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Sixth Issue (March 2005)

This is the sixth issue of
the Hong Kong Institute
for Monetary Research
(the Institute)
Newsletter.

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 to
Hong Kong and the
Asian region.

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Hong Kong Institute for Monetary Research -- *Newsletter*

Two Announcements



Mr. Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority, succeeded Mr. Norman Chan, as Deputy Chairman of the Board of Directors of the Institute in August 2004.



Professor Hans Genberg, Executive Director of the Research Department of the Hong Kong Monetary Authority, has been appointed Director of the Institute to replace Dr. Stefan Gerlach, who left the Institute at the end of 2004.

Recent Activities

Two HKIMR Workshops: Research on the Mainland Economy

The Institute organised two one-day workshops on the Chinese economy on 8 July and 20 December 2004, respectively. This was the first time that the Institute organised a workshop series specifically related to research on Mainland China. During the workshops, a total of thirteen papers were presented by eleven scholars from the International Monetary Fund, Bank for International Settlements, Chinese Academy of Social Sciences, Beijing University, Tsinghua University, local universities and the HKMA.



Opening remarks by Wensheng Peng



Qiren Zhou from Beijing University

Farewell Remarks from Stefan Gerlach

Stefan Gerlach, after three years and eight months as Director of the Institute, left the HKIMR at the end of December 2004 and has returned to the Bank for International Settlements (BIS). The Institute expresses its gratitude to him for his leadership and contributions during his term and wishes him every success at the BIS.

Dear HKIMR Friends,

After almost four fantastic years as Director of the HKIMR, the time has come for me to return to the BIS in Basel, Switzerland, from where I came on a two-year (!) leave in 2001. I had only visited Hong Kong once very briefly before my appointment, but I took an immediate liking to this marvellous city. With great restaurants and shopping, superb public infrastructure, good hiking on the backside of the Island, interesting history, spectacular views, a great location for travel in the region, and so much more, how could I not?

The HKIMR had just been established when I arrived. However, with the programme for visiting research fellows and the budget approved by the HKIMR's Board of Directors and, critically, the Council of Advisers appointed, the preparatory work had been completed. I must pay tribute to Guy Meredith, the HKIMR's first director, and Priscilla Chiu, who served as interim director after him, for their superb job in laying these foundations for the Institute. I could therefore focus on advertising the HKIMR to economists here and abroad, which is an easy job in the world of emails. Not surprisingly, this led to more applications for visiting fellowships, which had a direct impact on the scale of our operations, in particular on the number of seminars hosted and working papers published. With a growing reputation, we have now arguably reached a state in which we can rely on word of mouth for applications to the programme of visiting fellows.

Needless to say, many people have been instrumental in the expansion of the HKIMR's activities, but let me focus on two groups. First, I would like to thank the local and international members of the Council of Advisers, which provides guidance on a number of matters and decides on appointments of visiting research fellows. The members of



the Council have a thorough understanding of the state of research on Asia and knowledge about the quality and availability of the relevant data, which puts them in an excellent position to determine the Institute's research programme.

Second, I would like to thank Matthew Yiu, Emily Cheng and the rest of the HKIMR team, who have handled the rapidly expanding workload smoothly. They seem to be able to organise, with minimal forewarning, conferences of any size; keep contact with speakers, discussants and participants; reserve seminar and hotel rooms; organise lunches, dinners and coffee breaks; order audio-visual equipment and transportation and, last but not least, contribute crucially to the cheerful atmosphere at the Institute.

Let me end by saying how delighted I am that Professor Hans Genberg, from the Graduate Institute of International Studies in Geneva, has been appointed as the next Director of the HKIMR. Hans has visited the HKIMR on a number of occasions, both as a research fellow and as a conference participant, and is fully familiar with the Institute's operations. Moreover, he knows a number of economists in- and outside of Hong Kong's vibrant universities and has conducted several studies on the deflation process that Hong Kong has undergone in recent years. I am very much looking forward to seeing in what new directions Hans will steer the Institute's activities.

Sincerely and with best wishes for the future,
Stefan Gerlach

HKIMR-IMF Conference: Managing Procyclicality of the Financial System



From left to right, David Burton, Joseph Yam and Charles Goodhart

The Institute co-organised a conference on “Managing Procyclicality of the Financial System: Experiences in Asia and Policy Options” with the International Monetary Fund (IMF) on 22 November 2004.

This conference was divided into three modules. The first module was entitled “Financial System Procyclicality: Where Do We Stand?”, which was chaired by Joseph Yam from the Institute. Charles Goodhart of the London School of Economics discussed the procyclicality and volatility in the financial system with the implementation of Basel II and IAS 39. Panellists of this module were José Viñals (Banco de España), David Burton (IMF) and William Ryback (Hong Kong Monetary Authority).

The second module started with a paper on the Asian issues and experiences of Procyclicality, which

was presented by Stefan Ingves, Director of the Monetary and Financial Systems Department of the IMF. Tarisa Watanagase (Bank of Thailand), Sang-Kuang Ooi (Bank Negara Malaysia) and Mingzhi Han (China Banking Regulatory Commission) were the Panellists of the module.

The last module discussed the policy options related to the financial system procyclicality in Asia. Glenn Stevens, Deputy Governor of the Reserve Bank of Australia, presented a paper while panellists were Andrew Sheng (Hong Kong Securities and Futures Commission), Eiji Hirano (Bank of Japan) and Már Gudmundsson (Bank for International Settlements).



