



HKIMR

Hong Kong Institute for
Monetary Research

香港金融研究中心

(a company incorporated
with limited liability)

www.hkimr.org

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:

Conference on Domestic and International Dimensions of Unconventional Monetary Policy

Joint HKIMR-INET-CIGI Conference on China and the World Economy: Trade and Financial Linkages

The Twelfth HKIMR Summer Workshop

Visiting Fellow – Simon Kwan

Visiting Fellow – Catherine Schenk

Hong Kong Institute for Monetary Research – *Newsletter*

Twenty-Sixth Issue (August 2014)

Recent Activities

Conference on Domestic and International Dimensions of Unconventional Monetary Policy

Together with the Federal Reserve Bank of New York, the HKMA co-organized a two-day conference on “Domestic and International Dimensions of Unconventional Monetary Policy” on 20 and 21 March 2014 in Hong Kong.



Mr. Norman TL Chan
(Chief Executive of the HKMA)



Prof. Chris Sims (Nobel Laureate in
Economics (2011), Princeton University)
delivering the keynote speech "Do Central
Bank Balance Sheets Matter?"

The conference commenced with the opening remarks by Mr. Norman Chan (Chief Executive of the HKMA) on unconventional monetary policy of the Fed and its spill-over effects on the emerging market economies. The two-day conference featured speeches by Professor Chris Sims (Nobel Laureate in Economics (2011), Princeton University) entitled "Do Central Bank Balance Sheets Matter?" and by Dr. Jun Ma (Chief Economist, Research Bureau of the People's Bank of China) on "China's Growth Outlook, Financial Risks and Reforms".

In addition to the featured speeches, the conference consisted of four sessions with a total of nine high quality papers presented. The first session was chaired by Dr. Paolo Pesenti (Vice President of Federal Reserve Bank of New York). In this session, Marco Lo Duca of European Central Bank (ECB) presented his paper "A Global Monetary Tsunami? On the Spillovers of US Quantitative Easing" while Andrew Filardo of Bank for International Settlements (BIS) gave a presentation of the paper "Global Impact of US Monetary Policy at the Zero Lower Bound". In the second session, chaired by Dr. Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR), Eric Swanson of Federal Reserve Bank of San Francisco presented his paper "Measuring the Effect of the Zero Lower Bound on Yields and Exchange Rates in the U.K. and Germany" and Fiorella De Fiore of ECB delivered her paper on "Unconventional Policy and the Zero Lower Bound".



Dr. James McAndrews (Executive Vice President and Director of Research, Federal Reserve Bank of New York)



Dr. Jun Ma (Chief Economist, Research Bureau of the People's Bank of China) delivering his dinner speech "China's Growth Outlook, Financial Risks and Reforms"

On the second day, the third session began with the presentation of "Safe Assets, Liquidity and Monetary Policy" by Pierpaolo Benigno (Einaudi Institute for Economics and Finance and LUISS Guido Carli). After that, Gauti B. Eggertsson of Brown University presented his paper "Time Consistency and the Duration of Government Debt: A Signalling Theory of Quantitative Easing". Then Michael Woodford of Columbia University gave a presentation on "Conventional and Unconventional Monetary Policy with Endogenous Collateral Constraints". In the last session, Gaetano Gaballo of Banque de France delivered his paper "Breaking the Spell with Credit-Easing: Self-Confirming Credit Crises in Competitive Search Economies" followed by the paper "Federal Reserve Tools for Managing Rates and Reserves" by James McAndrews of Federal Reserve Bank of New York. The discussants of the conference included John H. Rogers (Federal Reserve Board), Sylvain Leduc (Federal Reserve Bank of San Francisco), Mico Loretan (Swiss National Bank), Morten L. Bech (BIS), Luca Dedola (ECB), Andrew Levin (IMF), Giancarlo Corsetti (Cambridge University), Tack Yun (Seoul National University), and Jinill Kim (Korea University). The conference completed successfully after a panel session.



