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**Fifteenth Issue
(March 2009)**

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:

New Senior Manager of the HKIMR

Conference on Property Markets and Finance

Workshop on Quantifying the Costs and Benefits of Regional Economic Integration in Asia

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HKIMR Internal Lecture Series by Hyun Song Shin

Hong Kong Institute for Monetary Research -- *Newsletter*

New Senior Manager of the HKIMR



Hongyi Chen of the HKIMR (right) and Olaf Unteroberdoerster of the IMF (left)

Mr. Hongyi Chen, Senior Manager of the HKMA External Department succeeded Mr. Matthew Yiu as Senior Manager of the Institute in December 2008.



Peter Pang of the HKMA delivering a speech during the high-level panel discussion

Recent Activities

Conference on Property Markets and Finance

The Bank for International Settlements' Representative Office for Asia and the Pacific (BIS) and the Hong Kong Institute for Monetary Research jointly organised a two-day conference on property markets and finance on 12 and 13 January 2009 in Hong Kong.

The objective of the conference was to create a platform for sharing insights on the relationship between the real estate market and the financial markets, how shocks are propagated and how different types of policies can contribute to dampening negative effects once a crisis has already begun. Ten papers were presented by experts from all over the world in five sessions concerning different aspects of property markets. The conference closed with a high-level panel discussion with participants Peter Pang, Deputy Chief Executive of the HKMA, David Carbon of the DBS Group, Ben Cohen of Financial Stability Forum and John Quigley of the University of California, Berkeley.



Andrew Filardo of BIS (left) and Hans Genberg of the HKIMR (right) delivering the opening remarks

Workshop on Quantifying the Costs and Benefits of Regional Economic Integration in Asia

The Institute co-organised a two-day workshop entitled “Workshop on Quantifying the Costs and Benefits of Regional Economic Integration in Asia” with the Asian Development Bank (ADB) on 19 and 20 January 2009.

This two-day conference was divided into six sessions on the Asia currency union, monetary and exchange rate policy cooperation, financial reform and integration, free trade agreements, integrating production, and cross-border transport infrastructure. A total of twelve papers were presented by scholars from the ADB, the International Monetary Fund (IMF), Harvard University, London School of Economics, University of Oxford, UC Berkeley, Columbia Business School, and the HKMA, etc.



Hans Genberg (HKIMR) and Robert Barro (Harvard University) (From left to right)



Jong-Wha Lee of ADB

Global Financial Crisis: Short-Term Challenges and Long-Term Solutions

The ADB and the HKIMR jointly organised an event entitled “Global Financial Crisis: Short-Term Challenges and Long-Term Solutions” on 11 December 2008 in Hong Kong.

This event consisted of three sessions. In the first session, Jong-Wha Lee of the ADB presented the Asia Economic Monitor (AEM) December 2008 Issue and discussed the economic outlook for emerging East Asia in 2009. The second and third sessions were panel discussion sessions entitled “Can Emerging East Asia Weather the Intensifying Financial Storm?” and “What Should Central Banks and Financial Regulators Do to Safeguard Financial Stability?” respectively. The panel discussants included Olaf Unterobderster of the IMF, Nicholas Kwan of Standard Chartered Bank, Lei Lei Song of the ADB, Yang Woo Kim of Bank of Korea, Paul Mizen of the HKIMR and Cyn-Young Park of the ADB.



Robert Barro of Harvard University delivering a speech concerning stock market crashes and depressions



Panel discussants: Olaf Unterobderster (IMF), Nicholas Kwan (Standard Chartered Bank), Hans Genberg (HKIMR), Lei Lei Song (ADB) (From left to right)

Visiting Fellow – Harald Scheule

Dr Harald Scheule teaches Finance and Banking at The University of Melbourne. He has worked globally on credit risk, structured finance and securitisation projects. He maintains strong research relationships with various regulators for financial institutions and has published extensively in this discipline. Dr Scheule visited the Hong Kong Institute for Monetary Research in January 2009. This is his second visit to the Institute; his first was in the November and December of 2007.

