

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:**

Asian Central Banks' Watchers Group Fourth Annual Meeting

Sixth Annual International Conference on the Chinese Economy

The Twelfth HKIMR Conference on the Mainland Economy

HKIMR Occasional Paper No.9

Visiting Fellow – Sergio Schmukler

Visiting Fellow – Scott Davis

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

Twenty-Seventh Issue (March 2015)

## **Recent Activities**

### **Asian Central Banks' Watchers Group Fourth Annual Meeting**

*The Hong Kong Institute for Monetary Research (HKIMR) and the Official Monetary and Financial Institutions Forum (OMFIF) co-hosted the Asian Central Banks' Watchers Group (ACBWG) Fourth Annual Meeting on 12 December 2014 in Hong Kong. The theme of the meeting was "Internationalisation of the Renminbi: Implications for World Finance".*

This meeting followed ACBWG meetings hosted by Bank Negara Malaysia in 2011, Bank Indonesia in 2012, and Bank of Korea in 2013. This year's meeting focused on the main issues surrounding the recent acceleration in renminbi internationalisation.

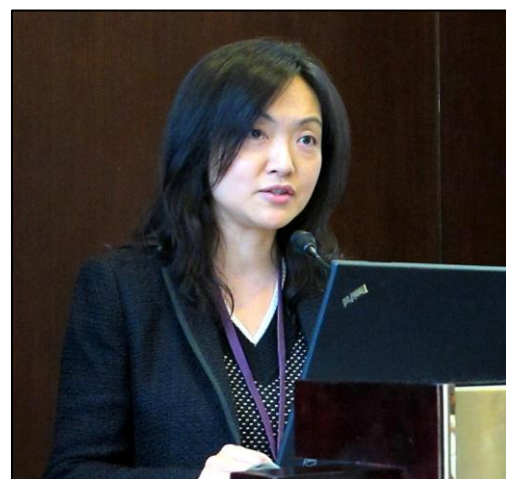
The meeting consisted of four closed-door sessions and an open-door session, which covered the following five main topics: i) The growing importance of renminbi internationalisation for the world economy, ii) The renminbi's role in international reserve management and other official-sector financial transactions, iii) The renminbi's role in international capital markets, trade financing, and investment, iv) Renminbi internationalisation – future challenges, opportunities, and recommendations, and v) Changes in China and implications for Asia and the world.

The meeting featured a luncheon speech by Dr. William White (Chairman of Economic and Development Review Committee, OECD) entitled "Global Imbalances and the Need for an International Monetary System".

The speakers of the meeting were senior representatives of central banks, official institutions, international financial institutions, private sector asset managers and bankers, which included Dr. Frank Packer (Head of Economics and Financial Markets, Asia-Pacific, Bank for International Settlements), Mr. Gary Smith (Head of Sovereign Wealth Funds and Official



Mr. Eddie Yue (Deputy Chief Executive, HKMA) delivering the welcome remarks



Dr. Lillian Cheung (Acting Executive Director (Research) of the HKMA) chairing the opening session

Institutions, Baring Asset Management), Mr. Satoru Yamadera (Principal Financial Sector Specialist, Asian Development Bank), and Dr. King Lun Au (Chief Executive Officer, Bank of China (Hong Kong) Asset Management).

The meeting was well-received and was attended by over 100 participants.

The conference programme and the script of the luncheon speech can be accessed on the HKIMR website at the following link:

[http://www.hkimr.org/conferences\\_detail-id81](http://www.hkimr.org/conferences_detail-id81)



Dr. Frank Packer (Head of Economics and Financial Markets, Asia-Pacific, Bank for International Settlements) (left) and Dr. Ben Knapen (Permanent Representative to the EU institutions in Brussels, European Investment Bank) (right)



Panellists (from left to right): Mr. Satoru Yamadera (Asian Development Bank), Dr. William White (OECD), Mr. Gary Smith (Baring Asset Management), Ms Julia Leung (Former Undersecretary of Financial Services and the Treasury Bureau in Hong Kong, current Executive Director of Securities and Futures Commission), Mr. David Marsh (OMFIF) and Dr. Lillian Cheung (HKMA)



