

Inaugural Issue (July 2002)

Welcome to the inaugural issue of the Hong Kong Institute for Monetary Research (the Institute) Newsletter. Through it, we will provide you with information about recent and upcoming activities.

The Institute was established by the Hong Kong Monetary Authority (HKMA) in August 1999 to conduct and support research on issues in monetary policy, banking and finance that are of strategic importance in Hong Kong and the Asian region.

Highlights of this issue:

Remarks by Mr. Joseph Yam, Chief Executive, HKMA and Chairman of the Institute's Board of Directors.

Interview with Professor Larry Ball.

Joint conference with the City University of Hong Kong on Monetary and Financial Issues in Asia.

Recent publications and activities of the Institute.

Hong Kong Institute for Monetary Research -- *Newsletter*

Remarks by Mr. Joseph Yam

Dear Readers,

During its three-year life so far, the Hong Kong Institute for Monetary Research has hosted visiting fellows from four continents, who have researched into topics ranging from banking crises to exchange rate dynamics, from liquidity traps to insider trading. These topics have embraced a world of financial and monetary experience and a wide spectrum of policy issues, with a particular focus on the Asian region. However broad or esoteric, all of this research has explored issues of strategic and practical importance to Hong Kong's monetary and financial systems – and to those of the region as a whole. In tapping international expertise, the Institute has helped promote both the stability of Hong Kong's monetary and financial systems and a deeper

knowledge of these systems outside of Hong Kong.

The thirty-nine or so research papers produced so far by the Institute – freely available on its website – show the range and depth of its research. This newsletter offers some insight into the human side of the Institute's day-to-day work. I am particularly happy to see in the interviews that the visiting fellows are enjoying their time at the Institute – and finding much to interest them in Hong Kong. This is the first HKIMR newsletter: I hope that there will be many more to come.

*Joseph Yam
Chief Executive, HKMA
Chairman of the Board of Directors, HKIMR*

Visiting Fellows at the Institute

To date, the Institute has hosted more than thirty overseas and local researchers for visits ranging from few weeks to a few months. This summer, we will host Andy Rose (UC Berkeley), Hans Genberg (Institute of Graduate Studies, Geneva), Assaf Razin (Tel Aviv), Bill Branson (Princeton) and Paul De Grauwe (Leuven), among others.

Professors Michael Devereux (UBC) and Yin-wong Cheung (UC Santa Cruz) are currently visiting and are working on research projects on exchange rate regimes and financial constraints, and exchange rate risks and trade, respectively.

This is what they have to say about the Institute:

Michael: This is my third visit to the Institute. I find the people very friendly and supportive. It is a great research environment.

Yin-wong: I am really enjoying visiting the Institute – it provides an excellent atmosphere for conducting research on issues related to Hong Kong and Asia.



Yin-wong and Michael

*"Excellent atmosphere for
conducting research related to
Hong Kong and Asia."*

Interview with Professor Larry Ball by Matthew Yiu



Professor Ball, from the Economics Department of the John Hopkins University, visited the Institute for six weeks in July 2001, working on a project on inflation dynamics under hard pegs. He returned in early January this year to complete the project.

Larry has been a Houbton-Norman Fellow at the Bank of England, a professorial fellow in monetary economics at the Reserve Bank of New Zealand and Victoria University, and a visiting scholar at a number of other central banks. As the Manager of the Institute, I was interested in knowing his views on the Institute and Hong Kong in general.

"I found the arrangements here attractive: it has a nice setting and good resources for research."



Emily (left,) one of the two research analysts, and Kat (right) the clerk

Matthew: *What made you to come to the Institute, given that it is a very young organization and not yet internationally well known?*

Larry: My reasons for visiting the Institute were two-fold. First, my wife wanted to manufacture some replicas of historical dolls for museums in Baltimore and she found a manufacturer in Hong Kong. Second, I met Guy Meredith, the ex-Director of the Institute, who introduced the Institute to me. I found the arrangements here attractive: it has a nice setting and good resources for research.

Moreover, Hong Kong is an interesting economy for my research. It is one of few significant economies which operates monetary policy with a modern-day currency board system. It has become even more significant after the recent collapse of the Argentine currency board. It is interesting to learn how the Monetary Authority uses this framework.

One practical benefit I like a lot is that the Institute provides research analysts to support visiting fellows. In some of my previous visits to other research organizations, I often had to rely on my research assistant at John

Hopkins for support through e-mail and the Internet.

Hong Kong is an international city: civilized and very convenient. However, my impression is that it is not much different from other big cities in the U.S. or Europe. Although food is good, eating out is quite expensive.

I found Hong Kong more interesting after I visited here. In the US, we pay a lot of attention to the deflation Japan is undergoing but I did not know that Hong Kong has been experiencing deflation since 1999. As a macroeconomist, I am interested in seeing the effects of deflation in the real world.

Matthew: *How do you enjoy your time at the Institute? In which fields are we strong and in what areas do we need to improve?*

Larry: I like to visit central banks because, besides theoretical research, I also like to do applied research and to work on real-world problems. The opportunity to comment on some of the research work done at the HKMA is very stimulating. I am also very happy with the arrangements here, including the accommodation.