Discussions during coffee break

Recent Activities

Summer Workshop

The Second HKIMR Summer Workshop was held on 13 September 2004. Three visiting research fellows: Michael Devereux (University of British Columbia), Hans Genberg (Graduate Institute of International Studies) and Paul Mizen (University of Nottingham) presented papers on the topics of optimal monetary policy and macroeconomics volatility. Stefan Gerlach, the then Director of the Institute, also presented his recent study on the interest rate setting by the European Central Bank.



Chi-wah Yuen (HKU) as a discussant



Participants



Michael Devereux discussing optimal monetary policy

Visiting Fellow – Max Hall



Prof. Hall (Left) and Deputy Governor of the Bank of Thailand at the HKIMR-IMF Conference

As the “advance party” of a team of three researchers from Loughborough University (one of whom has since moved to the Nottingham University Business School) engaged on a project analyzing “Efficiency in Hong Kong Banking”, I arrived in Hong Kong in May 2004. The cleanliness and sheer scale of the new airport plus the efficiency of the railway network linking the airport to Hong Kong Island and Kowloon re-affirmed in my mind the impressions I had been left with on previous visits to Hong Kong concerning the determination of the local population to continually confront the logistical challenges posed by the harsh terrain and climate of this Special Administrative Region. I was soon ensconced in my luxurious hotel on the Island, having opted to “upgrade” the alternative accommodation on offer at personal expense.

The harbour views from the hotel were as outstanding as ever, as was the superlative standard of comfort and service (the name of the hotel is available on request!).

On arrival at the “office” the following morning, the visual rewards from the top floors of the Institute were even more stunning, a source of distraction for all but the most dedicated researchers! Similarly, the Bloombergs’ offerings in the lifts

Prof. Hall of Loughborough University visited the Institute in May 2004 to undertake a research project entitled “The efficiency of Hong Kong Banking” with his colleagues, Richard Simper (also of Loughborough University), and Leigh Drake (of the Business School of Nottingham University).

leading to the Institute served only to confirm the all round appeal of the Institute’s new state-of-the-art surroundings. The friendly and helpful office staff soon made one feel at home and swift internet connections allowed for instant contact with departmental developments at home, a source of continual harassment!

Although my visit was only brief - I was lucky enough to be invited back for a few more days in November 2004 following attendance at an IMF/HKIMR - sponsored conference on “Managing Procyclicality of the Financial System: Experiences in Asia and Policy Options” - the experience was rewarding and, with the help of interviews with interested staff and access to the well-stocked library, additional archive material was collected to assist in the development of the research project. My colleague, Richard Simper, has since completed his three-week stay and the final member of the team, Professor Leigh Drake, will complete the project and present some of the findings during his visit in April 2005.

Given my experience as a Research Fellow at the Institute I can thoroughly recommend the scheme to other potential applicants, not least because of the superb facilities, congenial working environment and friendly staff. Add in the wider delights of Hong Kong and you would be hard pressed to find a more rewarding location to pursue your research interests. And you get paid too! So, what are you waiting for?

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Visiting Fellows in the First Half of 2005

27 February - 26 March

Michael Funke (Hamburg University)

20 March - 21 April & 5 June - 6 August

Yin-wong Cheung (University of California, Santa Cruz)

4-15 April

Leigh Drake (Nottingham University Business School)

20 June - 19 July

Graciela Kaminsky (George Washington University)

27 June - 9 July

Salih Neftci (City University of New York)

Upcoming Seminars:

23 March 2005 *Inflation in Mainland China – Modelling a Roller Coaster Ride*, Michael Funke (Hamburg University)

12 April 2005 *Inflation Differentials among the Euro Area Countries*, Boris Hofmann (Deutsche Bundesbank)

27 May 2005 *Real GDP, Real Domestic Income, and Terms-of-Trade Changes*, Ulrich Kohli (Swiss National Bank)

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Upcoming Activities

Derivatives Course by Professor Neftci

The Institute will organise a course on "Structured Credit Products" conducted by Professor Salih Neftci of the City University of New York on 28-30 June. This course, different from the one conducted by Prof. Neftci at the Institute last year, will be geared towards staff of regional central banks.

Workshops on Mainland Research

The Institute will again conduct two one-day workshops on "Research on the Mainland Economy" in May/June and December this year. The Institute aims to promote more research on the Chinese economy and will organise more research programmes in the near future.

Recently Published HKIMR Working Papers

No.3/2005 *"Balance of Payments Surplus and Renminbi Revaluation Pressure"* by Huayu Sun and Yue Ma

No.2/2005 *"Optimal Transaction Filters under Transitory Trading Opportunities: Theory and Empirical Illustration"* by Ronald J. Balvers and Yangru Wu

No.1/2005 *"The Impact of Macroeconomic and Regulatory Factors on Bank Efficiency: A Non-Parametric Analysis of Hong Kong's Banking System"* by Leigh M. Drake, Maximilian J. B. Hall and Richard Simper

No.24/2004 *"Why Doesn't Asia have Bigger Bond Markets?"* by Barry Eichengreen and Pipat Luengnaruemitchai

No.23/2004 *"Momentum Trading, Mean Reversal and Overreaction in Chinese Stock Market"* by Yangru Wu

No.22/2004 *"Exchange Rate Regimes, Specialization and Trade Volume"* by Michael B. Devereux and Graham M. Voss

No.21/2004 *"Deflationary Dynamics in Hong Kong: Evidence from Linear and Neural Network Regime Switching Models"* by Paul D. McNelis and Carrie K.C. Chan

and more please visit our web site.