Mr. David Marsh (Managing Director, OMFIF) delivering the welcome remarks



Dr. William White (Chairman of Economic and Development Review Committee, OECD) delivering his luncheon speech "Global Imbalances and the Need for an International Monetary System"



Conference participants



## Sixth Annual International Conference on the Chinese Economy

*The HKIMR held its Sixth Annual International Conference on the Chinese Economy in Hong Kong on 15 and 16 January 2015. The theme of the conference was “Leverage and Financial System Efficiency and Stability: Chinese and International Experiences”.*

This conference aimed 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 included eleven high quality research papers, covering a wide range of issues including monetary policy and financial stability, China's corporate leverage, banking regulation and credit supply, China's credit boom and business cycle, and banking competition.

The conference was attended by over 100 participants including representatives from central banks around the world. The conference programme, the papers and presentation slides can be accessed on the HKIMR website at the following link:  
[http://www.hkimr.org/conferences\\_detail-id87](http://www.hkimr.org/conferences_detail-id87)



Mr. Hongyi Chen (Senior Manager, HKIMR) delivering the opening remarks



From left to right: Dr. Mark Spiegel (Vice President, Federal Reserve Bank of San Francisco), Dr. Cho-Hoi Hui (Head of Market Research, HKMA), and Dr. Eric Wong (Senior Manager, HKMA)



Dr. Shaun K. Roache (Resident Representative, IMF Hong Kong SAR Sub-Office)



Dr. Dimitrios P. Tsomocos  
(University Reader, University of Oxford)



Conference participants

## The Twelfth HKIMR Conference on the Mainland Economy

*In line with its effort to maintain dialogue with researchers and policy makers on Mainland economic issues, the Institute held the Twelfth HKIMR Conference on the Mainland Economy on 26 September 2014 in Hong Kong. The theme was shadow banking and financial innovation in China. It was the twelfth conference of the HKIMR's conference series on the Mainland economy in Putonghua.*

The issues covered at this year's conference included China's shadow banking and its regulations, China's financial reforms, interest rate liberalization, financial innovation and internet finance, development of entrusted loans, and financial consumer protection. The conference featured presenters from both the financial services industry and academia, such as Mr. ZHANG Xiaoling (Deputy Chief Executive Officer of China Asset Management Co., Ltd.), Dr. LU Zhengwei (Chief Economist of Industrial Bank Co., Ltd.), and Prof. SHI Jin Chuan (Dean of School of Economics of Zhejiang University). The conference was attended by over 100 participants.

The conference programme and slides can be accessed at the following link: [http://www.hkimr.org/conferences\\_detail-id84](http://www.hkimr.org/conferences_detail-id84)



Mr. ZHANG Xiaoling (Deputy Chief Executive Officer of China Asset Management Co., Ltd.)



Dr. HE Dong (Former Director of HKIMR, current Deputy Director of IMF) (right) and Prof. SHI Jin Chuan (Dean of School of Economics, Zhejiang University) (left)

## HKIMR Occasional Paper No.9

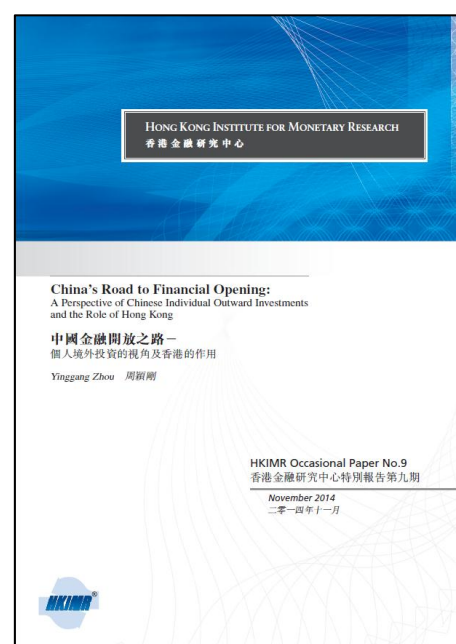
The Institute published its Ninth Occasional Paper entitled “China’s Road to Financial Opening: A Perspective of Chinese Individual Outward Investments and the Role of Hong Kong” (Chinese Version) written by Prof. Yinggang Zhou (The Chinese University of Hong Kong).

