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**Twelfth Issue  
(January 2008)**

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:**

Summer Workshop 2007

HKIMR/WISE Conference  
on the Mainland Economy

Visiting Fellow –James  
Yetman

Press Conference of the  
Book “Hong Kong’s Link  
to the US dollar: Origins  
and Evolution” by Mr. John  
Greenwood

# Hong Kong Institute for Monetary Research -- *Newsletter*

## New Office of the HKIMR

The HKIMR has moved to 79/F of Two International Finance Centre. The correspondence address, email addresses, telephone and fax numbers remain unchanged.



## Recent Activity Summer Workshop 2007

The Fifth Summer Workshop of the Institute was held on 13 September 2007. Several topics were covered in this workshop including the risk pooling among countries, Asian housing prices, and the optimal currency basket. Three speakers: Jean Imbs (HEC Lausanne), Eloisa Glindro (Bank for International Settlements) and Kang Shi (The Chinese University of Hong Kong) presented their papers on these topics respectively. Some of the papers are available on the Institute’s website.



Speaker: Jean Imbs  
(HEC Lausanne)



Speaker: Kang Shi  
(The Chinese University of Hong Kong)



Speaker: Eloisa Glindro (Bank for  
International Settlements)

## HKIMR/WISE Conference on the Mainland Economy

The HKIMR co-organised a two-day conference on the Mainland economy entitled “Analysing, Modelling and Forecasting Macroeconomic Fluctuations in Mainland China” with the Wang Yanan Institute for Studies in Economics (WISE) of the Xiamen University on 11 and 12 October 2007. This conference is also the fifth of the HKIMR conference series relating to the Mainland



Chor-yiu Sin (WISE, Xiamen University)



Matthew Yiu (Senior Manager of the HKIMR) presenting his paper about now-casting the Chinese economy

paper entitled “Capital Share in China” while Dong He of the Hong Kong Monetary Authority presented his paper “What prompts the People’s Bank of China to change its monetary policy stance: evidence from a discrete choice model”. The session ended with the paper entitled “Exchange Rate Pass-through to export in China—evidence from firm level data” presented by Zhiwei Zhang of the International Monetary Fund.

The last session was chaired by Matthew Yiu of the HKIMR. This session consisted of two papers. The first one was “Do institutions matter? Estimating the effects of institutions of economic performance in China” presented by Yang Zhao of the WISE and the second was “Using a structural VAR model to investigate the macroeconomic impacts of oil prices in China” presented by Chor-yiu Sin of the WISE.

This was the fifth meeting in the Institute’s conference series specifically related to research on Mainland China. This conference was divided into four sessions with twelve papers.

In the first session, Tongshan Wang of the Chinese Academy of Social Sciences discussed the ten years experience of forecasting Chinese macroeconomy while Bin Liu from the People’s Bank of China presented a paper entitled “A Dynamic Stochastic General Equilibrium (DSGE) model for monetary policy in China”. The session ended with a paper “A three-equation new Keynesian model for monetary policy analysis in China” presented by Wenlang Zhang of the Hong Kong Monetary Authority.

The second session opened with a paper entitled “Foreign reserve shocks, sterilization and macroeconomic fluctuation in China” by Zheng Song of Fudan University. Then Kevin Cheng of the International Monetary Fund discussed food prices and inflation in China followed by a paper presented by Xiaojing Zhang of the Chinese Academy of Social Sciences on Renminbi appreciation, excess liquidity, and asset prices in China. This session ended with a paper presented by Matthew Yiu of the HKIMR on now-casting the Chinese economy using dynamic factor models.