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Conference: Monetary and Financial Issues in Asia

*The HKIMR and the City University of Hong Kong co-organized a seminar entitled “**Monetary and Financial Issues in Asia**” on 14 Dec 2001.*

This one-day conference was divided into three sessions. The first session was on inflation targeting in Asia. Professor Takatoshi Ito of Hitotsubashi University looked at the applicability of adopting this framework in Asian economies. Professor Shu-ki Tsang of Hong Kong Baptist University discussed particularly the pausibility of using inflation targeting in Mainland China.

The second session was on currency unions. While Professor Andrew Rose of UC Berkeley looked at the effects of common currencies on trade, Professor Charles Wyplosz of the Graduate Institute of International Studies, Geneva, focused on the possibility of a common currency for Asia and what could be learned from the European experience.

The last session was dedicated to issues regarding monetary and financial co-operation in Asia. Professor Stephen Cheung of the City University of Hong Kong discussed corporate governance, which is increasingly seen as a key issue in Asia and elsewhere. Professor Barry Eichengreen of UC Berkeley discussed more generally the issues of financial and monetary co-operation among Asian economies.

More than one hundred participants from the private and public sectors, and from local universities attended the conference. Speakers and participants exchanged views and opinions in the discussion.

Moreover, we arranged a day-long tour to Tsing Ma Viewpoint and the Ten Thousand Buddhas Temple for the speakers and their families. The day ended with a seafood dinner in Lei Yue Mun.



Professor Andrew Rose



More than one hundred participants

Interview with Professor Larry Ball

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One area in which the HKIMR perhaps falls short concerns its location, which is not on the same floor as the HKMA Research Department. I think this will be improved significantly when HKMA moves to the new building in late 2003 as the Institute and the Research Department will be located adjacent to each other.

Matthew: *Have you learned anything interesting about Hong Kong during your visits?*

Larry: As I said earlier, my wife came here last summer to find a local

manufacturer who could produce some replicas of historical dolls. She found Hong Kong very friendly to entrepreneurs. The Hong Kong Trade Development Council was very helpful and arranged a free legal consultation on doing business here, including how to prepare a contract. The professionalism in the business sector is excellent. She is certainly very happy with her business experience here.

This interview was conducted by Matthew Yiu on 17 January 2002.



A day-tour for speakers and their families. They enjoyed the seafood dinner in a fishing village in Hong Kong

HKIMR Activities

Twenty-one research fellows, including some who came for short periods of time, visited the Institute during 2001. Altogether, they spent 152 working weeks at the Institute.

The Institute organized thirty seminars. Speakers included: Alice Rivlin (former Deputy Chairman of the Federal Reserve Board), William White (Economic Adviser, BIS) and Peter Sinclair (Director of CCBS, Bank of England).



A seminar by Mark Crosby

Recent Seminars:

20 June 2002 *Monetary Policy in a Liquidity Trap*, Michael Woodford (Princeton)

30 May 2002 *Credibility and Flexibility with Monetary Policy Committees*, Anne Sibert (Birkbeck College, University of London)

16 May 2002 *A Theoretical Framework to Evaluate Different Margin-Setting Methodologies*, Lam Kin (Baptist University)

2 May 2002 *News Spillovers in the Sovereign Debt Market*, David Parsley (Vanderbilt)

26 April 2002 *Allocating Bank Regulatory Powers: Lender of Last Resort, Deposit Insurance and Supervision*, Joao Santos (NY Fed)

11 April 2002 *Publishing Central Bank Forecasts*, James Yetman (HKU)

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Recently Published HKIMR Working Papers

Recent Working Papers:

No.12/2002 *The X-efficiency of Commercial Banks in Hong Kong*, Simon H. Kwan

No.11/2002 *Stock Market Integration, Return Forecastability and Implications for Market Efficiency: A Panel Study*, Ronald J. Balvers and Yangru Wu

No.10/2002 *The Fed and the New Economy*, Laurence Ball and Robert R. Tchaidze

No.9/2002 *The Full Convertibility of Renminbi: Sequencing and Influence*, Shucheng Liu, Zhijun Zhao, Yue Ma, Matthew S. Yiu, Yak-yeow Kueh and SK Tsang

No.8/2002 *Banking Deregulation and Macroeconomic Impact in China: A Theoretical Analysis and Implications of WTO Accession to the Mainland and Hong Kong*, Zhijun Zhao, Yue Ma, Yak-yeow Kueh, SK Tsang, Matthew S. Yiu and Shucheng Liu

No.7/2002 *Does Insider Trading Raise Market Volatility?* Julian Du and Shang-jin Wei

No.6/2002 *A Model to Analyze the Macroeconomic Interdependence of Hong Kong with China and the US*, Fuchun Jin

No. 5/2002 *Unobservable-Component Estimates of Output Gaps in Five Asian Economies*, Stefan Gerlach and Matthew S. Yiu

and more please visit our web site.