

30 June 2003

Ms Salumi Chan
Clerk to Financial Affairs Panel
Legislative Council
3/F, Citibank Tower
3 Garden Road
Hong Kong

Dear Ms Chan,

**Panel on Financial Affairs
Follow-up meeting on 2 June 2003**

I refer to the letter from Ms Connie Szeto of 2 June 2003.

The expenditure incurred for the operation of the London and New York offices was HK\$12.5 million and HK\$14.6 million respectively for 2002. The main functions of the two offices include the operation of the Convertibility Undertaking outside Hong Kong trading hours (i.e. providing a round-the-clock anchor to maintain exchange rate stability), market research and surveillance, liaison with overseas regulatory authorities and representing HKMA in international meetings.

A note listing out the funding and operation of the Hong Kong Institute for Monetary Research is attached.

Yours sincerely,

(Osbert Lam)
for Chief Executive
Hong Kong Monetary Authority

Operation of the Hong Kong Institute for Monetary Research (the “Institute”)

The Institute was established in August 1999 to conduct research in the fields of monetary policy, banking and finance. The aim of the Institute is to help promote both the stability of Hong Kong’s monetary and financial systems and a deeper knowledge of these systems outside of Hong Kong.

More specifically, the Institute aims:

- to promote research on longer-term and wider policy issues/options of relevance to the monetary and financial development of Hong Kong.
- to foster co-operation and cross-fertilisation of research efforts between academics, financial market analysts and the HKMA’s research activities, and to establish links and exchanges with research institutes in Hong Kong, the Mainland and the regional economies.
- to facilitate central bank co-operation in research activities and contributing to policy analysis of strategic issues affecting monetary and financial developments in Asia.

The Institute is funded solely by the Exchange Fund. The grants from the Exchange Fund since the establishment are as follows:

	<u>(HK\$ mn)</u>
<u>Year</u>	<u>Grant from Exchange Fund</u>
2 August 1999 to end-2000	9.8
2001	8.2
2002	8.9

The Institute has a very small headcount and organisation structure. (An Executive Director of the HKMA also double up as the Director of the Institute, who is supported by just one Manager, two Research Analysts, and two clerical staff.)

Since its establishment, thirty-eight visiting fellows have been appointed to conduct research. Visiting fellows and the staff of the Institute have as of the end of May 2003 contributed fifty-nine working papers. All working papers are available to the general public at the Institute’s website (www.hkimr.org). The papers can be divided into five main economic themes: the relationship between exchange rates and the macroeconomy; the causes and consequences of financial crises; optimal currency area research; inflation targeting and financial market research. Thirty of the working papers have been published (or accepted for publication) in academic journals.

The fact that a large portion of the working papers is published in peer-reviewed journals is an indication of the high quality of the papers. (A list of working papers is at *Enclosure A*.) Following academic practice, submitted working papers are reviewed anonymously by experts, typically members of the Council of Advisers or past visiting research fellows, to ensure quality. A list of all visiting fellows is at *Enclosure B*.

The research agenda and the selection of visiting fellows are determined by the Institute's Council of Advisers. The Council, chaired by Professor Richard Wong of the University of Hong Kong, has twenty members drawn mostly from renowned economists and academics in Hong Kong and overseas. The current membership of the Council of Advisers is attached (*Enclosure C*). The role of the Advisers is to ensure that, inter alia, the quality and integrity of the research works and publications.

To foster and to promote the cross-fertilisation of research efforts between academics, financial market analysts and the HKMA's research activities, the Institute organises public seminars on a wide range of monetary and financial issues. The Institute organised fifteen, thirty and forty public seminars in 2000, 2001 and 2002 respectively. The Institute's seminars are usually attended by local academics, market practitioners and HKMA staff.

- Apart from public seminars, the Institute has organised a number of workshops and conferences to exploit the synergies between the research at the Institute, local academic institutions, central banks and international organisations.
- In addition to its own workshops and conferences, the Institute sponsored four key-note speakers at the 2000 and 2002 Biennial Conferences of the Hong Kong Economic Association. They were Prof. Robert Mundell (Nobel Prize Winner 1999), Prof. Joseph Stiglitz (Nobel Prize Winner 2001), Prof. Robert Shiller (Yale University) and Bennett McCallum (Carnegie Mellon University). Apart from these, the Institute also organises seminars, workshops and courses to promote central bank co-operation in research activities, details of which are available on the Institute's website.

