

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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HKMA/HKIMR Briefing Session for Mainland Financial Institutions

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Visiting Fellow – Moritz Schularick

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

Twenty-Fifth Issue (March 2014)

## **Recent Activities**

### **36<sup>TH</sup> PAFTAD Conference: Financial Development and Cooperation in Asia and the Pacific**

*The HKIMR hosted the 36th Pacific Trade and Development (PAFTAD) Conference in Hong Kong on 19-21 November 2013. The theme was “Financial Development and Cooperation in Asia and the Pacific”.*

Over the years, Hong Kong as a free and open economy has benefited tremendously from regional trade development and economic cooperation. The very large trade and investment flows intermediated by Hong Kong have not only contributed to income growth, but also facilitated the transfer of knowledge between Hong Kong and its trading partners. This region's experience in the past three decades or so has demonstrated that free trade and capital mobility can bring enormous benefits to the region, and greatly raise the living standards of its people. The challenge, however, is how to reap the benefits of increasingly globalized trade and investment flows but, at the same time, avoid the cyclical volatility associated with these. This demands a higher level of economic co-operation and policy coordination.

As Mr. Norman Chan, Chief Executive of the HKMA, noted in his welcome remarks to the conference, closer co-operation is crucial for the Asian economies. “The Asian economies are becoming increasingly integrated through the trade, investment and financial channels. We share a common interest in building and sharing the fruits of economic development not only in our own economies but also in our neighbours. There are many areas and issues in which closer cooperation is needed to achieve this common goal.” he said.

The PAFTAD Conferences have been running since 1968 and provide an informal private academic forum to debate economic issues of the day. They are held every 12-18 months; and were last held in Hong Kong in 1994.

This year's conference covered a number of issues affecting the Asia and Pacific region, including financial reform and liberalization, monetary policy frameworks in the region, capital market developments, financial developments in China and their implications for the global economy, and prudential regulation and supervision in the region.

This three-day conference consisted of eight sessions and one panel discussion session. Distinguished scholars and policy advisers who made presentations at the conference included



**Mr Norman TL Chan (Chief Executive of the HKMA) delivering the welcoming remarks**

Prof. Edward Chen (The University of Hong Kong), Prof. Wendy Dobson (University of Toronto), Prof. Peter Drysdale (The Australian National University), Dr. Robert McCauley (Bank for International Settlements), Prof. Yung Chul Park (Korea University) and Prof. Hugh Patrick (Columbia University).

The conference included a public forum on “Financial Development in China and Implications for the Global Economy” held at the Hong Kong Convention and Exhibition Centre, featuring a keynote speech by Mr. C. Y. Leung (Chief Executive of the HKSAR) and a panel discussion session. This public forum was jointly sponsored by China Daily. The panel discussion was moderated by Prof Wendy Dobson and the speakers included Dr. Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR), Mr. Benjamin Hung (Executive Director and Chief Executive Officer of Standard Chartered Bank (Hong Kong) Limited) and Dr. Narongchai Akrasanee (Honorary Advisor of Thailand Fiscal Policy Research Institute).

The conference programme can be accessed through the following link:

[http://www.hkimr.org/conferences\\_detail-id74](http://www.hkimr.org/conferences_detail-id74)



The panelists: Prof. Wendy Dobson (University of Toronto), Dr. Narongchai Akrasanee (Thailand Fiscal Policy Research Institute), Dr. Dong He (HKMA and HKIMR) and Mr. Benjamin Hung (Standard Chartered Bank (Hong Kong) Limited) (From left to right)



Prof. Edward Chen  
(The University of Hong Kong)



Prof. Hugh Patrick  
(Columbia University)



Prof. Peter Drysdale  
(The Australian National University)



## Fifth Annual International Conference on the Chinese Economy

*The HKIMR held its Fifth Annual International Conference on the Chinese Economy in Hong Kong on 16 and 17 January 2014. The theme of the conference was "Price Reforms and Factor Markets Liberalisation in the Chinese Economy".*

This conference was the fifth in the HKIMR annual international conference series on the Chinese economy, which aims to provide a world class forum for academics, policy makers and business economists to discuss important analytical and policy issues related to the Chinese economy. The conference series was launched in 2010 and has been well received.

This year's conference featured a keynote speech by Professor Zheng Michael Song (University of Chicago) entitled "Grasp the Large, Let Go of the Small: The Transformation of the State Sector in China".

