



**HKIMR**

Hong Kong Institute for  
Monetary Research

香港金融研究中心

(a company incorporated  
with limited liability)

[www.hkimr.org](http://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.

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Funke

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McNelis

# Hong Kong Institute for Monetary Research – *Newsletter*

Twenty-Eighth Issue (August 2015)

## Announcement: New Director of the HKIMR



**Dr. Lillian Cheung** (Director of the HKIMR and  
Executive Director (Research) of the HKMA)

Dr. Lillian Cheung has been appointed as Director of the HKIMR and Executive Director of the Research Department of the HKMA in April 2015, to succeed Dr. Dong He.

Lillian Cheung is responsible for research on issues related to monetary and financial stability. Ms Cheung holds a Ph.D in Economics from the University of Wollongong, Australia. She first joined the HKMA as Manager in 1998 and was promoted to Division Head in 2010, in charge of research relating to macroeconomic and financial stability issues.

## Recent Activities

### HKIMR-HKU International Conference on Finance, Institutions and Economic Growth

*The HKIMR and the University of Hong Kong (HKU) co-hosted the HKIMR-HKU International Conference on Finance, Institutions and Economic Growth on 22 May 2015 in Hong Kong.*

Co-organized by the HKIMR and Profs. Douglas Arner and Chen Lin of HKU, the conference featured eight high quality papers. Topics ranged from bank competition and opacity, Chinese monetary policy, and labour regulations and cross-border mergers and acquisitions, to capital market financing, political origins of banking fragility, domestic bond markets and inflation, and the anti-corruption act in China. They were presented by distinguished scholars such as Ross Levine (University of California,



**Prof. Chen Lin**  
(University of Hong Kong)

Berkeley), Randall Morck (University of Alberta), Chen Lin (University of Hong Kong), James Barth (Auburn University), Stephen Haber (Stanford University), Andrew Rose (University of California, Berkeley), and Bernard Yeung (National University of Singapore), and Sergio L. Schmukler (World Bank).

The conference programme, papers, and slides can be accessed by the following link:  
[http://www.hkimr.org/conferences\\_detail-id88](http://www.hkimr.org/conferences_detail-id88)



Douglas Arner  
 (Professor of Law, University  
 of Hong Kong)



Prof. Stephen Haber (Stanford University)  
 (left) and Prof. James Barth (Auburn  
 University) (right)



Dr. Sergio L. Schmukler (Lead Economist, The  
 World Bank) (left) and Prof. Ross Levine  
 (University of California, Berkeley) (right)

## The Thirteenth HKIMR Summer Workshop

The HKIMR held the thirteenth summer workshop on 18 August 2015. The objective of this workshop was to bring together scholars and central bankers to discuss current economic and financial issues. Four papers were presented, covering topics on the financial crisis, US unconventional monetary policy spill-overs, exchange rate dynamics, trade liberalization and global value chains, and intermediate input imports and innovation of Chinese firms. The papers were presented by speakers from academia and the Bank for International Settlements (BIS) including Eric Young (University of Virginia), Feng Zhu (BIS), Susan Zhu (Michigan State University), and Larry Qiu (University of Hong Kong).

The conference programme, papers, and slides can be accessed by the following link:  
[http://www.hkimr.org/conferences\\_detail-id89](http://www.hkimr.org/conferences_detail-id89)



Dr. Feng Zhu (BIS)



Prof. Larry Qiu (University of Hong Kong) (right) and Prof.  
 Vikas Kakkar (City University of Hong Kong) (left)

## Visiting Fellow – Michael Funke

*Michael Funke is a Professor of Economics and Chair for Macroeconomics and Quantitative Economic Policy in the Department of Economics at Hamburg University. Professor Funke is also a Research Fellow of the Centre for Economic Studies and the Ifo Institute for Economic Research in Munich, and a Member of the Macroeconomic Committee of the German Economic Association. Professor Funke has visited a number of international organizations and central banks such as the IMF, BIS, and Bank of Finland .*

It is always a pleasure to visit the HKIMR. Professionally, I get an opportunity to discuss some of the important issues in monetary economics that are of interest to policymakers and scholars of East Asian economies. It is interesting and rewarding to discuss these macroeconomic questions with economists at the HKIMR and HKMA, other visiting scholars at the HKIMR, and many other economists at universities and international organizations in Hong Kong such as the BIS. An alignment of interests between a visiting scholar and the Institute contributes to the richness of the experience.