Tongshan Wang (the Chinese Academy of Social Sciences)

In the third session which was on the second day, Chong-en Bai of Tsinghua University presented his



Discussion during the conference dinner: Dong He (HKMA), Goujin Chen (WISE) and Joseph Yam (HKMA) (From left to right)

## Visiting Fellow – James Yetman



*James Yetman is Assistant Professor at the University of Hong Kong. His current research focus includes sources of business cycle asymmetry, using macroeconomic forecasts to test asset pricing models, and monetary policy under uncertainty. At present he spends each Friday at the HKIMR as a part-time Fellow, where he is using microeconomic price data for Hong Kong to uncover the anatomy of Hong Kong's deflation.*

*James' connection with central banking started when he took up a position at the Bank of Canada in 1998. In addition, since moving to the University of Hong Kong in 2001, he has visited the European Central Bank and the Reserve Bank of New Zealand, as well as serving briefly as a Research Advisor in the HKMA and as an HKIMR fellow once before in 2002.*

Hong Kong has a unique economic history. As a joint result of the currency peg and several consecutive negative economic shocks (the Asian Financial Crisis, the dot com bubble, and SARS) Hong Kong experienced continuous deflation from November 1998 until June 2004. The size (a cumulative 13.8% fall in the CPI) and persistence of the deflation are unique in recent times for a high income economy. Hong Kong therefore provides an excellent case study to examine the effects of deflation. As an HKIMR fellow, I am digging into Hong Kong's micro price data to unravel the process of price decline, as well as the nature of business cycle asymmetries.

“Hong Kong provides an excellent case study to examine the effects of deflation. As an HKIMR fellow, I am digging into Hong Kong's micro price data to unravel the process of price decline, as well as the nature of business cycle asymmetries.”

Conducting this research at the HKIMR offers obvious advantages. There are the superficial ones: a superb office with exceptional views a mere 10 minute taxi ride from my University location, and great colleagues when I'm here. Then there is the exceptional research support, led by Matthew Yiu and his staff, and excellent colleagues to talk to. But beyond these benefits of being a Fellow, the HKIMR offers many additional benefits to local academics like myself. Regular seminars, excellent visiting fellows, and the opportunity to stay connected with real world policy are the first three that spring to mind.

To expand on these, the visiting fellow program at the HKIMR substantially increases the number of applied macroeconomics seminars in Hong Kong. Without the HKIMR, there might be 10 a year across Hong Kong; with the HKIMR, there are about 40.



(HKU is not alone among local universities in “borrowing” the occasional HKIMR fellow to bolster our own seminar series, as well). An active seminar series makes it possible to stay abreast of cutting edge economic research.

Similarly, having the opportunity to interact and learn from the never-ending trail of excellent international academics that might otherwise never come to Hong Kong is a huge boon to local academics who would otherwise be far more isolated from the wider academic community. As a part-time fellow, this extends to informal discussions over coffee or lunch.

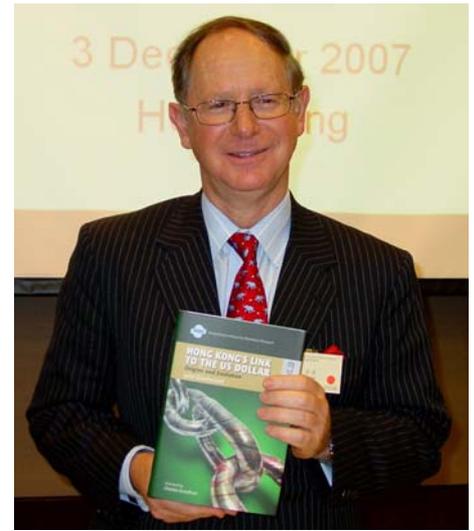
Finally, without the HKIMR, it would be easy to forget about the nitty-gritty of the real world issues that confront policy makers. I have availed myself of many conferences hosted by the HKIMR over the years, which have served as motivations for my own research, examples to illustrate lectures at university, and opportunities to get to know members of the broader policy-making community, as well as (hopefully) to contribute something back to regional policy discussions.

All in all, I have benefited enormously from the HKIMR over the past 6 years, and hope to continue the association and all that it brings in future.