Besides the keynote speech, eight high quality research papers were presented at the conference, covering a wide range of issues including bank competition in China, interest rate determination, capital account liberalization, labor productivity and regulation, China's Economic Transition, and renminbi internationalization.

Adrian van Rixtel (Bank for International Settlements) presented his paper "Measuring Bank Competition in China: A Comparison of New Versus Conventional Approaches Applied to Loan Markets". Honglin Wang and Xiangrong Yu from HKIMR jointly presented their paper "Interest Rate Determination in China: Past, Present and Future". Paul Luk from HKIMR presented the paper "A Model of Chinese Capital Account Liberalisation". Chang Shu (Bank for International Settlements) presented the paper "One Currency, Two Markets" and the Renminbi's Growing Influence in Asia-Pacific". Regarding labor regulations, Shang-Jin Wei (Columbia University) presented his paper "Learning from a Puzzle: When Can Stronger Labor Protection Improve Productivity?". Albert Park (Hong Kong University of Science and Technology) presented his paper on labor regulations entitled "Labor Regulation and Manufacturing Employment in China". On labor productivity, Wenya Cheng (London School of Economics) presented her paper "Productivity as if Space Mattered: An Application to Factor Markets across China". Heather Haveman (University of California, Berkeley) presented her paper "China's Economic Transition and the Value of Firms' Political Connections: A Longitudinal Study of Publicly Listed Firms".

The discussants of the papers included Chun-Yu Ho of Shanghai Jiao Tong University, Steven Barnett of International Monetary Fund (IMF), James Yetman of Bank for International Settlements, Richard Herd of OECD, Zhigang Tao of The University of Hong Kong, Kang Shi of The Chinese University of Hong Kong, Joshua Felman of IMF, and Shang-Jin Wei of Columbia University.

In addition, there was a panel discussion session on "Reform Implementation and Macroeconomic Consequences". The panelists included Steven Barnett of IMF, Zheng Michael Song of University of Chicago, Tao Wang of UBS, and Shang-Jin Wei of Columbia University.

The conference was well-received and was attended by over 150 participants including representatives from eleven central banks around the world. The conference programme, the papers and presentation slides can be accessed on the HKIMR website by the following link:

[http://www.hkimr.org/conferences\\_detail-id71](http://www.hkimr.org/conferences_detail-id71)



Dr. Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR) delivering the welcome remarks



Prof. Zheng Michael Song  
(University of Chicago)



Prof. Shang-Jin Wei  
(Columbia University)



Dr. Richard Herd (OECD)



The panelists: Dr. Dong He (HKMA and HKIMR), Dr. Steven Barnett (IMF), Prof. Zheng Michael Song (University of Chicago), Dr. Tao Wang (UBS) and Prof. Shang-Jin Wei (Columbia University) (From left to right)

## Eleventh HKIMR Conference on the Mainland Economy

*The HKIMR held a conference on the offshore renminbi market on 27 September 2013 in Hong Kong. This conference was the eleventh of the HKIMR's conference series on the Mainland economy in Putonghua. It was organised in collaboration with the Boyuan Foundation and the Financial Services Development Council.*

The issues covered by this year's conference included the development of the CNH foreign exchange market, the money market and dim sum bond market, renminbi investment and wealth management products, renminbi settlement and payment systems, and renminbi banking services for cross border trade and investment.

The conference featured presenters from both the financial services industry and academia and was attended by over 100 participants. Ms XING Yujing (Secretary General of the People's Bank of China's Monetary Policy Committee) and Mr. Eddie YUE (Deputy Chief Executive of the HKMA) were the keynote speakers at the conference.

The conference programme and slides can be accessed by the following link:

[http://www.hkimr.org/conferences\\_detail-id79](http://www.hkimr.org/conferences_detail-id79)



Mr. Eddie YUE  
(Deputy Chief Executive of the HKMA)



Ms. XING Yujing (Secretary General of the People's Bank of China's Monetary Policy Committee)



Mr. QIN Xiao  
(Chairman of the Board, Boyuan Foundation)



Mr. Andrew FUNG (Executive Director and Head of Global Banking and Markets of Hang Seng Bank)



## Seminar by Duvvuri Subbarao

*The HKIMR held a seminar entitled “Central Banking in Emerging Economies Emerging Challenges” by Dr Duvvuri Subbarao, former Governor of Reserve Bank of India, on 24 January 2014.*

In this seminar, Dr. Subbarao shared his views on the five challenges faced by central banks in emerging economies.

