

**Third Issue  
(July 2003)**

Welcome to the third issue of the Hong Kong Institute for Monetary Research (the Institute) Newsletter, which will provide you with information about recent and upcoming activities.

The Institute 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 in Hong Kong and the Asian region.

**Highlights of this issue:**

Interviews with Professor Viv Hall and Dr. Weshah Razzak – visiting Research Fellows at the Institute.

HKIMR's current and coming visiting research fellows.

Recent publications and activities of the Institute.

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

## Two Announcements



Mr. Norman Chan, Deputy Chief Executive of the Hong Kong Monetary Authority, has been appointed Deputy Chairman of the Board of Directors of the Institute, as from 24 March 2003.



Prof. Richard Wong, Dean of the Business and Economics Faculty of the University of Hong Kong, has been appointed Chairman of the Council of Advisers of the Institute, as from 4 January 2003.

## Recent Activities



*Participants in the joint workshop*

The Institute co-organized a half-day workshop on financial statistics with the Hong Kong Statistical Society on 15 February 2003. Four speakers, Mr. Frederick Ho (Commissioner for Census and Statistics), Mr. Roger Luk (Hang Seng Bank), Prof. Kin Lam (Hong Kong Baptist University) and Prof. Nagi-hang Chan (Chinese University of Hong Kong) presented papers in the joint workshop. It was well attended by more than eighty participants.

Professor Robert Mundell, the 1999 Nobel Laureate in Economics, visited the Institute on 24 March 2003 and gave a seminar to research fellows and staff of the Hong Kong Monetary Authority on "The Mundell-Fleming Model and Its Critics". Prior to this, in December 2000, the Institute sponsored Prof. Mundell's visit to Hong Kong as one of the keynote speakers at the Inaugural Biennial Conference of the Hong Kong Economics Association.



*Robert Mundell*

## Visiting Fellow – Viv Hall



*Prof. Viv Hall holds the Macarthy Chair of Economics at the Victoria University of Wellington. He was a Director of the Reserve Bank of New Zealand from March 1992 until February 2002 and is a member of the independent Advisory Panel for the New Zealand Treasury's Macroeconomic Forecasts.*

*Prof. Hall visited the Institute from January to March 2003. He worked primarily on a project to evaluate the governance performance of the central banks of four open economies: the Reserve Bank of Australia, the Reserve Bank of New Zealand, the Hong Kong Monetary Authority, and the Monetary Authority of Singapore. We asked him to write few lines for this newsletter.*

*“The HKIMR’s vibrant seminar series has also been a valuable environment for meeting members of Hong Kong’s university and financial sector communities.”*

My wife, Elaine, and I last visited Hong Kong for a significant period around 25 years ago. On that occasion, one of Hong Kong’s September typhoons provided a still vivid memory. This time, there has been almost no rain, and a very much wider range of exciting experiences. Amongst the many highlights for us were: participating in the Chinese New Year celebrations (Kung Hei Fat Choy!); travelling regularly on the Star Ferry, the MTR and the trams (HK\$2.0 all the way from Kennedy Town to Shau Kei Wan!); taking top-storey bus trips to Stanley and to Aberdeen; getting out into the countryside (including spectacular walks on the “Dragon’s Back” above Shek O, on Cheung Chau and Lamma Islands, and down from the Po Lin Monastery on Lantau Island to Tung Chung); and, of course, lots of wonderful eating experiences. In a different vein, we were also able to appreciate the modern, world-class Heritage Museum, Museum of Coastal Defence, and Macau Museum, two magnificently traditional Hakka museums (Sam Tung Uk and Law Uk), and the superb specialist collections in the University of Hong Kong’s Museum and Art Gallery. And all this was just at the weekends!



Weekdays, we enjoyed our respective work venues: Elaine continuing her indexing, family history, and other work on laptop and via the internet, from our well-appointed apartment, superbly located at its namesake, “2 Macdonnell Road”. The 5-10 minute walk to and from the HKIMR was an enjoyable stretch out morning and evening. Lunchtime breaks from our air-conditioned environments, in the nearby Hong Kong Park were also

particularly pleasant, whether walking its extensive paths, watching the activities of the fish and terrapins in its small lake, or looking out for the many colourful birds in its substantial walk-through aviary.

My first presentation at the HKIMR was in their policy-oriented series, and was entitled “Australasian Currency Union, or New Zealand adopting the US dollar: implications for Asian Monetary Union?” That provided me with the opportunity to design a relatively broad address, provoking audience participation on possible forms of Asian Monetary Union and other currency arrangements over the medium term. Then on March 13, I presented results from my major research project. Having worked in Australia for nearly 17 years and in New Zealand for the past decade, I arrived with considerable knowledge of the monetary policy and corporate governance performance of their inflation-targeting central banks. My major new challenge was therefore to learn as much as I could about the operating environments and performance of the HKMA and the MAS, prior to starting the evaluation process. This I found particularly stimulating and enjoyable. I quickly became aware that, as major international financial centres, both Singapore and the HKSAR place considerable emphasis on exchange rate stability, but pursue their ultimate monetary policy objectives in very different ways. Hong Kong has successfully maintained its rule-based Currency Board system for a considerable number of years, while Singapore operates a managed floating, effective exchange rate system, to promote price stability as a sound basis for sustainable economic growth.

