



**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.

#### **Highlights of this issue:**

The Fourteenth HKIMR Conference on the Mainland Economy

HKUST-Keio-HKIMR Conference on Exchange Rates and Macroeconomics

Conference on “Real Estate and Financial Stability”

The Fourteenth HKIMR Summer Workshop

Visiting Fellow – Chicheng Ma

Visiting Fellow – Chun Yu Ho

# Hong Kong Institute for Monetary Research – *Newsletter*

Thirtieth Issue (October 2016)

## Recent Activities

### The Fourteenth HKIMR Conference on the Mainland Economy

*The Institute held its Fourteenth Conference on the Mainland Economy on 22 September 2016 in Hong Kong. The theme was the asset quality of Chinese banks and financial stability.*

Speakers from Mainland banks, brokerage firms, think tanks and academia gathered together to analyse issues regarding the quality of Chinese banks’ assets, debt structure of Mainland firms and financial stability, the restructuring of non-performing loans, and the impact of RMB exchange rate volatility on bank assets. The conference attracted more than 100 participants.

The conference began with opening remarks by Dr. Lillian Cheung (Director of the HKIMR and Executive Director (Research) of the HKMA). Yang Tao (Institute of Finance & Banking, Chinese Academy of Social Sciences) delivered the keynote speech on the quality of bank assets as the transmission channel for systemic financial risks.

Wang Jian (Guotai Junan Securities) presented his views on the reality of non-performing loans, and on striking a balance between regulation and the profitability of banks. Michael Zheng Song (Chinese University of Hong Kong) gave a presentation on the long-term effects of fiscal stimulus on the asset quality of banks.

Hu Weijun (Macquarie Group) shared his opinions on Chinese firms’ debt situation and whether the root of the problem might lie in the inefficient allocation of capital rather than simply high leverage ratios. He also talked about the need for structural reforms in order for potential growth to be realized.



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



Yang Tao (Institute of Finance & Banking, Chinese Academy of Social Sciences)

Chen Cong (CITIC Securities) discussed risks in the property sector. He pointed out that these risks might not primarily arise from decreasing housing affordability or increasing loan to value ratios, but maybe due to increasing land prices which strains developers' finances. Peng Wensheng (CITIC Securities) gave a presentation on the process of deleveraging, citing the need for fiscal, taxation, financial and state-owned enterprise reforms. Wen Bin (Minsheng Bank) presented a case study on the disposal of non-performing loans in banks.

Zheng Liancheng (Institute of Finance & Banking, Chinese Academy of Social Sciences) delivered his research on the impact of macro-prudential assessment (MPA) on the banking industry. E Zhihuan (Bank of China Hong Kong) discussed the risks stemming from depreciation of the RMB and its possible impact on banking assets.

The programme, papers and slides can be accessed through the following link:

[http://hkimr.org/conferences\\_detail-id96](http://hkimr.org/conferences_detail-id96)



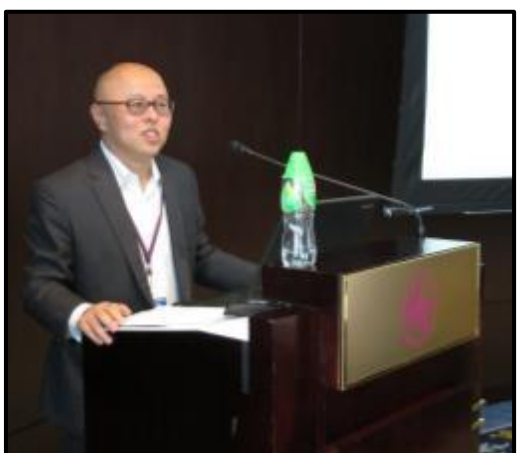
Chen Cong (CITIC Securities)



Wen Bin (China Minsheng Bank)



Wang Jian (Guotai Junan Securities)



Hu Weijun (Macquarie Group)



Zheng Liancheng (Institute of Finance & Banking, Chinese Academy of Social Sciences)



E Zhihuan (Bank of China Hong Kong)

