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**Eleventh Issue
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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.

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Hong Kong Institute for Monetary Research -- *Newsletter*

Recent Activity

Conference on “Banking and Monetary History of Hong Kong: Hong Kong’s Current Challenges in Historical Perspective”

The HKIMR co-organised a two-day conference entitled “Banking and Monetary History of Hong Kong: Hong Kong’s Current Challenges in Historical Perspective” with the Centre of Asian Studies of the University of Hong Kong on 16 and 17 April 2007. Professor Catherine Schenk (University of Glasgow) was the chair of the programme committee.

This two-day conference was divided into five sessions. The first session was on financial relations with Mainland China. This session started with Catherine Schenk (University of Glasgow) presenting her paper “Economic and Financial Integration between Hong Kong and Mainland China before the Open Door Policy 1965-75”. Session two, chaired by Christopher Munn (HKMA), was on exchange rate and monetary policy. Leo Goodstadt (University of Dublin) looked at the evolution of monetary policy in Hong Kong between 1935 and 1980 as well as the way in which Hong Kong’s currency board has operated since 1983.

The third session was dedicated to issues regarding the banking industry and supervision. Hubert Bonin (Political Studies Institute of Bordeaux) and Qing Lu (University of Sunderland) presented papers on the development of French banks in Hong Kong from the 1860s to the 1950s and the business relationship developing between the HSBC and the Chinese government, respectively. The fourth session was on Hong Kong as an international financial centre. David Meyer (Brown University) discussed Hong Kong’s future as a financial centre. In the last session, Joseph Yam (Chief Executive of the HKMA) reviewed the origin and the evolution of Hong Kong’s currency board system while John Greenwood (INVESCO) discussed its original features and subsequent refinements in the past 24 years.

The HKIMR arranged a boat trip to Lamma Island for the conference participants. They enjoyed a seafood dinner on the island.



Speaker: Catherine Schenk
(University of Glasgow)



Panel discussion of the last session: Hans Genberg (HKMA), Joseph Yam (HKMA) and John Greenwood (INVESCO)
(From left to right)



Seafood dinner on Lamma Island

Workshop: Advanced Economic Modelling and Forecasting

The HKIMR co-organised a three-day workshop on “Advanced Economic Modelling and Forecasting” with the Centre for Central Banking Studies (CCBS) of the Bank of England from 2 to 4 May 2007.

This workshop followed up on earlier modelling workshops held at the HKIMR in 2002 and 2004. It was similar in structure to these workshops with a focus on a number of specialised modelling topics. The objective was for participants to learn how to build and use advanced econometric models of monetary policy transmission for policy advice. Some of the methodologies are useful for financial stability risk assessment. Francesco Zanetti and Ibrahim Stevens from the CCBS conducted the workshop which was attended by representatives from the Bank of Thailand, Bank Indonesia, People’s Bank of China, Monetary Authority of Singapore, Bank of Japan, Central Bank of the Philippines and the Hong Kong Monetary Authority.



Participants from the region’s central banks



Dong He (member of the HKIMR Board of Directors) delivering the welcome speech

The two workshop directors, Francesco and Ibrahim, gave lectures on different topics including the VAR model, Kalman Filter, generalised methods of moments (GMM) estimation, the real business cycle model, the new Keynesian model and the dynamic stochastic general equilibrium (DSGE) model. During this three-day intensive workshop, the participants had many opportunities to work through computer exercises and estimate the models using Eviews and Winsolve under the guidance of the workshop directors.



Workshop directors Francesco Zanetti (left) and Ibrahim Stevens (right)

After such an intensive workshop, on the following Saturday, the HKIMR organised an excursion for the participants and directors of the workshop. They visited Hong Kong’s famous Stanley Market before taking a trip to the Jumbo Floating Restaurant for a seafood lunch.