My main line of research during my stay in Hong Kong has concerned the conduct of Chinese monetary policy, with particular emphasis on the role of the growing shadow banking sector in China. More precisely, the HKIMR Fellowship allowed me to put the finishing touches on my paper “Monetary Policy Transmission in China: A DSGE Model with Parallel Shadow Banking and Interest Rate Control”. The paper sheds light on the interplay between monetary policy, the commercial banking sector, and the shadow banking sector in mainland China by means of a nonlinear stochastic general equilibrium (DSGE) model with occasionally binding constraints. In particular, we analyse the impacts of interest rate liberalization on monetary policy transmission as well as the dynamics of the parallel shadow banking sector. Comparison of various interest rate liberalization scenarios reveals that monetary policy results in increased feed-through to lending and investment under complete liberalization. Furthermore, tighter regulation of interest rates in the commercial banking sector in China leads to an increase in loans provided by the shadow banking sector.

In continuation of my work in Hong Kong, I presented the paper in a People’s Bank of China research seminar in Beijing.

To describe Hong Kong in one word: vibrant. Hong Kong is a special administrative region of the Asian superpower, but living here feels a world away from the mainland. Hong Kong is a financial powerhouse and – thanks to its British Heritage – a perfect fusion of East and West. If you believe there’s more to life than city streets and shopping, you will find Hong Kong has a lot to offer. Prepare to meet Hong Kong’s countryside. Not far from the hustle and bustle of the cosmopolitan city centre, rural Hong Kong provides a great escape for people to enjoy the natural beauty and serenity of the countryside. Nearly three quarters of Hong Kong is predominantly rural and it is packed with an astonishing variety of landscapes from mountains, forests, picturesque shorelines and wetlands, to secluded beaches, islands, and stunning rock formations.

Overall, appointment as a visiting researcher provides access to and involvement with an active community of researchers. The support of the HKIMR Fellowship enabled me to lay the foundation for long-term professional interactions. In a broader sense, the experience reinforced the value of international understanding. Thank you to the HKIMR for this rewarding and enriching opportunity.



"Overall, appointment as a visiting researcher provides access to and involvement with an active community of researchers. The support of the HKIMR Fellowship enabled me to lay the foundation for long-term professional interactions."

## Visiting Fellow – Paul McNelis



*Paul McNelis is Robert Bendheim Professor of Economics and Financial Policy in the Department of Finance, Graduate School of Business Administration, Fordham University. He obtained his Ph.D. from Johns Hopkins University in Baltimore. Prior to joining Fordham University, Professor McNelis was a Professor of Economics at Georgetown University. He has worked with various international development organizations in Washington as well as central banks throughout the world, including working at the Research Department of the Reserve Bank of New Zealand in 2013.*

My last visit to the HKIMR was in December 2012. Since then, while on sabbatical from the Finance Department of Fordham University in New York (where I have been based since 2005), I spent six months at the Department of Economic Studies at the Bank of Portugal in Lisbon in the Fall of 2013. Following Lisbon, I visited the Institute for Transition Economies of the Bank of Finland in Helsinki in the Spring of 2014. I have also worked with the Asian Development Bank Institute in Tokyo on a project with Dean Yoshino, on the macroeconomic effects of one form of financial liberalization: the development mutual funds in the Asia Pacific region.

*"To provide useful models for policy analysis in this twilight time of Western macroeconomics requires much imagination and creative work. I see both in abundance here at the HKIMR."*

In addition to these visits to research organizations, I presented sponsored research in an IMF two-part conference series, "The Macroeconomics of Low Income Economies", with a research paper "Income Inequality, Trade and Openness", written in collaboration with Professor Guay Lim of the University of Melbourne, in August of 2013 and January of 2014.