The paper argues that China’s outward investment will be substantial once its capital account liberalizes because: i) China’s total amount of private wealth and the number of high-net-worth families have been increasing, leading to strong demand for offshore investment and wealth management, and ii) given the significant financial repression in China, individual investors have strong incentives to seek overseas investment opportunities.

The author believes that Hong Kong is a preferred destination of Chinese individual outward investment, and should further upgrade the existing financial service industry into a “financial shopping paradise”. Moreover, Hong Kong should actively promote the internationalisation of RMB, and gain the pricing power of offshore RMB.

The paper can be accessed at the following link:

<http://www.hkimr.org/uploads/publication/402/hkimr-op9.pdf>



## Visiting Fellow – Sergio Schmukler

*Sergio Schmukler was born and raised in Argentina and moved to California to pursue his Ph.D. in economics at U.C. Berkeley. He started his career at the World Bank Research Department, where he is now Lead Economist. He has also worked in and visited other organizations, including the International Monetary Fund, the Inter-American Development Bank, the Argentine Central Bank, the Dutch Central Bank, the U.S. Federal Reserve Board, and the University of Maryland at College Park. He has been Treasurer of the Latin America and Caribbean Economic Association (LACEA) and Associate Editor of the Journal of Development Economics. He has worked in the area of international finance and international financial markets and institutions, publishing numerous books and articles in leading academic journals.*

Over the last year, I have had the privilege of visiting the HKIMR on three occasions. I must say that I truly enjoyed them all. These visits gave me a fresh, new perspective of Hong Kong, China, and Asia, at different levels.

In particular, I learned much about the prospects and challenges of Hong Kong and China as they grow and become central players in the world economy. I had the chance to attend three international conferences organized by the HKIMR and several academic seminars. I also had several conversations with economists and researchers at the HKIMR, the BIS Asia Office, the IMF Hong Kong Office, and local universities, as well as other fellows visiting the HKIMR. These interactions allowed me to get an onsite and different view of why Asia has grown so much in recent years and why it will continue to be one of the main engines of global growth. Perhaps, what surprised me the most is how organized, driven, and focused people are to achieve success and the degree of transformation of these economies during the past 30 years or so. Observing this miracle first hand provided me with an eye-opening perspective on the region. Another aspect that surprised me greatly is how Hong Kong has become a global international financial center, and how its integration with mainland China has helped in their economic development. As Asia becomes richer, I could observe economists starting to shift their focus to issues that have also generated attention in other developed and developing countries, like the rise in consumption, the risk of financial and construction expansions, new approaches to monetary and exchange rate policy, bottlenecks in infrastructure and demographic trends, and the need to continue diversifying the economies and competing at the global level.

During my visits to the HKIMR, I was able to make significant progress on my work on international capital flows, capital market financing, financial development, and long-term finance. Not only did I have the time and tranquility to conduct my own research, but also to interact with many other colleagues working on similar topics. This gave me the chance to discuss my ideas and learn how others approach and view these topics, in particular from an Asian perspective. These exchanges provided me with new insights to continue with my work over the coming years, taking into account the important role that China, Asia, and the South are playing in global finance.

At a personal level, the visits to Hong Kong have been very moving. Staying in Hong Kong for a few weeks allowed me to observe and enjoy how people live and work there, and to have a better sense of how interesting it would be to live in Hong Kong for a more extended period of time. The staff at the HKIMR have been extremely friendly and generous, and have made my stay not only fruitful but also very pleasant. I could not recommend it more to other researchers interested in these types of fulfilling experiences.




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"During my visits to the HKIMR, I was able to make significant progress in my work on international capital flows, capital market financing, financial development, and long-term finance."



## Visiting Fellow – Scott Davis



"The HKIMR is a perfect environment for studying the issues in international macroeconomics... Spending a month at the HKIMR is like spending a month surrounded by experts on China and the other economies of emerging Asia."