My research project entitled, ‘Asset Volatility, Credit Quality and Recovery for Hong Kong Borrowers’ addresses some of the shortcomings identified by the current financial crisis. These shortcomings are chiefly that most industry credit portfolio risk models are based on stationary and isolated modules for default probabilities and recoveries in the event of default, while empirical evidence suggests that credit risk is economy driven and default and recoveries highly dependent. The project enhances the transparency of the financial risk models of banks in relation to assets such as mortgage loans, corporate loans, student loans, credit card loans and off-balance sheet activities such as financial guarantees or collateralised debt obligations.

In technical terms, the project develops a single framework, which derives credit risk parameters simultaneously in a simple asset value model. It explicitly accounts for i) dependencies between the parameters and ii) the fact that a recovery can only be observed after a default event. Measures for all relevant risk quantities such as probabilities of default, losses given default, asset correlations, expected losses, value-at-risk, economic and regulatory capital are provided.

I presented the paper, ‘Forecasting Credit Portfolio Risk for Economic Downturns and the Current Financial Crisis’. The current financial crisis has its origins in the US subprime mortgage market and has led to downturns in global equity, credit and commodity markets. The lack of economic information in risk valuation models is one reason as to why the financial industry was unable to predict, mitigate and cover the current losses.

Hong Kong is such a great and vibrant city and I always enjoy my stays here. The city’s convenience and the people’s legendary friendliness are very impressive. During my sojourn, I went to the Money Museum on the 55th floor of the IFC building, the Hong Kong Heritage Museum, the Zoological and Botanical Gardens, and of course, did lots of shopping. I dined out on many Cantonese meals, (seafood as well as new dishes), with my favourite this time being snake soup. The ferry between Kowloon and Central is also a worthwhile experience and Lang Kwai Fong with its many bars and restaurants is one of my favourite areas.



For the Chinese New Year, I flew to Wuhan, China where I had a wonderful time and enjoyed the Chinese New Year ambiance, family celebrations, firecrackers and fireworks, local food such as lotus root soup and fresh fish. I also enjoyed the Wuhan birds-eye view from the Yellow Crane Tower sitting on the bank of the Yangzi River.

Researching at the HKIMR gave me the opportunity to further contribute to the banking supervision in Asia and strengthen research collaborations with the Institute and its members. I had stimulating discussions with members of the HKMA (Hong Kong Monetary Authority), BIS (Bank of International Settlements) and IMF (International Monetary Authority). I was able to attend two highly interesting conferences on real estate finance and the integration of Asian economies, as well as research seminars presented by fellow researchers.



“Researching at the HKIMR gave me the opportunity to further contribute to the banking supervision in Asia and strengthen research collaborations with the Institute and its members.”

HKIMR Internal Lecture Series by Hyun Song Shin

The HKIMR organised a three-day internal lecture series on the issue of the global financial crisis from 24 to 26 November 2008. Professor Hyun Song Shin from Princeton University conducted the lectures.

This three-day lecture series consisted of four sessions concerning different aspects of the global financial crisis. These sessions were about the beginning of the crisis, amplification of the crisis, securitization and financial stability, and policy issues concerning accounting, regulation and monetary policy. Professor Shin also introduced six relevant papers entitled “Financial Regulation in a System Context”, “Securitisation and Financial Stability”, “Systemic Risk and Liquidity in Payment Systems”, “Financial Intermediary Leverage and Value-at-Risk”, “Financial Intermediaries, Financial Stability, and Monetary Policy” and “Liquidity and Leverage”. The lectures were attended by senior managers, managers and research analysts of the HKMA and the HKIMR, and economists of the BIS.