Workshop participants



A seafood lunch on the Jumbo Floating Restaurant

Visiting Fellow – Paul David Mizen



Paul Mizen is Professor of Monetary Economics and Director of the Centre for Finance and Credit Markets, University of Nottingham, and was formerly a consultant to the Bank of England. His research overlaps the interests of academia, central banks and financial institutions, and focuses primarily on corporate finance and the transmission mechanism of monetary policy.

*Professor Mizen first visited the HKIMR as a research fellow in September 2004, and he has returned twice since then. He has also been a visiting researcher at the Bundesbank, the European Central Bank, the International Monetary Fund and a number of universities. In 2002-03 he was Jean Monnet Fellow at the European University Institute, Florence. He is the co-author of *Monetary Economics*, Oxford University Press, with Mervyn K. Lewis and the Editor of the *Festschrift for Professor C.A.E. Goodhart* published in two volumes by Edward Elgar in 2003.*

“One of the great features of the HKIMR apart from its positive research environment, where it is possible to conduct in-depth study, is the support of a fully equipped institute directed by Hans Genberg and managed by Matthew Yiu.”

As a returning visitor to the HKIMR I feel I am on familiar territory. While I have a reserved office in the HKIMR’s suite on the 84th floor of the International Finance Centre Two building on the harbour edge, it always feels like I am returning to a place I know well. One of the great features of the HKIMR apart from its positive research environment, where it is possible to conduct in-depth study, is the support of a fully equipped institute directed by Hans Genberg and managed by Matthew Yiu. The institute runs its own seminar program combining research by HKMA staff, faculty members from local universities, and international visitors. I have twice participated in their Summer workshop and enjoyed the opportunity the institute offers to interact with other research fellows and HKMA staff.

On this occasion my work focuses on the issue of bond finance in Asian economies, and in particular on the scale, properties and behaviour of the external finance premium in the bond market. This work complements and extends earlier research conducted at the HKIMR which documented the evidence for a credit channel in monetary transmission for Asian countries. This is part of a wider focus on corporate finance conducted by the Centre for Finance and Credit Markets at Nottingham.

Concentration on the bond market is stimulated by an observation made by Joseph Yam that Hong Kong, like many other Asian countries, has a relatively low capitalisation relative to GDP in bond markets compared to European countries and the US; a point also noted by Barry Eichengreen for Latin American emerging economies. It begs the question why Asia, or Latin America, should be different.

A recent BIS conference in Kunming, China noted that equity and bond markets emerge as firms become larger and seek unsecured, longer-dated financial arrangements that improve corporate credit structure, competition and promote growth. But the precursors required for efficient equity/bond market operation in the support structure of the legal system, transparency, and regulation/supervision of the financial system, overseen by the central bank, may need time to develop and this may limit financial market development. All these features are required to provide institutional support and encourage confidence among investors.

But the firms that demand external finance also care about the costs, or premium over the risk free rate, associated with alternative sources of external finance. My research at the HKIMR is focused on the costs of raising finance in equity and bond markets compared to other forms of external finance available to firms in Asia, and particularly bank finance. Banks in the Asian region are highly liquid, well capitalised and offer loans at ultra competitive rates but the comparable cost of finance in bond markets, where the supporting infrastructures, bond ratings and investor confidence are in the process of being developed for greater efficiency of operation, may well be higher. My research is intended to provide insights into the scale, properties (in relation to firm-level financial characteristics) and behaviour of the external finance premium. Without the support of the HKIMR access to the data and local expertise this research would not have been possible.

Of course there are other factors that make Hong Kong an attractive place to visit – it is a world city with a stunning skyline and natural harbour, great restaurants and city life, and delightful surroundings away from the crowds. It is also well connected to other Asian countries and particularly China. All this suggests that the HKIMR will continue to be a place I make familiar territory.



Lectures by Professors Martin Eichenbaum and Sergio Rebelo and Informal Workshop on DSGE Models in Asian Central Banks

The HKIMR co-organised a two-day workshop on DSGE models in Asian Central Banks with the Bank for International Settlements from 14 to 15 June 2007.