*Scott Davis is a Senior Economist in the Globalization and Monetary Policy Institute at the Federal Reserve Bank of Dallas. Prior to joining the Dallas Fed he completed his Ph.D. and taught as a Senior Lecturer at Vanderbilt University. He has been a visiting fellow at the HKIMR twice, in July 2012 and July 2014. In addition, he has spent time as a visiting researcher at the Bank of England (in 2007) and the Bank of Estonia (in 2010).*

My first visit to the HKIMR as a visiting researcher was in 2012. Recently, I was lucky enough to return and spend another month there in 2014.

My research focuses on various issues in international macroeconomics. In 2012, I worked on the issue of how commodity price movements and other transitory blips in headline inflation feed into underlying core inflation. At the time this was a very relevant issue. Commodity price gains in 2011 had led to overheating in many countries. Hong Kong was right in the middle of this. Headline inflation in Hong Kong was 5.3% in 2011. Similarly, it was around 5% in Mainland China, Indonesia, and the Philippines. My research focused on how central bank credibility affects the degree to which shocks to headline inflation pass-through into underlying core inflation. Practices like the adoption of inflation targeting in many

countries have led to significant improvements in central bank credibility. As a result, the transitory increases in headline inflation in 2011 did not pass through, and underlying core inflation has remained steady.

In 2014, I worked on the issue of the macroeconomic effects of international capital flows. Many countries have witnessed dramatic swings in capital inflows and outflows over the past few years. Again, Hong Kong has been right in the centre of this. Often times a positive surge in capital inflows leads to economic overheating, increasing inflation, exchange rate appreciation, and asset price and credit bubbles. The term "currency wars" describes how these surges in capital flows can have macroeconomic consequences which are not welcome in the countries receiving these capital inflows. In my research at the HKIMR I showed how these adverse macroeconomic effects arise from only certain types of capital inflows. Debt-based capital inflows lead to these adverse macroeconomic effects, but equity based capital inflows (which is mostly foreign direct investment) do not.

The HKIMR is a perfect environment for studying these issues in international macroeconomics. Geographically Hong Kong is right in the middle of the major economic developments in East Asia. Spending a month at the HKIMR is like spending a month surrounded by experts on China and the other economies of emerging Asia. With the IMF and BIS regional offices either next door or just a floor away, the 79<sup>th</sup> floor of IFC2 in Hong Kong is like an incubator for research in international macroeconomics.

In addition Hong Kong is an amazing city to visit. It is a city of endless variety. You can eat some of the greatest Chinese food or dim sum one night, and have fish and chips at a British pub the next night. A 20 minute ferry ride from the financial center of Asia can take you to a small car-less island with only a few thousand residents. A short metro ride can take you from the most densely populated place on the planet to a hike along a deserted beach in one of the Country Parks in the New Territories.

## 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 2015.

*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.

## Upcoming Activities

### Call for Papers: BoG-ECB-FRB-HKIMR Joint Conference on Diverging Monetary Policies, Global Capital Flows and Financial Stability

The Hong Kong Institute for Monetary Research, the Board of Governors of the Federal Reserve System, the European Central Bank and the Federal Reserve Bank of Dallas are organizing a one-and-a-half day conference on “**Diverging Monetary Policies, Global Capital Flows and Financial Stability**” in Hong Kong on Thursday and Friday **October 15-16, 2015**.

In response to the Global Financial Crisis of 2007-2008 and the subsequent Euro Area Debt Crisis, almost all of the largest central banks quickly pushed their policy rates to the effective lower bound, where they are today. In an effort to provide further policy accommodation and support economic growth, several of these central banks have engaged in unconventional monetary policies. These include large scale asset purchase programs and forward guidance about the likely future path of monetary policy. Aggressive policy actions by some central banks put downward pressure on the foreign exchange value of their currencies, prompting concerns about “currency wars.”

Diminishing slack in some of the larger advanced economies has increased the likelihood of monetary policy normalization sometime soon. Early hints that the Fed would gradually end its last large scale asset purchase program precipitated a major response in global financial markets. That program has now ended, and there is a broad expectation that policy rates will start rising in the not too distant future.

However, not all the major economies are on the steady path of recovery. Some larger central banks are still engaged in further loosening monetary policy, so there will likely be a period of diverging monetary policies among the major central banks. This could have a profound impact on global capital flows, exchange rates and financial stability.