Dr. Paolo Pesenti (Vice President of Federal Reserve Bank of New York)

The conference programme, opening remarks, papers and slides can be accessed through the following link:

http://www.hkimr.org/conferences_detail-id80



Panellist: Mr. Kazuo Momma (Assistant Governor of Bank of Japan)



Panellist: Dr. Alberto G. Musalem (Executive Vice President of Federal Reserve Bank of New York)



Panellist: Dr. Mehmet Yörükoğlu (Deputy Governor of Central Bank of the Republic of Turkey)

Joint HKIMR-INET-CIGI Conference on China and the World Economy: Trade and Financial Linkages

The HKIMR, the Institute for New Economic Thinking (INET) and the Centre for International Governance Innovation (CIGI) jointly organized a conference on "China and the World Economy: Trade and Financial Linkages" on 23 June 2014 in Hong Kong.

This one-day conference consisted of two sessions with two papers presented in each session. The papers covered topics including China's influence in global trade, China's role in the global commodities market, interest rate liberalization, monetary policy framework, RMB internationalization, and China's capital account liberalization. This conference also featured a luncheon speech by Adair Lord Turner (Senior Fellow of INET) entitled "Global Capital Flows and Regulation of SIFIs".

The event attracted over 80 participants and generated lively discussions. The conference programme, papers and slides can be accessed through the following link:

http://www.hkimr.org/conferences_detail-id82



Dr. Dong He (HKMA and HKIMR) delivering the welcome remarks



Mr. Adair Lord Turner (Senior Fellow of INET) delivering the luncheon speech "Global Capital Flows and Regulation of SIFIs"



Mr. Paul Jenkins
(Distinguished Fellow of CIGI)



From left to right: Dr. Sergio L. Schmukler (Lead Economist, World Bank), Dr. Iikka Korhonen (Head of BOFIT, Bank of Finland) and Dr. Alicia Garcia-Herrero (Chief Economist for Emerging Markets, BBVA)



Conference participants

The Twelfth HKIMR Summer Workshop

The HKIMR held the twelfth summer workshop on 19 August 2014. Four papers were presented in this workshop: “How Do Business Cycles become Global? Common Shocks or Spillovers?” presented by Christopher Otok (University of Missouri), “Asian-Pacific Financial Market Interactions with the U.S. and China: A Structural VAR Approach” presented by Chang Shu (BIS), “Foreign Bank Subsidiaries' Default Risk during the Global Crisis: What Factors Help Insulate Affiliates from their Parents?” by Maria Soledad Martinez Peria (The World Bank), and “Network Effects in Currency Internationalisation: Insights from BIS Triennial Surveys and Implications for the Renminbi” by Dong He (HKMA and HKIMR) and Xiangrong Yu (HKIMR). The conference programme, papers and slides can be accessed through the following link:

http://www.hkimr.org/conferences_detail-id83



Dr. Cho-Hoi Hui (HKMA) and Dr. Maria Soledad Martinez Peria (The World Bank) (From left to right)



Dr. Dong He (HKMA and HKIMR), Prof. Christopher Otok (University of Missouri) and Prof. David Cook (Hong Kong University of Science and Technology) (From left to right)

New Members of the Board of Directors and Overseas Advisers



Prof. Stephen Yan Leung Cheung, President of The Hong Kong Institute of Education, has been appointed as a Member of the Board of Directors of the HKIMR, with effect from 9 July 2014.



Dr. Simon Kwan, Vice President and Head of Financial Research of Federal Reserve Bank of San Francisco, has been appointed as an Overseas Adviser of the HKIMR, with effect from 30 May 2014.



Mr. Kwok Chuen Kwok, Honorary Senior Research Fellow of School of Economics and Finance, the University of Hong Kong, retired from the Board of Directors of the HKIMR on 9 July 2014.

Visiting Fellow – Simon Kwan

Simon Kwan was born and raised in Hong Kong. He attended a local high school here before studying abroad in the United States. After earning his Ph.D. in Finance from the University of North Carolina at Chapel Hill, Simon taught finance in the business school at the University of Arizona. Given his expertise in financial intermediation and financial markets, Simon's research agenda touches on issues that are also of interest to central banking. In 1995, Simon joined the Federal Reserve Bank of San Francisco as a research economist. Currently, he is vice president and head of financial research at the San Francisco Fed.

