



Hong Kong Institute for
Monetary Research

香港金融研究中心

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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.

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Hong Kong Institute for Monetary Research – *Newsletter*

Thirty-third Issue (April 2018)

Recent Activities

HKMA, DRC and PBoC Joint Conference – The Ninth Annual International Conference on the Chinese Economy

The Hong Kong Monetary Authority (HKMA), Institute of Market Economy of Development Research Center (DRC) of the State Council and Financial Research Institute of the People's Bank of China (PBoC) jointly organised the Ninth Annual International Conference on the Chinese Economy on January 18-19, 2018. The theme of the conference was "China's Real Estate Market and Implications for Economic and Financial Stability".



Norman Chan (Chief Executive,
Hong Kong Monetary Authority)

The conference opened with welcoming remarks by Mr Norman Chan (Chief Executive, HKMA), followed by a keynote speech from Mr Guoqiang Long (Vice President, Development Research Center of the State Council) on China's real estate market.

Together with the policy forum and panel discussion, the conference comprised six sessions covering a wide range of important topics, including recent developments, policy options and future perspective of China's real estate market, linkages between China's real estate market and real economy, relationship between China's real estate market and financial stability, and implications of housing prices for long-term economic growth.

The conference was well received and was attended by more than 100 participants from a variety of backgrounds, including policy makers, academics and industrial practitioners.

The conference programme can be accessed on the HKIMR website at the following link:

http://www.hkimr.org/conferences_detail-id102



Guoqiang Long (Vice President,
Development Research Center of
the State Council)



From left to right: Lillian Cheung (Executive Director (Research), Hong Kong Monetary Authority & Director, Hong Kong Institute for Monetary Research), Yiping Huang (Professor, Peking University), Zhong Xu (Director General, Research Bureau, PBoC), Wei Wang (Director General, Institute of Market Economy, DRC) and Hong Qin (Director, Policy Research Center, Ministry of HURD P.R. China)



Tao Zha (Executive Director, Center for Quantitative Economic Research (CQER), Federal Reserve Bank of Atlanta) and Daofu Chen (Deputy Director-General, Research Institute of Finance, DRC)



From left to right: Sally Chen (Resident Representative, International Monetary Fund Hong Kong SAR Sub-office), Tao Wang (Head of Asia Economics Research, UBS Investment Bank), Helen Qiao (Head of Asia Economics Research, Bank of America Merrill Lynch), Zhiwei Zhang (Chief China Economist, Deutsche Bank) and Haibin Zhu (Chief China Economist, J.P. Morgan)



From left to right: Yongheng Deng (Professor, University of Wisconsin - Madison), Larry Hu (Head of China Economics, Macquarie Capital Limited) and Hongyu Liu (Professor, Tsinghua University)



Conference participants

Visiting Fellow – Anusha Chari

Anusha Chari is a Professor of Economics and Finance at the University of North Carolina at Chapel Hill. She is a Research Associate in the National Bureau of Economic Research's International Finance and Macroeconomics Program. She received a PhD in International Finance from UCLA and a BA in Philosophy, Politics and Economics at Balliol College at Oxford and Economics at the University of Delhi.

She has held faculty positions at the University of Chicago's Booth School of Business, the University of Michigan, and The Haas School of Business at Berkeley. She was a research associate at the Swiss Institute of Banking and Finance at St. Gallen, Switzerland and a summer intern at the International Monetary Fund. Professor Chari was a special adviser to the Indian Prime Minister's Economic Advisory Council and member of an Advisory Group of Eminent Persons on G20 Issues. Her research is in the fields of open-economy macroeconomics and international finance.



“The environment at the institute is very energetic and provides a wonderful place to do research”

It was my great pleasure and honour to visit the HKIMR in August 2017 under the auspices of the Thematic Study Fellowship Programme. My visit was extremely productive. The institute provides a unique vantage point from which to conduct research especially on Asian economies, with its expert staff and rich datasets. I especially benefited from my lively discussions with director Lillian Cheung and senior economists Hongyi Chen, Giorgio Valente and Matthew Yiu. The visit generated a number of new research ideas of particular importance to Asia as a critical engine of growth in the global economy and its rise as an economic superpower. I also very much enjoyed exploring the dynamic and vibrant city of Hong Kong, visiting the Tian Tan Buddha at Lantau island, delicious seafood at Lamma island, and Hong Kong's legendary markets, the list could go on.

During my visit, I worked on a project about corporate debt in emerging markets. There is rising concern over the past few years about the deteriorating health of non-financial corporations in emerging markets. Between 2004 and 2014 corporate debt in emerging markets quadrupled and the data suggest that the higher leverage has come with worsening solvency and overall financial fragility. The IMF's 2015 Global Financial Stability Report warns about the increase in foreign exchange exposure and lower quality of the firms holding the debt, noting that the share of debt held by troubled firms is the highest in over a decade. Whether through links with the financial system or through macroeconomic effects, a regional wave of corporate defaults in emerging markets could bring about adverse regional and global economic consequences.