The first challenge was managing the growth-inflation balance. It was always difficult to get an accurate estimate of potential output. The second challenge was managing globalization. Capital flows under globalization were volatile and created destabilizing trends and managing these was challenging. No management tool was totally benign. The third challenge was coping with fiscal dominance of monetary policy. It was vital for central banks to preserve autonomy of their monetary policy. The fourth challenge was safeguarding financial stability. The fifth challenge was the opportunities and risks of using communication as an effective policy tool. Credibility was crucial for central bank communication to be effective.



Dr Duvvuri Subbarao (Former Governor of Reserve Bank of India)

## HKMA/HKIMR Briefing Session for Mainland Financial Institutions

*To strengthen communication with Mainland financial institutions in Hong Kong, the HKIMR hosted a briefing session on 12 December 2013.*

The briefing session, conducted by Dr. Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR), provided information on the following aspects: the organization and functions of the HKMA Research Department and HKIMR, data sources and references for conducting macroeconomic research on Hong Kong including the websites of the HKMA, HKIMR, and Hong Kong Census and Statistics Department. A number of topical issues were also discussed in the meeting including the economic integration of Hong Kong and Mainland, monitoring Hong Kong dollar fund flows, RMB internationalization and capital account liberalization of China.



From left to right: Eric Wong (HKMA), Raymond Yuen (HKMA), Dong He (HKMA and HKIMR) and Hongyi Chen (HKIMR)



Participants from Mainland financial institutions

## Visiting Fellow – Jean Imbs

*Jean Imbs was born in France, but lived most of his life outside his native country. After graduating from a business school near Paris, he took a gap year traveling around the world, before embarking on a PhD at New York University. This mixed a travel bug into his economic education, and resulted in shuttling between academic positions in the UK, the US, and Switzerland. He (finally?) settled back in France in 2010, but the travel bug survived, along with a keen interest in international policy questions, especially in Asia. He visited the HKIMR in October 2013.*

This was my second visit to the Institute, and I enjoyed it even more than the first. It was nice to relive some of the experiences I had in 2008, but it was nicer still to discover parts of Hong Kong that I had overlooked five years ago. My first visit was scheduled over the summer of 2008, which felt seriously hot and humid to my unsuspecting body thermostat. Exploration was then largely limited to air conditioned environments, and to (short) late night strolls. But I had still immensely enjoyed my stay.

Coming back in October opened the door to a whole different Hong Kong. Strolling the streets became an option at any time of the day, as was hiking the spectacular trails and the wilderness areas that are quite unbelievable to any tourist who has not spent time in Hong Kong outside of the summer months. My wife joined me for part of the stay: together we explored with great wonder the nearby islands, the peaceful temples or nunneries around the city, and the spectacular food scene. Being vegetarian, it was especially striking to experience the variety and richness of the eating options that Hong Kong offers. Upon our return to Paris, where we live, French food felt quite insular and limited gastronomically. We also explored various markets in Kowloon, including the bird market, where it was difficult not to meet very friendly parrots up close and personal...

One thing that has hardly changed since my last visit is the intellectual environment provided by the Institute. I remembered the interactions with economists at the Institute and at the neighboring BIS and IMF offices from my previous visit, and they did not disappoint. I learned much about the structure of the housing market in Hong Kong, and the potential development of a bubble there. We had many a discussion about data available at the Institute, and how these could be used to think about international investment and contagion. I also remembered that during my last visit, in 2008, HKIMR had been talking for years about financial crises, the importance of house prices, and the financial accelerator. This was quite some time before the rest of the planet started picking up on every single one of these topics, as the global crisis unfolded fewer than two months after my previous visit. I learned to take very seriously my discussions with economists at the HKIMR!

Being in Hong Kong in October also broadened the range of my interactions with local intellectual life. Since my visit took place during the academic year, I had the privilege of spending three days in three local universities. I was struck by their economic faculties, their high standards of professionalism, the relevance of their research, and their tight connections with academia in the US and in Europe. I was especially impressed by the energy and enthusiasm of junior Faculty there. I am hoping some research collaborations will ensue.

The HKIMR is more than just an ideal place from which to conduct research. It is also plugged directly into one of the most vibrant research communities in Asia, indeed in the world. I am grateful that I was twice given an opportunity to spend time there.



*"The HKIMR is more than just an ideal place to conduct research from. It is also plugged directly into one of the most vibrant research communities in Asia, indeed in the world."*

## Visiting Fellow – Moritz Schularick



"I could not have wished for a more perfect research environment than the one that I found at the HKIMR during my first visit."