I was among the first few research fellows visiting the Hong Kong Institute for Monetary Research (HKIMR) when it was founded by the Hong Kong Monetary Authority (HKMA) in 1999. During my first visit, the Institute was still at its previous address on Garden Road. Needless to say, the current facility at the International Financial Center is first-class and the view here is breathtaking. Indeed, during my visits, I often cannot keep myself from looking out the window at the beautiful harbor, an incredible way to relax my mind after some deep (or not so deep) thinking.

I still keep in touch with a number of the fellows I met back then. Similar interests in research and policy attracted us to the HKIMR, and the Institute has been an excellent venue for like-minded economists to meet and collaborate. I have fond memories of the great camaraderie among the fellows, and how we could argue about anything on almost every topic. Over the years, I have visited the Institute a few more times when my schedule allowed, and my most recent visit was in 2013-14.

While the director and other personnel of the Institute have changed since my first visit, the activities remain pretty much the same—to advance research and policy analysis that are important to the Hong Kong economy. The opportunities to engage directly with senior staff members of the HKMA have been invaluable. Their insights on market developments and policy making often lead to interesting research questions. Moreover, since I am an empiricist in banking, Hong Kong's banking sector provides a rich environment (and unique data) to conduct research that has implications far beyond Hong Kong. My interactions with the staff, other research fellows and visitors, and policy makers have often planted the seeds for my next research project.

Hong Kong is a dynamic city that is constantly evolving. While there are still traces of the old Hong Kong that I grew up in, today's Hong Kong looks and feels quite different from, say, ten to twenty years ago. I value every opportunity to return to my roots. Visiting the HKIMR as a research fellow is ideal for striking the balance between reliving those nostalgic moments of the past and making professional contributions to help Hong Kong move forward.

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 30 September 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.



"The Institute has been an excellent venue for like-minded economists to meet and collaborate. I have fond memories of the great camaraderie among the fellows, and how we could argue about anything on almost every topic."

Visiting Fellow – Catherine R. Schenk



Catherine R. Schenk, FRHS AcSS is Professor of International Economic History at the University of Glasgow. Her research focuses on the development of international economic relations since 1945 with a particular focus on international currency dynamics and international monetary and financial institutions. As an economic historian, her work emphasizes the importance of having a sound understanding of long term developments and seeks out historical questions with relevance to current economic issues.

Reflecting on my third visit as a research fellow, it is clear that my time at the HKIMR has greatly enhanced the depth of my understanding of Hong Kong's complex and changing position in the global economy. To truly understand the dynamics of Hong Kong's institutional development, being in the heart of the monetary and financial centre is invaluable. Through the Institute's wide contacts list, I was able to make connections with a range of local experts from legal, banking, heritage, policy and academic contexts. Importantly, the Institute values the importance of understanding longer term institutional developments when assessing current policy options. Knowing about the past may not solve current and future problems, but misunderstanding history is more likely to lead to mistakes.

My work on this occasion examined the development of banking regulation in Hong Kong during a period of rapid expansion in 'shadow bank' entities that provided financial services outside the regulation and supervision of the Banking Ordinance in the 1970s. Then, as now, the authorities were torn between supporting the market's response to the demand for financial services as against the prudential threat that these unsupervised institutions posed for banking stability in this volatile decade. After a major international banking crisis was narrowly avoided in 1974, the Basel Committee for International Banking Supervision was launched in 1975 to begin the process of sharing best practice and to coordinate national regulatory initiatives. The prudential supervision and regulation of international banking remains a challenge that attracted renewed attention after the 2008 global financial crisis. Hong Kong at this time was a burgeoning international financial centre increasingly integrated into the global banking system but beyond the supervisory authority of any outside institution. This makes Hong Kong an interesting case study of institutional development. The authorities developed innovative solutions through the 3-tiered banking system in 1976 but were unable to prevent a costly series of bank failures in the 1980s. Understanding the origins, motivation and limitations of this regulatory structure is important for assessing its functioning today.