Although the non-financial corporate sector accounts for the lion's share of the post-Global Financial Crisis surge in emerging-market leverage, there is little systematic research on factors that impact corporate distress risk in emerging markets. In our research we suggest that existing bankruptcy risk models developed using US data models do not account for emerging market vulnerabilities to global shocks such as advanced economy monetary policy changes, US dollar movements, or shifts in global liquidity and risk-aversion. A novel multi-country dataset of corporate defaults from the Risk Management Institute at the National University of Singapore allows us to quantify the importance of global shocks on emerging market corporate distress. Using a set of accounting, market, and macroeconomic variables, we develop a model of distress risk specific to emerging markets with comparable forecasting power to that of existing models based on US data. The research concludes that global factors like US interest rates and credit risk contribute more predictive power for corporate default risk in emerging markets than domestic macroeconomic variables, especially for those firms whose stock returns are most sensitive to global financial conditions.

It is our hope that developing a framework that allows policymakers to anticipate large waves of corporate defaults may inform efforts to mitigate their regional and global impact. I presented my research to the institute's staff and received many detailed and excellent comments and suggestions.

The environment at the institute is very energetic and provides a wonderful place to do research. Hong Kong embodies all the excitement of Asia and I would very much welcome the opportunity to visit HKIMR again. I wish the staff all the best in their future endeavours.

Visiting Fellow – Harald Scheule



Harald (Harry) Scheule is a Professor of Finance at the University of Technology Sydney and works in the area of banking, credit and liquidity risk management and real estate finance.

Harry is a strategic partner for banks and regulators in Asia-Pacific, Europe and North America. He has had influence with financial institutions who have applied his work to improve their risk management standards. His award-winning research has been widely cited and published in leading journals. Harry is a dedicated educator and his textbooks on risk analytics are used around the world in teaching.

"Other highlights during my stay at the HKIMR included numerous engagements with HKMA researchers and economists and counterparts from the BIS and the IMF. I was able to attend and give seminars and collect cross-disciplinary perspectives."

It was a great pleasure to visit the HKIMR in September 2017 to undertake research on the factors driving bank lending to Asian corporates. Bank lending is an important factor of the economy and lending growth is generally linked to economic upturns. In the first stage, we analysed the central bank information and credit spreads observed in syndicated loan markets for Hong Kong and Japan and found a large consistency. In the second stage, we are linking bank lending to lending institutions using quantile regressions with the ultimate goal to provide regulatory tools for moderating business cycles for long term growth.

The project builds on my general research interests that focus on risk management and regulation in banking. Banks are dominant players in financial systems. Regulators set standards (e.g. Basel III regulations) to ensure that banks are resilient to survive financial shocks and require the measurement of risks, which is my area of interest and passion.

Other highlights during my stay at the HKIMR included numerous engagements with HKMA researchers and economists and counterparts from the BIS and the IMF. I was able to attend and give seminars and collect cross-disciplinary perspectives. The release of the HKMA Half-Yearly Monetary & Financial Stability Report in late September was an exciting and insightful demonstration of how economic research and policies shape monetary policy and the real world.

I would like to thank Matthew Yiu, Hongyi Chen, Giorgio Valente and Chris Ip for their great feedback, discussions and support during this project. I hope to visit again the HKIMR and wonderful Hong Kong in the near future!

Application for Visiting Research Fellow

The HKIMR accepts applications for positions as Visiting Research Fellow on an ongoing and highly competitive basis under the Thematic Study Fellowship Programme and the Regular Research Fellowship Programme. The Council of Advisers reviews proposals four times a year. The deadline for the next round of applications is June 30, 2018.

Please visit our website (<http://www.hkimr.org/content-id13>) for more details on research topics, requirements and submission guidelines.

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

Call for Papers

2018 Annual Central Bank Conference on the Microstructure of Financial Markets

Submission deadline: May 18, 2018

Keynote Speaker: Carole Comerton-Forde (University of New South Wales)

The Hong Kong Institute for Monetary Research (HKIMR), established by the Hong Kong Monetary Authority, will host the 2018 Annual Central Bank Conference on the Microstructure of Financial Markets on **November 5 and 6, 2018**. The conference is a regular annual forum where researchers, policy makers and practitioners meet to discuss theoretical work, empirical findings and policy implications related to recent developments in the microstructure of financial markets.