## HKUST-Keio-HKIMR Conference on Exchange Rates and Macroeconomics

*The HKIMR, Hong Kong University of Science and Technology, and Keio University jointly held the HKUST-Keio-HKIMR Conference on Exchange Rates and Macroeconomics on 17-18 March 2016. The Institute hosted the first day of the conference on 17 March 2016 on its premises.*

The first day of the conference began with opening remarks by Dr. Cho-hoi Hui (Hong Kong Monetary Authority), followed by a keynote speech by Prof. Pierre-Olivier Gourinches of University of California-Berkeley entitled “Global Imbalances and Currency Wars at the ZLB”. Five papers were presented. The second day was hosted by the Hong Kong University of Science and Technology on its campus. The programme, papers and presentation slides can be accessed on the HKIMR website with the following link:

[http://hkimr.org/conferences\\_detail-id94](http://hkimr.org/conferences_detail-id94)

## Conference on “Real Estate and Financial Stability”

*Together with City University of Hong Kong, the Hong Kong Institute for Monetary Research co-hosted a two-day conference entitled “Real Estate and Financial Stability” on 22-23 August 2016. The Institute hosted the second day of the conference.*

Real estate is a timely topic with recent issues such as the Global Financial Crisis, the slowdown of the China economy and the downturn in Hong Kong residential prices in 2016 playing an important role in financial stability. The conference brought together experts on real estate topics and provided a platform for an in-depth and insightful discussion in a two day conference.

The full programme can be accessed at the following link:

[http://hkimr.org/conferences\\_detail-id93](http://hkimr.org/conferences_detail-id93)



Prof. Richard Green (University of Southern California) giving the keynote speech.



The conference was held on the Institute's premises.

## The Fourteenth HKIMR Summer Workshop

*The Institute hosted its Fourteenth HKIMR Summer Workshop on 4 August 2016. The half-day workshop was intended to take advantage of a number of visiting fellows at the Institute over the summer, which provided a good opportunity for the staff of the HKIMR and HKMA to interact with visiting fellows.*

Four papers were presented this time, covering different topics namely: (1) impact of large investors on the distressed housing markets; (2) US monetary policy's influence on Hong Kong; (3) the impact of fat-tail risk and systemic risk on capital requirements of financial institutions; and (4) spill-overs between the US and emerging markets.

The conference programme and slides can be accessed at the following link: [http://hkimr.org/conferences\\_detail-id95](http://hkimr.org/conferences_detail-id95)

## Visiting Fellow – Chicheng Ma

*Chicheng Ma is an Associate Professor at the School of Economics of Shandong University. He received his Ph.D. in Social Science at the Hong Kong University of Science and Technology in 2011. His research interests are economic history, political economy, and development economics. His current research focuses on the long-term effect of historical institutions and culture on economic development, and the development of China's informal finance sector in a historical perspective. He was a visiting fellow at the HKIMR in January 2016.*

During my visit to the HKIMR, my primary research interest was to explain the rise of informal finance in China over the past two decades. Informal finance aims to provide micro-credit and financial services to small businesses, but operates outside the formal state banking system. Given the lack of legal protection, informal financial activities are usually sustained by traditional, informal rules inherited from their historical counterparts. For this reason, I examined whether traditional banks (*qianzhuang* and *piaohao*)—that prospered in the Qing dynasty but declined thereafter—have a long-term impact on the current development of informal finance. A thesis central to this study is that, although traditional banks declined after the end of the dynastic rule (1911), the culture they embodied—in particular the Confucian norms (e.g., trust, righteousness, and kinship solidarity) that could enforce credit contract—continues to survive to this day, which in turn stimulates informal finance.

To test this hypothesis I exploit the historical variation across China in the number of traditional banks at the county level to account for its effect on the number of small loan companies—a dominant institution for informal financing in China currently. The preliminary results are encouraging. The number of traditional banks in the Qing dynasty has a significantly positive impact on the number (and total assets) of small loan companies today. Virtually all the effects are significant and robust to controlling for the covariates of economic prosperity, human capital, social order, and geography, among others. Moreover, using the number of Confucian temples in the late Qing period as the proxy of Confucian norms, I find that Confucian culture is a possible channel sustaining the observed long-term persistence of informal finance.