This two-day workshop was divided into four sessions. The first session was a lecture conducted by Martin Eichenbaum (Northwestern University) on the empirical methods in monetary economics. Sessions two was an informal meeting for the regional central banks representatives to discuss the state of DSGE modelling in their central banks.

The third session on the second day of the workshop, was a lecture conducted by Sergio Rebelo (Northwestern University), which was an introduction to open economy models – specifically, dynamic open economy models. The last session was an informal discussion between the participants, Martin and Sergio.



Martin Eichenbaum (Northwestern University)



Workshop participants



Sergio Rebelo (Northwestern University)

Upcoming Activities

The Fifth HKIMR Summer Workshop

The HKIMR is organising the fifth summer workshop on 13 September 2007. The objective of the workshop is to bring together scholars, central bank staff and market practitioners to discuss current economic and financial issues. Several different topics will be covered in this workshop including international risk sharing, Asian housing prices and the optimal currency basket.

The Fifth HKIMR Workshop on the Mainland Economy

The HKIMR will organise a two-day workshop on the Mainland economy on 11 and 12 October 2007. The objective of the workshop is to bring together scholars and researchers from the Mainland and overseas to discuss the topic “Analysis, Modelling and Forecasting the Macroeconomic Fluctuations in Mainland China”.

Recent and Current Visiting Fellows

28 May – 2 July
Ramkishen S. Rajan (George Mason University)

4 – 30 June, 8 – 30 October
Giovanni Ferri (University of Bari)

21 June – 18 July
Paul David Mizen (University of Nottingham)

15 July – 14 September
Jean Imbs (HEC Lausanne)

1 August 2007 – 30 April 2008
James Yetman (The University of Hong Kong)

12 – 25 September
Michael Hutchison (University of California, Santa Cruz)

Upcoming Seminars

2 October 2007 *US interactions with monetary policy in China and Hong Kong during the past 80 years* – Tony Latter (The University of Hong Kong)

8 November 2007 *Sudden Stop Mode* – Eric Young (University of Virginia)

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Recent HKIMR Working Papers

No.5/2007 *"The Property Market and the Macroeconomy of the Mainland: A Cross Region Study"* by Wensheng Peng, Dickson C. Tam and Matthew S. Yiu

No.6/2007 *"Expectations and Exchange Rate Policy"* by Michael B. Devereux and Charles Engel

No.7/2007 *"Order Imbalance and the Dynamics of Index and Futures Prices"* by Joseph K.W. Fung and Philip Yu

No.8/2007 *"An Open Economy Model of the Credit Channel Applied to Four Asian Economies"* by Spiros Bougheas, Paul Mizen and Cihan Yalcin

No.9/2007 *"Nominal Exchange Rate Flexibility and Real Exchange Rate Adjustment: New Evidence from Dual Exchange Rates in Developing Countries"* by Yin-wong Cheung and Kon S. Lai

No.10/2007 *"China as a Reserve Sink: The Evidence from Offset and Sterilization Coefficients"* by Alice Y. Ouyang, Ramkishen S. Rajan and Thomas D. Willett

No.11/2007 *"The Overvaluation of Renminbi Undervaluation"* by Yin-wong Cheung, Menzie D. Chinn and Eiji Fujii

No.12/2007 *"International Capital Flows"* by Cedric Tille and Eric van Wincoop

No.13/2007 *"Hoarding of International Reserves: Mrs Machlup's Wardrobe and the Joneses"* by Yin-wong Cheung and XingWang Qian

No.14/2007 *"Is Sterilized Intervention Effective? New International Evidence"* by Pierre L. Siklos and Diana N. Weymark

No.15/2007 *"An Evaluation of the Intermediation Role of Hong Kong in Chinese Foreign Trade"* by Xinhua He

No.16/2007 *"Solving for Country Portfolios in Open Economy Macro Models"* by Michael B. Devereux and Alan Sutherland

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