As well as providing invaluable time and facilities for my research, my fellowship gave me an opportunity to draw on other local resources. These included the excellent Hong Kong University library, the Hong Kong Public Records Office and the HSBC Asia-Pacific Archive. The Public Records Office in particular holds a substantial collection of documents and correspondence of the Financial Secretariat, complete with memoranda and internal comments that reveal the process of policy-making, the way that new regulations were negotiated with banks and important banking data that is not available anywhere else. It was particularly stimulating to be able to mix the archival research with the policy-oriented focus of the HKIMR.



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). 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 or visit the HKIMR website <http://www.hkimr.org>

The Twelfth HKIMR Conference on the Mainland Economy

In line with its effort to maintain dialogues with researchers on the Mainland, the Institute plans to hold its twelfth conference on the Mainland economy on 26 September 2014. The theme will be on Shadow Banking and Financial Innovation in China. It will be the twelfth conference in the HKIMR’s conference series on the Mainland economy in Putonghua.

The Fourth Annual Meeting of the Asian Central Banks Watchers Group

The HKIMR and the Official Monetary and Financial Institutions Forum (OMFIF) will co-host the Fourth Annual Meeting of the Asian Central Banks Watchers Group on 12 December 2014. The theme of the conference will be “China’s Financial Liberalisation: Implications for Asia and the World”. The conference will consist of four sessions with different topics: i) China’s capital account liberalisation, ii) China’s influence on international reserve management, iii) Challenges in clearing and settlement, and iv) China’s monetary policy decision-making: status quo and recommendations for the future. The conference will also have a public session, which will open to the press, on China’s financial liberalisation: Implications for Asia and the world.

Visiting Fellows and Seminars

4 – 22 August 2014
Kang Shi (*The Chinese University of Hong Kong*)

11 – 22 August 2014
Sergio L. Schmukler (*The World Bank*)

11 – 22 August 2014
Maria Soledad Martinez Peria (*The World Bank*)

18 August – 12 September 2014
Christopher Otrok (*University of Missouri*)

21 August 2014
International Asset Allocations and Capital Flows: The Benchmark Effect – Sergio L. Schmukler, The World Bank

14 August 2014
Chinese Shadow Banking: Bank-Centric Misperceptions – Tri Vi Dang, Columbia University

Recent HKIMR Working Papers

No.19/2014 “Assessing the Effectiveness of Date-Based Forward Guidance at the Zero Lower Bound with a Non-Gaussian Affine Term-Structure Model” by Tsz-Kin Chung, Cho-Hoi Hui and Ka-Fai Li

No.18/2014 “Unconventional Monetary Policy Shocks and the Spillovers to Emerging Markets” by Peter Tillmann

No.17/2014 “Debt Markets in Emerging Economies: Major Trends” by Tatiana Didier and Sergio L. Schmukler

No.16/2014 “Does Bank Monitoring Matter to Bondholders?” by Joel F. Houston, Chen Lin and Junbo Wang

No.15/2014 “Hong Kong’s Growth Synchronisation with China and the U.S.: A Trend and Cycle Analysis” by Dong He, Wei Liao and Tommy Wu

No.14/2014 “The Dragon is Flying West: Micro-Level Evidence of Chinese Outward Direct Investment” by Wenjie Chen and Heiwai Tang

No.13/2014 “Interactions between CNY and CNH Money and Forward Exchange Markets” by David Leung and John Fu

No.12/2014 “Sovereign Credit Ratings, Transparency and International Portfolio Flows” by Amar Gande and David Parsley

No.11/2014 “How Strong are the Linkages between Real Estate and Other Sectors in China?” by Wenlang Zhang, Gaofeng Han and Steven Chan

No.10/2014 “One Currency, Two Markets: The Renminbi’s Growing Influence in Asia-Pacific” by Chang Shu, Dong He and Xiaoqiang Cheng

No.09/2014 “Optimal Exchange Rate Policy in a Growing Semi-Open Economy” by Philippe Bacchetta, Kenza Benhima and Yannick Kalantzis

No.08/2014 “Invoicing Currency in International Trade: An Empirical Investigation and Some Implications for the Renminbi” by Edwin L.-C. Lai and Xiangrong Yu

No.07/2014 “What Makes Systemic Risk Systemic? Contagion and Spillovers in the International Sovereign Debt Market” by Elena Kalotychou, Eli Remolona and Eliza Wu

and more please visit our website.

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