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## Visiting Fellow – Weshah Razzak

*Dr. Weshah Razzak, from the Labour Department of the Government of New Zealand, visited the Institute from February to April 2003, working on a research project to understand the dynamics between wages and prices in Hong Kong. The following are the few lines from him for this newsletter.*

Having decided to visit the HKIMR in February-April this year as the rates of unemployment and deflation picked up and the SARS epidemic struck, I did not pick the right time to come! But, despite the economic downturn, most people whom I met in shops, the streets and at work had a nice smile and a great attitude. People are exceptionally polite, helpful and sophisticated, and Hong Kong is clean, almost obsessively so. Together with Stefan, the Director of the Institute, and his wife Petra I did some nice hiking on the backside of the Island, where the countryside is pretty and the views are striking. I liked the narrow paths and the ups and downs. While I am not a keen shopper, I certainly enjoyed going to the local markets for fresh fish, fruit and vegetables. Three things are fantastic here, the cakes and pastries are superb, the pistachio nuts are the best I have had, and there are gorgeous oriental rugs for sale that are greatly priced in my opinion (rugs being one of my hobbies). In New Zealand I was told that I could not have a good coffee in Hong Kong. Luckily, this advice was wrong – Java, across the road from the US Consulate – was an excellent place for my morning coffee.

## Visiting Fellow – Viv Hall

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I have concluded that the four central banks have in common a considerable number of the key elements necessary for excellent governance. They also display significant differences in principle and operating procedures, and hence in their monetary policy and governance frameworks.

I have very much appreciated the excellent research facilities provided by the HKIMR, and meeting it's

My research on Hong Kong's labour markets went well, and gave me a better understanding about deflation. Joanne Cutler gave me a great summary about the economic conditions in Hong Kong, and Kelvin Fan and Dickson Tam provided me with data. Discussions with Stefan Gerlach, Matthew Yiu and many of the staff of the HKMA were helpful, and I must thank Wensheng Peng for our lunches. One lunch was memorable: because of SARS, we were wearing face-masks while eating! The fact that the BIS office is on the same floor of the HKIMR helps promote wider discussions – I benefited greatly from talking to Bob McCauley (the Deputy Head of the office). The dinners at Bob's place were great except that his house is on the Peak, and walking there entails essentially climbing! Finally, I have to thank Polly Lai for her assistance and advice. And before I forget, if you plan to visit Hong Kong, watch out: the air conditioners run full blast and it is freezing indoors year-round.



*“Despite the economic downturn, most people whom I met in shops, the streets and at work had a nice smile and a great attitude.”*



*Robert and Weshah*

other Fellows and staff of the HKMA. The HKIMR's vibrant seminar series has also been a valuable environment for meeting members of Hong Kong's university and financial sector communities, and an important catalyst for my learning of a great deal about the major structural adjustment and fiscal challenges that the Hong Kong SAR continues to face, as a strategically important part of this enormously dynamic south-eastern part of China.

## Coming Activity

The Eighth Annual Australasian Macroeconomics Workshop, which the Institute originally planned to host in Hong Kong on 24 and 25 April 2003, has because of the outbreak of SARS been postponed until 22 and 23 September 2003. For more information, please consult the Institute's website.



*Hans Genberg, scheduled to visit this August, gave a seminar at the Institute last year*

### Current and Coming Research Fellows:

**Yin-wong Cheung** (University of California, Santa Cruz) *Asian Currency Union: An Output Perspective*, 23 June – 24 September

**Michael Devereux** (University of British Columbia) *Exchange Rate Regimes and Endogenous Nominal Flexibility*, 7 July – 1 August

**Charles Engel** (University of Wisconsin) *Short-run and Long-run Pricing to Market*, 7 July – 1 August

**Paul McNelis** (Georgetown University) *Deflation Dynamics in Hong Kong*, 7 July – 8 August

**Salih Neftci** (City University of New York) *Financial Engineering and Market Stress Indicators*, 8 – 25 July and 21 August – 2 September

**Hans Genberg** (Graduate Institute of International Studies, Geneva) *Macroeconomic Forecasting in Hong Kong using Bayesian Vector AR Techniques*, 20 August – 19 September

**Prasanna Gai** (Australian National University) *Capital Markets, Financial Fragility, and the Choice of Exchange Rate Regime*, 28 July – 5 September

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## Recently Published HKIMR Working Papers

**No. 12/2003** *Bank Lending and Property Prices in Hong Kong*, Stefan Gerlach and Wensheng Peng

**No. 11/2003** *The East Asian Dollar Standard, Fear of Floating, and Original Sin*, Ronald McKinnon and Gunther Schnabl

**No. 10/2003** *Dissecting the PPP Puzzle: The Unconventional Roles of Nominal Exchange Rate and Price Adjustments*, Yin-wong Cheung, Kon S. Lai and Michael Bergman

**No. 9/2003** *An Analysis of Hong Kong Export Performance*, Yin-wong Cheung

**No. 8/2003** *The Global Implications of Regional Exchange Rate Regimes*, Harris Dellas and George Tavlas

**No. 7/2003** *Monetary Policy in Open Economies under Imperfect Information*, Harris Dellas

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