Hong Kong is a city which typifies the Greek proverb "panta rei": "all things change". In Hong Kong, change happens faster than in most cities. But perhaps change is so rapid here because people here know how to cope with change, both the change which comes from within and from without. This is true in the business world and in finance, and in the realm of policy and policy analysis.

I have come to know and work well with the wider academic and policy community in Hong Kong, both at the HKMA, the BIS, and the universities – particularly the City University of Hong Kong and the Hong Kong University of Science and Technology. Ongoing relationships with the visiting scholars I have met here at the HKIMR continue to be stimulating and enjoyable. These are thinkers who do not take established models and methods of analysis for granted, and who cannot afford to rest on tried and trusted ways of analysis and interpretation.

In Europe and the Americas we are living in a "twilight time" in the disciplines of monetary and fiscal policy. We are well past the periods of euphoria of the Roaring 90's and Great Moderation in the USA, and the honeymoon period following the launch of the Euro.

Since 2008, nothing is as it once seemed in macroeconomics. With interest rates at the zero lower bound in the USA, Europe, and Japan, central banks are employing quantitative easing policies to intervene in non-bank financial institutions on a massive scale, which Christopher Sims calls "quasi-fiscal policy". While interest rates remain at or near the zero lower bound, the traditional monetary policy mechanics are frozen. At the same time, in the United States, the fiscal authority in 2009 gave temporary tax subsidies for the purchase of new automobiles, the so called "cash for clunkers" policy. Thus the fiscal authority has begun practicing quasi-monetary policy, since the temporary tax subsidies served the same purpose as interest-rate cuts by providing incentives to consumers to change their intertemporal profile of spending.

Needless to say, the massive injections of liquidity by the US FED, the ECB, and also the Bank of Japan, as well as fiscal uncertainty in the United States and the continuing family of nations drama of the Euro Zone, along with the slow recovery in Japan and the cooling off of Chinese markets, have subtle but strong influences on Asian financial markets.

In a highly connected world, both the problems and the policy responses themselves in individual countries have externalities throughout the world. Carmen Reinhart of Harvard University has noted that emerging markets have not had a major crisis since the early 2000's. However, the deepening Euro crisis, any lift off of interest rates by the US Fed, and a slower growth rate in China will quickly change the rosy scenarios of the last decade in emerging markets. Models of macroeconomic adjustment in these countries have to incorporate considerations of inclusion, equality, and the environment if they are to be useful. As we now witness, the public has lower tolerance for austerity imposed from outside.

The twilight time in the macroeconomic experiences of the West and Japan can be the dawn of new creative thinking in the East. It is clear to me that we now have to journey beyond traditional tools of analysis. As the twilight darkens, we need to turn to the dawn of imagination and creative ideas. This dawn is very apparent in the type of research done by the staff and visiting scholars here, as well as the timely way in which the HKIMR disseminates its research through conferences and publications.

The late George Box taught us that "all models are wrong but some are useful". To provide useful models for policy analysis in this twilight time of Western macroeconomics requires much imagination and creative work. I see both in abundance here at the HKIMR.

## Upcoming Activities

### The Thirteenth HKIMR Conference on the Mainland Economy

The HKIMR will hold the Thirteenth HKIMR Conference on the Mainland Economy on 14 September 2015 in Hong Kong. The theme this year will be fiscal reform and local government financing in China. It will be the thirteenth conference in the HKIMR's conference series on the Mainland economy in *Putonghua* and will cover topics including Chinese bond market development, the difficulties and challenges of local government financing, local government debt swap, and the credit risk of local government debt.

### Conference on Diverging Monetary Policies, Global Capital Flows and Financial Stability

The HKIMR, 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 15 and 16 October 2015. The conference will cover a wide range of issues including international capital flows and unconventional monetary policy, transmission channels of global liquidity, trilemma and monetary policy autonomy, risk taking and interest rates in the syndicated loan market, and financial globalization and monetary policy spill-overs.

