

The HKIMR 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 to Hong Kong and the Asian region.

Highlights of this issue:

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Bond Market
Developments in a
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Asia, Europe, Latin
America

Leo F. Goodstadt- Visiting
Research Fellow at the
Institute

Training Workshop:
Dynamic Factor Modelling

Michael Salemi- Visiting
Research Fellow at the
Institute

Hong Kong Institute for Monetary Research -- *Newsletter*

Recent Activity

HKIMR/BIS/CEPR Conference on Bond Market Developments in a Comparative Perspective: Asia, Europe, Latin America

The HKIMR co-organised a two-day conference entitled "Bond Market Developments in a Comparative Perspective: Asia, Europe, Latin America" with the Asian Office of the Bank for International Settlements (BIS) and the Centre for Economic Policy Research (CEPR) on 18 and 19 December 2006.

This two-day conference was divided into four sessions with twelve papers. The first session was an overview of the conference chaired by Barry Eichengreen (University of California, Berkeley). The session started with André Carvalho-da-Silva (Coppead Business School) presenting the paper "Bond Market Development: How much Progress Have Emerging Markets Made? Lessons from Brazil". It was followed by Frank Warnock's (University of Virginia) presentation about foreign investment in local bond markets. Session Two, chaired by Eli Remolona (BIS), consisted of three papers presented by Richard Portes (London Business School), Sara Castallenos (Bank of Mexico) and Mohd Fairuz Hj Ahmad (Bank Negara Malaysia).

On the second day, Session Three entitled "Securitization and Derivatives Markets" was chaired by Matthew Yiu (HKIMR). Eli Remolona (BIS), Yeong-Ho Woo (Korea Exchange) and Oliver Fratzscher (World Bank) presented their papers on the securitization in East Asia and Latin America, the Korean futures market, and the Asian derivatives markets respectively. The last session focused on "Policy Initiatives". Speakers included Matias Braun (Universidad Adolfo Ibáñez), Carmen Chu (HKMA) and Haizhou Huang (Barclays Capital).

In addition, the HKIMR organised a boat trip to Lamma Island for the conference participants on 17 December. They enjoyed a seafood dinner on the island.



Speakers and discussants of the conference



Barry Eichengreen
(University of California)



Seafood dinner on Lamma Island

Training Workshop: Dynamic Factor Modelling

The HKIMR organised a one-week intensive training workshop on the theory and application of the dynamic factor models from 19 to 26 January 2007. Lucrezia Reichlin (Director General Research, European Central Bank) and Domenico Giannone (Université libre de Bruxelles) jointly conducted the workshop.

The aim of this workshop was to further enhance the research staff's ability to build and apply dynamic factor models to forecast business cycles and economic activities. The workshop covered the theory and application of different estimation methods and models, such as static principal component analysis, static factor analysis, Kalman Filter, spectrum analysis and dynamic factor analysis. Dynamic factor models are actively used in research and forecasting at the European Central Bank.

The workshop was attended by the research analysts and managers of the HKMA Research Department and the HKIMR. During this one-week intensive workshop, the participants had many opportunities to build their models using Matlab under the guidance of Professor Giannone. Each participant also made a presentation on his/her models with different data sets.



Lucrezia Reichlin from the European Central Bank delivering the outline of the training workshop



Domenico Giannone from the Université libre de Bruxelles explaining the theory of the models.



Participants from the Research Department of the HKMA and the HKIMR



Jimmy Shek (left) and Andrew Tsang (right) from the Research Department of the HKMA delivering a presentation

Visiting Fellow – Leo F. Goodstadt



Leo F. Goodstadt is an adjunct professor in the School of Business Studies, University of Dublin. His current research focuses on the role of government in the creation of an advanced economy in Hong Kong following World War II. He was chief policy adviser to the Hong Kong Government as Head of its Central Policy Unit from 1989 to 1997, where he was responsible for generating initiatives on a wide range of financial, budgetary and political issues. Prior to 1989, he was retained by a number of major corporations with substantial exposure in the Asian region, particularly in the banking sector. A former lecturer in economics at the University of Hong Kong, he is an honorary research fellow at its Centre of Asian Studies.

His published work includes research into China's economic management and its tax, demographic and agricultural systems, as well as studies of a wide range of political, economic and financial developments in Hong Kong. His latest book, Uneasy Partners: The Conflict between Public Interest and Private Profit in Hong Kong, was reprinted in 2005.

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At the HKIMR, I have enjoyed the company of outstanding colleagues and had some of my most rewarding research experiences. It has provided me with a rare opportunity to combine pleasure with productivity. The Institute has enabled me to produce four working papers which form the backbone of a book to be published later this year on Hong Kong’s banking and monetary developments from 1935 to 1985.