*Moritz Schularick is professor of economics at the University of Bonn, Germany. Previously he taught at the John F. Kennedy Institute at the Free University of Berlin and has been a visiting professor at New York University and Cambridge University. Before returning to academia, he worked in the financial sector in Frankfurt and London for several years. His academic work focuses on macroeconomic history: credit cycles and capital flows, the causes and effects of financial crises, the drivers of risk premia, as well as the history of financial globalization and the international monetary system. Working at the crossroads of monetary and international economics as well as economic and financial history, his papers have been published in the American Economic Review, the Review of Economics and Statistics, the Journal of Economic Growth, the Journal of Economic History, and several other journals. Together with Niall Ferguson, he coined the term "Chimerica" to describe the central role played by the financial relations between the United States and China in the world economy.*

I could not have wished for a more perfect research environment than the one that I found at the HKIMR during my first (and hopefully not last) visit. Not only was the organization smooth and seamless, but from the very first day I was struck by the rare combination of professional focus and academic excellence that marks the atmosphere at the institution. It created an extraordinary work environment that was highly conducive to an exchange of ideas on a wide range of topics in economics without

ever losing sight of policy implications and applications to real world issues.

It might have helped that the research project I worked on during my stay is linked to first order questions for Asian economies. As a macroeconomic historian I studied long run evidence on the link between housing credit, asset prices and financial stability as part of a joint project with Alan Taylor (UC Davis) and Oscar Jorda (San Francisco Fed). In this paper we not only show that real estate credit has become the most important balance sheet item of banks in many countries, but provide new evidence that the sources of financial instability have increasingly shifted towards housing credit boom and bust episodes. We also show why economic recoveries after housing credit busts are typically slow and protracted.

The fact that a macroeconomic historian like me spent a month in the research institute of an important central bank is no coincidence. Economic history is back en vogue. The global financial crisis has led to some critical introspection in the field of macroeconomics and a greater willingness to take the evidence from economic history on board. As Kevin O'Rourke, another economic historian, recently put it: zoom out, and that swan may not seem so black after all.

It is often the practitioners of economics at international institutions and central banks -- people who have to make critical economic decisions at times when the uncertainty about the 'right' model runs high -- who stress the importance of economic history and bemoan the absence of historical training in many universities. Take Stanley Fischer, the former Governor of the Central Bank of Israel, previous Chief Economist of the World Bank and designated Vice-Chair of the Federal Reserve. Looking at his long and successful career in public office he summarized candidly: "I think I've learned as much from studying the history of central banking as I have from knowing the theory of central banking and I advise all of you who want to be central bankers to read the history books."

Another example comes from Randy Kroszner, a former Fed Governor and professor at the University of Chicago, who took part in the critical meetings of the Federal Reserve Board in 2008 at the height of the global financial crisis. He reports that an economic history book -- Milton Friedman's and Anna Schwartz' "Monetary History of the United States" - was "the single most important piece of economic research that provided guidance to Federal Reserve Board members during the crisis."



## Upcoming Activities

### Call for Papers: Leverage and Financial System Efficiency and Stability: Chinese and International Experiences

The Hong Kong Institute for Monetary Research (HKIMR) will hold its sixth Annual International Conference on the Chinese Economy in Hong Kong on 15-16 January 2015.

The conference is intended to provide a forum for academics, policymakers and business economists to discuss important analytical and policy issues related to the Chinese economy. Past conferences in this series have attracted high quality paper presentations and rigorous discussions, and were attended by researchers and China watchers from central banks and other institutions across the globe. The theme of the forthcoming conference is “Leverage and Financial System Efficiency and Stability: Chinese and International Experiences”

Possible topics include (but not restricted to):

- The tradeoff between financial system efficiency and stability
- The role of debt and leverage in financial instability
- Interactions between monetary and fiscal policy in leverage cycles
- The economic significance of public sector vs. private sector debt
- The economic significance of central vs. local government debt
- “Shadow banking” and leverage
- Comparative studies of leverage and financial system structure in China and other countries
- Interactions of quantities and prices in managing the growth of credit
- Impact of interest rate liberalisation and capital account liberalisation on leverage and systemic risk
- Cross country experiences in deleveraging
- Cross country experiences in managing default and insolvencies

Papers that do not fit into these categories, but that are related to the main theme of the conference, are also welcome.