HKIMR is a great place to visit. It provides visiting fellows with a comfortable environment to conduct research dedicatedly, and has an outstanding group of scholars to collaborate with. I benefited a lot from discussions with Hongyi Chen, Matthew Yiu, Gaofeng Han, Andrew Tsang, and Ho Ting Fung, among others. Judy Kwan and Selina Cheung provided very professional administrative support.

Moreover, the HKIMR has a broad academic network, including universities and industry in Hong Kong. In my seminar during my visit, I received many helpful comments and suggestions on my project from colleagues from other institutions. All in all, this is a fruitful, fantastic visiting experience. I highly encourage others, especially young scholars, to apply for the visiting program.



HKIMR is a great place to visit. It not only provides visiting fellows comfortable environment to conduct research dedicatedly, but has an outstanding group of scholars to communicate with.

## Visiting Fellow – Chun Yu Ho



*Chun-Yu Ho is an Assistant Professor of Economics at the University of Albany, State University of New York. He is also an Associate Professor of Economics at Shanghai Jiao Tong University. Previously, he was an Assistant Professor of Economics at Georgia Institute of Technology. He received his Ph.D. from Boston University. He visited the Bank of Finland and HKIMR. His research focuses on empirical industrial organization and its applications in the banking industry.*

My current research concerns the role of foreign banks in affecting the efficiency of domestic banks in China. Although there is evidence documenting the idea that foreign banks enter into China by setting up branches through greenfield investment and acquiring equity stakes through cross-border M&As, there is no study examining whether the efficiency effects of foreign bank entry on Chinese banks depend on its entry mode. My colleague Yin-Wong Cheung from City University of Hong Kong, Jeff Han from the HKIMR, Jun Wu from Shanghai Jiao Tong University and I develop a new empirical strategy to address this important issue.

I always enjoy visiting the HKIMR. Not only does it provide me with opportunities to interact with my co-authors, it also allows me to discuss research issues with policy economists and other visitors. I look forward to visiting and presenting my work at the HKIMR in the future.

Our research shows that, first, domestic banks with a higher exposure to foreign bank branches experience lower profit efficiency and cost efficiency. In particular, foreign banks with their headquarters closer to China impose stronger pressure on the profit efficiency of domestic banks.

Second, domestic banks with a minority foreign ownership experience a higher profit, cost and non-interest income efficiencies. Foreign bank shareholder closer to China exerts a larger negative effect on cost efficiency for corporate restructuring and produces larger positive effects on non-interest and interest income efficiencies.

Our results have policy implications for the opening up of the domestic banking market to foreign banks. In particular, our results suggest that the competitive effect of introducing foreign bank branches and the spillover effect of introducing foreign bank shareholding are stronger for foreign banks with their headquarters closer to China.

In my earlier visits to the HKIMR, I conducted research on the structural estimation of deposit demand in China. My research shows that households prefer banks providing a convenient branch network and face fixed costs in switching banks. Such results imply that households may not switch banks even if they do not enjoy the services provided by their current banks. Further, since banks know that households have inertia in using their current banks, banks attract new consumers by charging service fees closer to cost. In terms of policy implications, my research suggests that banks with market power may charge prices close to cost, thus traditional measures, such as markup does not reflect the actual market power possessed by dominant banks.

I have visited the HKIMR several times and always hugely enjoy my time here. Not only does it provide me with opportunities to interact with my co-authors, it also allows me to discuss research issues with policy economists and other visitors. I look forward to visiting and presenting my work at the HKIMR in the future.

## Upcoming Activities

### Conference on the Resilience of the Regional Economies in a Turbulent Global Environment

The Hong Kong Monetary Authority and the Bank for International Settlements are planning to jointly organize a conference on Asia-Pacific Economies on October 20-21, 2016 in Hong Kong. The theme of the conference is “The Resilience of the Regional Economies in a Turbulent Global Environment”. The conference aims to bring together senior policy makers from various central banks, leading academics and experts from international organizations and the private sector to share their views in the form of an interactive roundtable discussion on the most pressing issues facing the Asia-Pacific economies.