Lecture series participants

Upcoming Activities

Conference on the Global Financial Turmoil and the Evolution of Financial Interdependence in Asia

The HKIMR, the Columbia University and the Lingnan University are co-organising a conference entitled “The Global Financial Turmoil and the Evolution of Financial Interdependence in Asia” on 11 and 12 May 2009. The details of the conference will be finalised soon.

NBER East Asian Economic Seminar (NBER-EASE) – Commodity Prices and Markets

The HKIMR and the Hong Kong University of Science and Technology (HKUST) are co-organising a conference on commodity prices and markets. It will be held on 26 and 27 June 2009 in Hong Kong.

The NBER-EASE is an annual conference, with participants from leading research institutions in East Asia, Australia and the United States. This upcoming conference will include 12 papers on the causes of commodity price inflation, global inflation and monetary policy, the relationship with the environment, and commodity futures and exchange.



Hyun Song Shin (Princeton University)

Working Paper now Exclusively as Soft Copies

From January 2009, the HKIMR ceased printing and distributing hard copies of the HKIMR working papers. Soft copies of the Institute’s working papers can be downloaded from the HKIMR website

http://www.hkimr.org/general_papers.asp

Upcoming Visiting Fellows and Seminars

9 March – 12 June
Leo Goodstadt (University of Dublin)

30 March – 24 April
Kent Matthews (Cardiff University)

27 April – 3 July
Isaac Ehrlich (University of Buffalo)

3 – 16 May
Joshua Aizenman (University of California, Santa Cruz)

4 – 22 May
David Parsley (Vanderbilt University)

11 May – 12 June
Eric van Wincoop (University of Virginia)

20 March 2009 *The Long and Short of Banks' Global Balance Sheets* – Patrick McGuire (Bank for International Settlements)

6 April 2009 *Who Gets the Credit? And Does it Matter? Household vs. Enterprise Lending across Countries* – Thorsten Beck (Tilburg University)

Deadline for Visiting Research Fellowship Applications

The Council of Advisors reviews proposals four times a year. The deadline for the next round of applications is *31 March 2009*.

Correspondence

ADDRESS:
55/F Two International Finance Centre,
8 Finance Street,
Central, Hong Kong

PHONE:
(852) 2878-1978

FAX:
(852) 2878-7006

E-MAIL:
hkimr@hkma.gov.hk

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Recent HKIMR Working Papers

No.01/2009 "A Fragile Prosperity: Government Policy and the Management of Hong Kong's Economic and Social Development" by Leo F. Goodstadt

No.02/2009 "The Evolution of the Hong Kong Currency Board During Global Exchange Rate Instability: Evidence from the Exchange Fund Advisory Committee 1967-1973" by Catherine Schenk

No.03/2009 "A High-Low Model of Daily Stock Price Ranges" by Yan-Leung Cheung, Yin-Wong Cheung and Alan T. K. Wan

No.04/2009 "Insider Trading in Hong Kong: Tests of Stock Returns and Trading Frequency" by Michael Firth, T. Y. Leung and Oliver Rui

No.05/2009 "Hong Kong Consumer Prices are Flexible" by James Yetman

No.06/2009 "Corruption and Cross-Border Investment in Emerging Markets: Firm-Level Evidence" by Beata S. Javorcik and Shang-jin Wei

No.07/2009 "Speculative Attacks: A Laboratory Study in Continuous Time" by Yin-Wong Cheung and Daniel Friedman

No.08/2009 "A Portfolio Model of Capital Flows to Emerging Markets" by Michael B. Devereux and Alan Sutherland

No.09/2009 "Real Exchange Rate, Productivity and Labor Market Rigidities" by Yu Sheng and Xinpeng Xu

No.10/2009 "Disconnect and Information Content of International Capital Flows: Evidence and Theory" by Cedric Tille and Eric van Wincoop

No.11/2009 "Volatility Dependence across Asia-Pacific Onshore and Offshore Currency Forwards Markets" by Roberta Colavecchio and Michael Funke

and more please visit our web site.