Interested contributors should submit a draft paper (in a Word or PDF file) to the HKIMR by 10th October 2014 (e-mail to [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk)). Please use the contact author’s name as the name of the file. The HKIMR will select the papers based on originality, analytical rigor, and policy relevance and will contact the authors whose papers have been selected by 14th November 2014.

Presenters will be reimbursed for reasonable travel expenses and accommodation. For further information, please email [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk) or visit the HKIMR website <http://www.hkimr.org>

### Conference on Domestic and International Dimensions of Unconventional Monetary Policy

To enhance the collaboration and exchange between leading global central banks, the Institute will host a conference with the Federal Reserve Bank of New York in Hong Kong on 20 and 21 March 2014. The theme will be “Domestic and International Dimensions of Unconventional Monetary Policy”. It will bring together economists from academia and policy institutions to review and assess theoretical and empirical aspects of unconventional monetary policies, such as asset purchases, quantitative and credit easing, forward guidance on the policy rate path, funding for lending schemes and related interventions. The conference will last one day and a half, and will be divided into several sections with presentations of selected academic papers, as well as one policy panel. Nobel Laureate Prof. Chris Sims of Princeton University will deliver a luncheon speech.

## Application for Visiting Research Fellow

The HKIMR accepts applications for positions as Visiting Research Fellow on an ongoing and highly competitive basis. The Council of Advisers reviews proposals four times a year. The deadline for the next round of applications is 31 March 2014.

*Applicants should note that papers produced, partly or wholly under this visiting programme, are required to acknowledge the financial support of the HKIMR if the papers are submitted to any journals.*

Please visit our website (<http://www.hkimr.org/content-id13>) if you are interested in this programme.



## Visiting Fellows and Seminars

6 – 17 January 2014

**Haiwei Tang** (Johns Hopkins University)

7 – 20 January 2014

**Shang-Jin Wei** (Columbia University)

20 January 2014 – 14 February 2014

**Peter Tillmann** (Justus-Liebig University Giessen)

10 February 2014 – 7 March 2014

**Guillaume Plantin** (Toulouse School of Economics)

6 Mar 2014

*Shadow Banking and Bank Capital Regulation* – Guillaume Plantin, Toulouse School of Economics

27 Feb 2014

*Is Government Spending a Free Lunch? -- Evidence from China* – Xin Wang, Tsinghua University

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## Recent HKIMR Working Papers

**No.04/2014** "Interest Rate Determination in China: Past, Present, and Future" by Dong He, Honglin Wang and Xiangrong Yu

**No.03/2014** "How Does Loan-To-Value Policy Strengthen Banks' Resilience to Property Price Shocks – Evidence from Hong Kong" by Eric Wong, Andrew Tsang and Steven Kong

**No.02/2014** "Multiproduct Firms, Export Product Scope, and Trade Liberalization: The Role of Managerial Efficiency" by Larry Dongxiao Qiu and Miaojie Yu

**No.01/2014** "The Role of Foreign Banks in Monetary Policy Transmission: Evidence from Asia during the Crisis of 2008-9" by Bang Nam Jeon and Ji Wu

**No.25/2013** "A Theory of the Competitive Saving Motive" by Qingyuan Du and Shang-Jin Wei

**No.24/2013** "Rental Rates under Housing Price Uncertainty: A Real Options Approach" by Honglin Wang, Fan Yu and Yinggang Zhou

**No.23/2013** "Chinese Political and Economic Governance System and the Imbalance between Consumption and Investment" by Julian Du, Hongsheng Fang and Xiangrong Jin

**No.22/2013** "Asset Allocation and Monetary Policy: Evidence from the Eurozone" by Harald Hau and Sandy Lai

**No.21/2013** "Robust Control, Informational Frictions, and International Consumption Correlations" by Yulei Luo, Jun Nie and Eric R. Young

**No.20/2013** "International Trade Price Stickiness and Exchange Rate Pass-Through in Micro Data: A Case Study on US-China Trade" by Mina Kim, Deokwoo Nam, Jian Wang and Jason Wu

**No.19/2013** "How Do Exporters Respond to Antidumping Investigations?" by Yi Lu, Zhigang Tao and Yan Zhang

**No.18/2013** "CEO Option Compensation, Risk-Taking Incentives, and Systemic Risk in the Banking Industry" by Jeong-Bon Kim, Li Li, Mary L. Z. Ma and Frank M. Song

and more ..... please visit our website.