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

The Hong Kong Institute for Monetary Research (HKIMR) will hold its Eighth Annual International Conference on the Chinese Economy in Hong Kong on **12 and 13 January 2017**.

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 “China’s Economic Rebalancing: Where is it Heading?”

Possible topics include (but not restricted to):

- Assessment on the progress of economic rebalancing (e.g. service sector developments, investment efficiency, credit and resource allocation, SOEs and other structural reforms)
- Assessment on the effects of economic rebalancing (e.g. on corporate credit risk, banks’ asset quality, productivity and potential growth)
- China’s financial sector reform and financial market development
- China’s changing monetary policy framework and reform of the exchange rate system
- Belt and Road initiative and infrastructural financing
- Impact of China’s economic rebalancing on the rest of the world

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 **14 October 2016** (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 18 November 2016.

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 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 31 December 2016.

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 programme are required to acknowledge the financial support of the HKIMR if the papers are submitted to any journals.*

## Visiting Fellows and Seminars

June – September 2016

**Chen Lin** (Hong Kong University)

July – August 2016

**Abdullah Yavas** (University of Wisconsin – Madison)

August 2016

**Paul McNelis** (Fordham University)

17 August 2016

*Land Value and Mortgage Delinquency* –  
Abdullah Yavas, University of Wisconsin –  
Madison

15 September 2016

*Central Bank Policy Impacts on the  
Distribution of Future Interest Rates* –  
Professor Douglas T. Breen, Duke  
University's Fuqua School of Business

## Recent HKIMR Working Papers

- No.16/2016** “Risk-adjusted Covered Interest Parity: Theory and Evidence” by Alfred Wong, David Leung and Calvin Ng
- No.15/2016** “The Diffusion and Dynamics of Producer Prices, Deflationary Pressure Across Asian Countries, and the Role of China” by Hongyi Chen, Michael Funke and Andrew Tsang
- No.14/2016** “Offshore Renminbi Trading: Findings from the 2013 Triennial Central Bank Survey” by Matthew S. Yiu and Yin-Wong Cheung
- No.13/2015** “A New Approach to the Estimation of Equilibrium Real Exchange Rates among East-Asian Economies” by Juan Carlos Martinez Oliva
- No.12/2015** “International Banking and Cross-border Effects of Regulation: Lessons from Hong Kong” by Kelvin Ho, Eric Wong and Edward Tan
- No.11/2016** “Pricing Corporate Bonds With Interest Rates Following Double Square-root Process” by Chi-fai Lo and Cho-Hoi Hui
- No.10/2016** “The Renminbi Central Parity: An Empirical Investigation” by Yin-Wong Cheung, Cho-Hoi Hui and Andrew Tsang
- No.09/2016** “The Impact of US Monetary Policy and Other External Shocks on the Hong Kong Economy: A Factor-augmented VAR Approach” by Hongyi Chen and Andrew Tsang
- No.08/2016** “Measuring Spillovers between the US and Emerging Markets” by Tom Pak Wing Fong, Ka Fai Li and Angela Kin Wan Sze
- No.07/2016** “Exchange Rate Dynamics and US Dollar-denominated Sovereign Bond Prices in Emerging Markets” by Cho-Hoi Hui, Chi-Fai Lo and Po-Hon Chau
- No.06/2016** “The Effectiveness of Monetary Policy in China: Evidence from a Qual VAR” by Hongyi Chen, Kenneth Chow and Peter Tillmann
- No.05/2016** “Competition and Bank Opacity” by Liangliang Jiang, Ross Levine and Chen Lin
- No.04/2016** “The Coming Wave: Where Do Emerging Market Investors Put Their Money?” by G. Andrew Karolyi, David Ng and Eswar S. Prasad

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

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**Administrative  
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Judy Kwan