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■コラム RIEB ニュースレターNo.263　2024 年 11 月号

How Capital Controls Impact Housing Prices: A Global Analysis

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My research paper (Zhou, 2024) examines the complex relationship between government-imposed capital controls and housing prices across 53 countries over more than two decades (1995-2017). Capital controls are government restrictions on how money moves in and out of a country, and understanding their impact on housing markets has become increasingly important as countries seek tools to manage property prices.

The study reveals that most types of capital controls tend to reduce housing prices, though their effectiveness varies significantly. Controls on money flowing into a country consistently lower housing prices in the long run, while restrictions on outflows also generally reduce prices but with less predictable results. This effect isn't uniform across all countries, however. The research shows a clear distinction between developed and developing economies. In developing countries, all types of restrictions on incoming money flows effectively reduce housing prices. In contrast, developed economies see significant price reductions only when implementing specific types of controls, particularly those targeting credit flows.

Timing emerges as a crucial factor in the effectiveness of these controls. The research indicates that capital controls were generally more effective before the 2008 Global Financial Crisis. Furthermore, their impact on housing prices typically isn't immediate but becomes apparent several years after implementation. This delayed effect is particularly important for policymakers to consider when planning housing market interventions.

Of particular interest are the controls specifically targeting real estate transactions. When countries restrict foreigners from purchasing local property, it leads to significant reductions in housing prices. Conversely, when countries prevent their citizens from buying property abroad, the effects are more complex - initially lowering local housing prices but potentially increasing them in the long run as domestic investors have fewer options for their capital.

These findings have significant implications for both policymakers and market participants. For policymakers, capital controls represent a potential tool for managing housing prices, but they require careful consideration of timing and specific market conditions. The research suggests that these controls aren't suitable for quick fixes, given their delayed effects. For investors and homeowners, the implementation of new capital controls might signal future price decreases, particularly in developing markets.

However, the study acknowledges some limitations, particularly in understanding the full impact of restrictions on outward capital flows. This is partly because people often find ways to circumvent these controls, and such restrictions might inadvertently discourage foreign investment altogether. Despite these limitations, this research provides valuable insights for countries grappling with rising housing prices and considering various policy tools for market regulation. The findings suggest that while capital controls can be effective, their success depends heavily on careful implementation and consideration of specific country circumstances.

Reference

Zhou, Y. The Effects of Capital Controls on Housing Prices. J Real Estate Finan Econ (2024). https://doi.org/10.1007/s11146-024-09983-2