In organizing the conference, we are particularly interested in papers that address (but are not limited to) the following topics:

- \* the relationship between the stances of monetary policies, international capital flows and exchange rates;
- \* divergent monetary policies and their implications for global financial stability;
- \* spillovers of major central bank policies to other parts of the world, and the costs and benefits of global policy co-ordination;
- \* bank flows to emerging market economies and their influence on the availability of credit, both in domestic and foreign currency;
- \* the international transmission of monetary policy through financial and trade channels;
- \* the implications of financial interconnectedness for the global financial cycle and monetary control;
- \* the international implications of monetary policy frameworks with interest on reserves;
- \* the importance and implications of foreign currency swap lines between central banks; and
- \* the impact of forward guidance on interest rate and inflation expectations.

The organizers invite submissions in these and related areas.

Organizers: Stephen Cecchetti (Brandeis University), Hongyi Chen (Hong Kong Institute for Monetary Research), Luca Dedola (European Central Bank), John Rogers (Board of Governors) and Mark Wynne (Federal Reserve Bank of Dallas).

Please submit the full paper with an abstract in pdf format to [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk), using the authors' names as the filenames of the papers, and enter "Paper Submission for BoG-ECB-FRB-HKIMR Joint Conference" as the email subject line. The organizers will select the papers based on originality, analytical rigor, and policy relevance.

Deadline for paper submission: **June 30th** (authors of accepted papers will be informed by **July 31st, 2015**). Economy-class travel and local accommodation for speakers and discussants from academic institutions will be funded by the local organizer.

## Visiting Fellows and Seminars

9 – 27 February 2015

*David Parsley (Vanderbilt University)*

2 – 13 March 2015

*Michael Funke (Hamburg University)*

6 – 24 March 2015

*Harald Hau (University of Geneva)*

**6 March 2015**

*Monetary Policy Transmission in China: A DSGE Model with Parallel Shadow Banking and Interest Rate Control* – Michael Funke, Hamburg University

**26 February 2015**

*Fiscal Policy Shocks and Real Exchange Rates* – David Parsley, Vanderbilt University

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## Recent HKIMR Working Papers

**No.05/2015** "The Domestic Segment of Global Supply Chains in China under State Capitalism" by Heiwai Tang, Fei Wang and Zhi Wang

**No.04/2015** "International Asset Allocations and Capital Flows: The Benchmark Effect" by Claudio Raddatz, Sergio L. Schmukler and Tomás Williams

**No.03/2015** "Capital Management and Leverage of Foreign Bank Subsidiaries in a Host Country: A Case in Hong Kong" by Kelvin Ho, Cho-Hoi Hui, Ka-Fai Li and Jim Wong

**No.02/2015** "The International Transmission of Shocks: Foreign Bank Branches in Hong Kong during Crises" by Simon Kwan, Eric T. C. Wong and Cho-Hoi Hui

**No.01/2015** "The Internationalisation of the Renminbi as an Investing and a Funding Currency: Analytics and Prospects" by Dong He, Paul Luk and Wenlang Zhang

**No.32/2014** "Shadow Banking and Bank Capital Regulation" by Guillaume Plantin

**No.31/2014** "Betting the House" by Òscar Jordà, Moritz Schularick and Alan M. Taylor

**No.30/2014** "Performance Analysis of Liquidity Indicators as Early Warning Signals" by Chung-hua Shen and Ting-Hsuan Chen

**No.29/2014** "Credit Booms, Banking Crises, and the Current Account" by Scott Davis, Adrienne Mack, Wesley Phoa and Anne Vandenabeele

**No.28/2014** "The Macroeconomic Effects of Debt- and Equity-Based Capital Inflows" by Scott Davis

**No.27/2014** "The Local Government Crisis 2007-2014: When China's Financial Management Faltered" by Leo F. Goodstadt

**No.26/2014** "China's Banking: How Reforms Lost Momentum" by Leo F. Goodstadt

**No.25/2014** "The Great Mortgaging: Housing Finance, Crises, and Business Cycles" by Òscar Jordà, Moritz Schularick and Alan M. Taylor

**No.24/2014** "Network Effects in Currency Internationalisation: Insights from BIS Triennial Surveys and Implications for the Renminbi" by Dong He and Xiangrong Yu

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