It is only fair to mention one serious hazard of life at the HKIMR. Seminars are usually held in a conference room on the 55th floor of IFC Two. Behind the speaker’s stand, the floor-to-ceiling windows offer glorious bird’s-eye views of as spectacular a harbour as can be found anywhere, of the world’s largest container port and of the ebb and flow of life in Kowloon which has some of the highest population densities in Asia. On a clear day, it is hard to compete for the audience’s attention against such distractions. It is best to perform behind closed blinds!

When I first started to teach economics at the University of Hong Kong in the mid-1960s, we had very few materials on the local economy to offer our students. There was an excellent analysis of Hong Kong’s first manufacturing boom in the previous decade, a handful of journal articles and a larger number of features which academics had contributed over the years to the weekly *Far Eastern Economic Review*. The Government, it should be noted, had little time for economic analysis, especially the macroeconomic variety.

When I arrived at the Central Policy Unit 25 years later, there were more and better books and articles, as well as a Government Economist. But Hong Kong had still not attracted the academic attention merited by its extraordinary economic transformation since 1945; and the bulk of serious economic investigation was carried out commercially by banks and brokerages.

The creation of the HKIMR in 1999 transformed the research landscape. There was a substantial upsurge in the flow of journal articles on Hong Kong and increasing interest in its economic experiences among academics, foreign as well as local. As a three-time visitor to the HKIMR, it is easy for me to understand why. The staff are tireless in facilitating each research fellow’s visit. Their “housekeeping” is meticulous. They take care of the paperwork. They arrange access to the HKMA’s own specialists. They provide data bases. They edit and publish the working papers. After a few weeks in their care, it is hard to return to the real world.



APEC Study Center-HKIMR Joint Seminar

The APEC Study Center of the City University of Hong Kong and the HKIMR co-organised a seminar on 20 December 2006 on the topic of the Hong Kong currency board system and recent banking developments.

The seminar was divided into two sessions. In the first session, William Ryback, Deputy Chief Executive of the HKMA, delivered a talk entitled "Banking Supervision and Developments in Hong Kong". It covered the evolution of banking supervision in Hong Kong, changes made after the Asian Financial Crisis and also the effect of the evolution of global capital standards on Hong Kong's status as an international financial center. In the second session, Matthew Yiu, Senior Manager of the HKIMR, gave a presentation entitled "Hong Kong's Currency Board: Past, Present and Future". Historical background, adjustment mechanism, major refinements of the Hong Kong currency board system as well as the challenges facing Hong Kong were discussed. The seminar attracted more than 100 participants.



More than 100 seminar participants



Matthew Yiu
(Senior Manager of the HKIMR)



William Ryback
(Deputy Chief Executive of the HKMA)

Upcoming Activities

Conference on Banking and Monetary History of Hong Kong

The Institute and the Centre of Asian Studies of the University of Hong Kong are co-organising a two-day conference entitled "Banking and Monetary History of Hong Kong: Current Challenges in Historical Perspective" on 16 and 17 April 2007, with Professor Catherine Schenk of Glasgow University acting as the chairperson of the conference programme committee. The objective of this two-day conference is to increase awareness of historical developments in the banking and monetary system in Hong Kong to enhance the understanding of the functions which have shaped current policies and practices in policy making.

Workshop on Advanced Economic Modelling and Forecasting

The HKIMR and the Centre for Central Banking Studies (CCBS) of the Bank of England will co-organise a workshop entitled "Advanced Economic Modelling and Forecasting" in Hong Kong from 2 to 4 May 2007. The objective of the workshop is to learn how to build and use advanced econometric models of monetary policy transmission for policy advice. Some of the methodologies will also be useful for financial stability risk assessment. Ibrahim Stevens and Francesco Zanetti of the CCBS will be the workshop directors and the workshop is intended for the economists from the modelling or forecasting departments of central banks in the region.

Visiting Fellow - Michael Salemi

Dr. Michael Salemi is the Bowman and Gordon Gray Professor of Economics at the University of North Carolina at Chapel Hill. He received his Ph.D. from the University of Minnesota-Minneapolis. Dr. Salemi specializes in monetary economics and his recent work has included a study of the natural rate of unemployment in the U.S. and a series of papers that apply optimal control theory to the estimation of monetary policy rules in the context of New Keynesian models.

Dr. Salemi visited the HKIMR for the first time between January 31 and February 20, 2007. During that visit he worked on a project concerning the potential causes for the rise in unemployment that occurred in Hong Kong in the late 1990s. While the Hong Kong unemployment rate has fallen in recent quarters, it is still substantially higher than its twenty-five year average.