## Press Conference of the Book “Hong Kong's Link to the US dollar: Origins and Evolution” by Mr. John Greenwood

*The Hong Kong Institute for Monetary Research (HKIMR) and the Hong Kong University Press jointly launched the book “Hong Kong's Link to the US dollar: Origins and Evolution” by Mr. John Greenwood of INVESCO Asset Management Limited on 3 December 2007.*

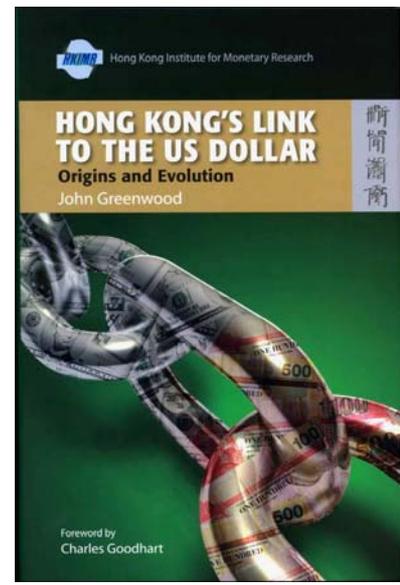
This new publication covers the origins of Hong Kong's currency crisis in 1983, the initial resolution of the crisis through the restoration of a currency board mechanism and analyses of the subsequent issues leading to the new Accounting Arrangements of July 1988, the Seven Technical Measures of September 1998 (following the Asian financial crisis), and the later refinements to the system. An Epilogue provides a survey of Hong Kong's monetary developments between 1990 and 2006.



John Greenwood (INVESCO) and his new book



John Greenwood (INVESCO) and Hans Genberg (Hong Kong Institute for Monetary Research) (From left to right)



The cover of the book “Hong Kong’s Link to the US Dollar”

## Upcoming Activities

### Workshop on Financial Integration in Asia

The HKIMR and the Asian Office of the Bank for International Settlements (BIS) are co-organising a workshop entitled “Financial Integration in Asia” on 21 January 2008.

### Conference on Global Liquidity and East Asian Economies

The Institute will organise a two day conference entitled “Global Liquidity and East Asian Economies” with the FRBSF Center for Pacific Basin Studies, Lingnan University, Santa Cruz Center of International Economics and the University of Hong Kong on 26 and 27 June 2008. The objective of this conference is to offer an opportunity for central bank economists and academics to discuss a wide range of issues regarding global liquidity and its economic implications.

## Upcoming Visiting Fellows and Seminars

14 January – 1 February  
**Shang-jin Wei** (International Monetary Fund)

14 January – 1 February  
**Michael Salemi** (The University of North Carolina)

18 February – 14 March  
**Tony Latter** (The Hong Kong Institute of Economics and Business Strategy)

7 – 25 April  
**Robert Webb** (University of Virginia)

7 April – 3 May  
**Catherine Schenk** (University of Glasgow)

**10 January 2008** *Monetary Policy and Macrocontrol in China: the Actual Impact of Window Guidance* - Anne Laure Delatte (Hong Kong University of Science and Technology)

**14 February 2008** *Dividends vs. Credit Policy: Reforming SOEs and the Financial Sector in China (To be confirmed)* - Giovanni Ferri (University of Bari)

### Recently Published HKIMR Occasional Paper:

**No.4** "Central Banks and Capital Flows" by Stephen Grenville

## Recent HKIMR Working Papers

**No.17/2007** "Productivity and Taxes as Drivers of FDI" by Assaf Razin and Efraim Sadka

**No.18/2007** "Aspects, Models and Measures for Assessing the Competitiveness of International Financial Services in a Particular Location" by George M. von Furstenberg

**No.19/2007** "Long-run and Cyclic Movements in the Unemployment Rate in Hong Kong: A Dynamic, General Equilibrium Approach" by Michael K. Salemi

**No.20/2007** "Managing the Monetary Consequences of Reserve Accumulation in Emerging Asia" by Alice Y. Ouyang, Ramkishan S. Rajan and Tom Willett

**No.21/2007** "Volatility in International Financial Market Issuance: The Role of the Financial Center" by Marco Cipriani and Graciela L. Kaminsky

**No.22/2007** "Explosive Behavior in the 1990s Nasdaq: When Did Exuberance Escalate Asset Values?" by Peter C. B. Phillips, Yangru Wu and Jun Yu

**No.23/2007** "Flattened Inflation-Output Tradeoff and Enhanced Anti-Inflation Policy as an Equilibrium Outcome of Globalization" by Alon Binyamini and Assaf Razin

**No.24/2007** "Deregulation, Competition and Consumer Welfare in Banking Market: Evidence from Hong Kong" by Chun-Yu Ho

and more ..... please visit our web site.

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