Studies in all areas of market microstructure are solicited and the following non-exhaustive list of topics provides some guidelines for specific areas of interest:

- The impact of fintech on financial markets
- The microstructure of market-based and central banks-backed digital currencies
- The microstructure of emerging economies' local-currency bond and foreign exchange markets
- The impact of regulation on financial markets
- The functioning of OTC derivatives markets
- The microstructure of interbank markets
- Market inefficiencies and asset management

Interested authors should submit their complete papers via email to hkimr@hkma.gov.hk by **May 18, 2018**. Authors of accepted papers will be notified by **June 30, 2018**. There is no conference fee.

Organisers: D. Rime (BI Norwegian Business School), G. Valente (HKIMR, HKMA), S. Pezzini (HKMA).

Scientific Committee: A. Beber (Cass Business School), G. Cespa (Cass Business School), A. Ellul (Indiana University), M. Evans (Georgetown University), M. Fleming (Federal Reserve Bank of New York), T. Focault (HEC Paris), I. Lo (Bank of Canada), M. Moore (University of Warwick), B.-A. Odegaard (University of Stavanger), C. Osler (Brandeis University), M. Pagano (EIEF, University of Naples), C. Parlour (UC Berkeley), D. Rime (BI Norwegian Business School), N. Schuerhoff (HEC Lausanne and SFI), G. Valente (HKIMR, HKMA), C. Vega (Federal Reserve Board of Governors)

Other Upcoming Activities

Conference on "Exchange Rates and Monetary Policy Frameworks"

Hong Kong Monetary Authority and Bank for International Settlements will co-organise a conference entitled "Exchange Rates and Monetary Policy Frameworks" in Hong Kong on October 16, 2018. The conference will bring together senior central bankers to discuss various aspects of exchange rates and their monetary policy implications from a policymaker's perspective. Central bankers from the Asia-Pacific region and beyond will be able to compare notes on how (if at all) to best take account of the exchange rate in the conduct of monetary policy.

China Expert Network Workshop on "The Chinese Economy in the New Era"

The European Central Bank, Federal Reserve Board of Governors, and the Hong Kong Monetary Authority will jointly host a China Expert Network workshop, titled "The Chinese Economy in the New Era" in Hong Kong on November 28-29, 2018. The goal of the workshop is to bring together China experts from central banks, other policy institutions and the private sector to discuss the foremost questions confronting the Chinese economy and their implications for the global economy, with a special interest towards policy-related topics of relevance to central bank policymakers.

Visiting Fellows and Seminars

November 20 – December 1, 2017

Eric Girardin

(Aix-Marseille University)

November 20 – December 1, 2017

Moritz Schularick

(University of Bonn)

January 19-30, 2018

Tao Chen

(Nanyang Technological University)

January 4, 2018

E-Book: Essays on the Global Financial

Crisis – Heiko Hesse, European

Commission, International Monetary Fund
and Solvay Brussels School

January 26, 2018

Neutrality by Aggregation:

An Experimental Approach – King King Li,
City University of Hong Kong

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Hongyi Chen
Giorgio Valente

Economist:

Gaofeng Han
Zhibo Tan

Assistant Economist:

Chris Ip

Assistant Officer:

Selina Cheung

Recent HKIMR Working Papers

No.09/2018 “The role of loan portfolio losses and bank capital for Asian financial system resilience” by Daniel Rosch and Harald Scheule

No.08/2018 “From the World’s Factory to a World Creditor: China’s External Wealth and Excess Returns, 1997-2016” by Yi Huang

No.07/2018 “Chinese Local Bond Spreads, Monetary Policy and ‘Misallocation’” by Robert Dekle and Andrew Tsang

No.06/2018 “Heterogeneous preferences and risk sharing at household level in China” by Jennifer Lai, Isabel Yan and Xingjian Yi

No.05/2018 ‘Assessing the interconnectedness between cross-border shadow banking systems’ by Tom Fong, Angela Sze and Edmund Ho

No.04/2018 “Heterogeneous preferences and risk sharing at household level in China” by Jennifer Lai, Isabel Yan and Xingjian Yi

No.03/2018 “Mapping China’s Time-Varying House Price Landscape” by Michael Funke, Danilo Leiva-Leon and Andrew Tsang

No.02/2018 “The Fiscal Theory of the Price Level in a World of Low Interest Rates” by Marco Bassetto and Wei Cui

No.01/2018 “Productivity, exporting and financial constraints of Chinese SMEs” by Johannes Van Biesebroeck

No.29/2017 “Monetary Rules and Policy Targets under Managed Exchange Rates and Capital Controls: The Case of China” by Hongyi Chen and Paul McNelis

No.28/2017 “Gradual Portfolio Adjustment: Implications for Global Equity Portfolios and Returns” by Philippe Bacchetta and Eric van Wincoop

and more please visit our website.