It has been a privilege and pleasure to visit the Hong Kong Institute of Monetary Research. This is my first visit to the HKIMR and to Hong Kong. I have enjoyed learning about the HKIMR, collaborating with the economists at HKIMR and the Hong Kong Monetary Authority, and, in general, learning about this vibrant region. It has been my practice to walk to Two International Finance Centre each morning by a different route. In that way, I have been able to explore some of the many areas in Central, Wan Chai, and the Western District. I have particularly enjoyed my walks through Hong Kong Park and the Botanical Garden. I have also had some very enjoyable hikes and conversations with my long-time friend and colleague Dr. Hans Genberg, Director of the HKIMR. It has been very interesting to contrast the rural beauty of the New Territories with the hustle, bustle, and efficiency of Central and Tsim Sha Tsui. And it has been a wonderful opportunity to participate in the Lunar New Year celebrations.

The HKIMR is a wonderful place for a visiting fellow to work. The opportunity to interact with experts on the Hong Kong economy has been invaluable. The staff has been most helpful and I have benefited from many conversations about Hong Kong and its economy with other research fellows. Indeed, these conversations have been the highlight of my visit.



My project concerns the rise in unemployment that occurred after 1997 and has yet to completely reverse itself. Is it more likely that the unemployment increase is due to a permanent increase in the natural rate or is it more likely that the unemployment adjustment process is slow and Hong Kong will eventually return to its typical low rate of unemployment? To shed light on this issue, I have constructed a dynamic general equilibrium model that incorporates wage bargaining so that unemployment occurs in the steady state. The model is open along the lines of McCallum and Nelson so that Hong Kong imports are treated as inputs in the production process that produces Hong Kong GDP.

My visit to the HKIMR has helped me locate and understand the data required to calibrate my model to the Hong Kong economy. I have used the calibrated model to perform “comparative statics” exercises that amount to thought experiments. For example, the model predicts that it is unlikely that the rise in unemployment is due to a permanent adverse technology shock and more likely due to adverse shocks to the demand for Hong Kong exports. In the coming weeks, I will complete my project by complementing my steady state analysis with a dynamic, short-run analysis that will allow me to introduce temporary shocks to the model. In this way, I hope to determine whether the Hong Kong unemployment rate is likely to return to its historical average in coming quarters.

I have truly valued my time at the HKIMR and hope for an opportunity to visit again in the future.

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Visiting Fellows in the First Half of 2007/ Upcoming Seminars

18 December 2006 – 19 January 2007
Yangru Wu (Rutgers University)

1 January – 31 March
Leo F. Goodstadt (University of Dublin)

15 – 26 January
George M. von Furstenberg (Indiana University)

22 January – 21 April
Soyoung Kim (Korea University)

30 January – 20 February
Michael K. Salemi (The University of North Carolina)

21 February – 28 March
Michael Funke (Hamburg University)

Upcoming Seminars
12 April 2007 *International Macroeconomic Fluctuations: A New Open Economy Macroeconomics Interpretation* – Soyoung Kim (Korea University)

19 April 2007 *Government without Policies: Management of Economic and Social Development in Hong Kong, 1945-1985* – Leo F. Goodstadt (University of Dublin)

26 April 2007 *The euro – what's in it for me?* Lars Jonung (European Commission Office)

7 May 2007 *Topic to be confirmed* – Pierre Siklos (Wilfrid Laurier University)

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Recently Published HKIMR Working Papers

No.12/2006 *"The Operation of the Moratorium on New Bank Licenses on the Hong Kong banking system 1965-81"* by Catherine R. Schenk

No.13/2006 *"Order Imbalance and the Pricing of Index Futures"* by Joseph K.W. Fung

No.14/2006 *"Well-Being in the Small and in the Large"* by Andrew K. Rose

No.15/2006 *"Exchange-Rate Arrangements and Financial Integration in East Asia: On a Collision Course?"* by Hans Genberg

No.16/2006 *"Painful Transitions: The Impact of Economic Growth and Government Policies on Hong Kong's 'Chinese' Banks, 1945-70"* by Leo F. Goodstadt

No.17/2006 *"Currency Appreciation and Current Account Adjustment"* by Michael B. Devereux and Hans Genberg

No.18/2006 *"The Illusion of Precision and the Role of the Renminbi in Regional Integration"* by Yin-wong Cheung, Menzie D. Chinn and Eiji Fujii

No.19/2006 *"Does the Chinese Interest Rate Follow the US Interest Rate?"* by Yin-wong Cheung, Dickson C. Tam and Matthew S. Yiu

No.1/2007 *"Expiration-Day Effects – An Asian Twist"* by Joseph K.W. Fung and Haynes H.M. Yung

No.2/2007 *"Rules versus discretion in managing the Hong Kong dollar, 1983-2006"* by Tony Latter

No.3/2007 *"State Visits and International Trade"* by Volker Nitsch

No.4/2007 *"The Weak Link Theory of Economic Development"* by Charles I. Jones

and more please visit our web site.

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