### Call for Papers: Seventh Annual International Conference on the Chinese Economy

The Hong Kong Institute for Monetary Research (HKIMR) will hold its Seventh Annual International Conference on the Chinese Economy in Hong Kong on 14 and 15 January 2016.

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 attracted high-quality paper submissions, and were attended by researchers and China-watchers from central banks and other institutions across the globe.

The theme of the forthcoming conference is "**The Growing Influence of China in the World Economy**".

Possible topics include (but are not restricted to):

- Renminbi, SDR, and international monetary reform
- Renminbi internationalization and offshore markets development
- China's capital account liberalization and global financial stability
- The impact of China's monetary policy on the world economy
- The influence of China's reserve management on the global bond market
- China's influence on global commodity markets
- Trade and financial linkage between China and the rest of the world
- Implications of China's overseas infrastructure investments
- China's business cycle and global growth dynamics

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 **9 October 2015** (e-mail to [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk)). Please use the contact author's name as the name of the file. The HKIMR will select the conference papers based on originality, analytical rigor, and policy relevance and will contact the authors whose papers have been selected by 13 November 2015.

Presenters from academia will be reimbursed for economy class airfare and accommodation. For further information, please email [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk) or visit the HKIMR website <http://www.hkimr.org>.

## 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 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.

## Visiting Fellows and Seminars

16 June – 31 August 2015 (Part-time basis)  
**Larry Qiu** (The University of Hong Kong)

15 July – 20 August 2015  
**Eric Young** (University of Virginia)

10 August – 4 September 2015  
**Susan Zhu** (Michigan State University)

**11 August 2015**

*Trilemma, not Dilemma: Financial Globalisation and Monetary Policy Effectiveness* – Georgios Georgiadis, European Central Bank

**30 July 2015**

*Ignorance, Debt and Financial Crises* – Tri Vi Dang, Columbia University

## Recent HKIMR Working Papers

- No.17/2015** “Capital Market Financing, Firm Growth, and Firm Size Distribution” by Tatiana Didier, Ross Levine, and Sergio L. Schmukler
- No.16/2015** “China’s Capital and “Hot” Money Flows: An Empirical Investigation” by Tao Cai, Vinh Q. T. Dang, and Jennifer Lai
- No.15/2015** “A Quasi-Bounded Model for Swiss Franc’s One-Sided Target Zone During 2011-2015” by C. H. Hui, C. F. Lo and T. Fong
- No.14/2015** “Global Liquidity, Capital Inflows and House Prices in ASEAN Economies” by Matthew S. Yiu and Sahminan Sahminan
- No.13/2015** “How Might Sovereign Bond Yields in Asia Pacific React to US Monetary Normalisation under Turbulent Market Conditions?” by Tom Fong, Ceara Hui, and Alfred Wong
- No.12/2015** “Monetary Policy Transmission in China: A DSGE Model with Parallel Shadow Banking and Interest Rate Control” by Michael Funke, Petar Mihaylovski, and Haibin Zhu
- No.11/2015** “Measuring the On-Going Changes in China’s Capital Flow Management: A De Jure and a Hybrid Index Data Set” by Jinzhao Chen and Xingwang Qian
- No.10/2015** “Corporate Leverage in China: Why has It Increased Fast in Recent Years and Where do the Risks Lie?” by Wenlang Zhang, Gaofeng Han, Brian Ng, and Steven Chan
- No.09/2015** “Anti-Comparative Advantage: A Puzzle in U.S.-China Bilateral Trade” by Jiandong Ju, Ziru Wei, and Hong Ma
- No.08/2015** “The International Transmission of U.S. Monetary Policy: New Evidence from Trade Data” by Shu Lin and Haichun Ye
- No.07/2015** “What Measures Chinese Monetary Policy?” by Rongrong Sun
- No.06/2015** “Meta-Analysis of Chinese Business Cycle Correlation” by Jarko Fidrmuc and Iikka Korhonen

and more ..... please visit our website.

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