, where stock cross-trading between the Hong Kong and Shanghai markets (in November 2014) and between the Hong Kong and Shenzhen markets (in December 2016) has been liberalised.

This paper uses a Bayesian vector autoregressive (BVAR) model to analyse the impact of the Bank's monetary easing policy on the Hong Kong and China markets over the entire period from September 2008 to December 2019. The analysis shows that during the Comprehensive Quantitative Easing (CQE) period (October 2010 - March 2013), even before the introduction of QQE, the expansion of money flows from Japan to the Hong Kong and China markets had a significant positive impact on the Chinese market and the real economy, while after the introduction of QQE (April 2013), the impact on the Chinese and Hong Kong markets was more pronounced. Furthermore, capital inflows between Japan, Hong Kong and China have further increased following the expansion of monetary easing associated with QQE Phase II (November 2014) and the introduction of negative interest rates by the Bank of Japan (February 2016). Recently, the impact of increased investment from the Hong Kong/China markets on the Japanese market has been greater than the impact of Japan on the Hong Kong/China markets.

JEL E58 F37 F42

Key Words: Comprehensive Monetary Easing (CME), Quantitative and Qualitative Monetary Easing (QQE), Spillover of monetary easing policy

* Professor, College/Graduate School of International Relations, Ritsumeikan University
This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.