研究中心的研究文章
HKIMR Working Papers

Year 2003

- No.10/2003 Dissecting the PPP Puzzle: The Unconventional Roles of Nominal Exchange Rate and Price Adjustments
by *Yin-wong Cheung, Kon S. Lai and Michael Bergman*
(forthcoming in Journal of International Economics)
- No.9/2003 An Analysis of Hong Kong Export Performance
by *Yin-wong Cheung*
- No.8/2003 The Global Implications of Regional Exchange Rate Regimes
by *Harris Dellas and George Tavlas*
- No.7/2003 Monetary Policy in Open Economies under Imperfect Information
by *Harris Dellas*
- No.6/2003 News Spillovers in the Sovereign Debt Market
by *Amar Gande and David Parsley*
- No.5/2003 FDI Contribution to Capital Flows and Investment in Capacity
by *Assaf Razin*
- No.4/2003 Business Cycle Correlations in Asia-Pacific
by *Mark Crosby*
(forthcoming in Economics Letters)
- No.3/2003 East Asian Equity Markets, Financial Crises, and the Japanese Currency
by *Y.L. Cheung, Y.W. Cheung and K.C. Ng*
- No.2/2003 Synchronized Business Cycles in East Asia and Fluctuations in the Yen/Dollar Exchange Rate
by *Ronald McKinnon and Gunther Schnabl*
(forthcoming in The World Economy)
- No.1/2003 Inflation in Hong Kong, SAR – In Search of a Transmission Mechanism
By *Hans Genberg and Laurent Pauwels*

Year 2002

- No.23/2002 Credibility and Flexibility with Monetary Policy Committees
by *Ilian Mihov and Anne Sibert*
- No.22/2002 Price Setting and Exchange Rate Pass-through: Theory and Evidence
by *Michael B. Devereux and James Yetman*
(forthcoming in Price Adjustment and Monetary Policy, Bank of Canada, 2003)
- No.21/2002 Endogenous Exchange Rate Pass-Through when Nominal Prices are Set in Advance
by *Michael B. Devereux, Charles Engel and Peter Ejler Storgaard*
(forthcoming in Journal of International Economics)
- No.20/2002 Signaling versus Commitment Strengthening: Exchange Rate Insurance against Currency Attacks
by *Y. Stephen Chiu*

- No.19/2002 Inflation Targeting in China?
by *Shu-ki Tsang*
- No.18/2002 Do We Really Know that the WTO Increases Trade?
by *Andrew K. Rose*
- No.17/2002 Foreign Exchange Exposure and Exchange Rate Arrangements in East Asia
by *David Parsley and Helen Popper*
- No.16/2002 Optimum Currency Area for Mainland China and Hong Kong? Empirical Tests
by *Shu-ki Tsang*
- No.15/2002 From 'One Country, Two Systems' to Monetary Integration?
by *Shu-ki Tsang*
- No.14/2002 Hong Kong, Singapore and the East Asian Crisis: How Important were Trade Spillovers?
by *Ramkishan S. Rajan, Rahul Sen and Reza Siregar*
(also published in The World Economy, Vol. 25 No. 4 April 2002)
- No.13/2002 Operating Performance of Banks among Asian Economies: An International and Time Series Comparison
by *Simon H. Kwan*
(also published in Journal of Banking and Finance, Vol. 27, No. 3, March 2003, pp. 471-489)
- No.12/2002 The X-Efficiency of Commercial Banks in Hong Kong
by *Simon H. Kwan*
(also a working paper of Federal Reserve Bank of San Francisco, 2002-14)
- No.11/2002 Stock Market Integration, Return Forecastability and Implications for Market Efficiency: A Panel Study
by *Ronald J. Balvers and Yangru Wu*
- No.10/2002 The Fed and the New Economy
by *Laurence Ball and Robert R. Tchaidze*
(also published in American Economic Review, Vol. 92, No. 2, pp. 108-14, May 2002)
- No.9/2002 The Full Convertibility of Renminbi: Sequencing and Influence
by *Shucheng Liu, Zhijun Zhao, Yue Ma, Matthew S. Yiu, Yak-yeow Kueh and Shu-ki Tsang*
(forthcoming in Economic Research Journal)
- No.8/2002 Banking Deregulation and Macroeconomic Impact in China: A Theoretical Analysis and Implications of WTO Accession to the Mainland and Hong Kong
by *Zhijun Zhao, Yue Ma, Yak-yeow Kueh, Shu-ki Tsang, Matthew S. Yiu and Shucheng Liu*
(also published in Economic Research Journal, Vol.6, 2002)
- No.7/2002 Does Insider Trading Raise Market Volatility?
by *Julan Du and Shang-Jin Wei*
(forthcoming in Economic Journal)
- No.6/2002 A Model to Analyze the Macroeconomic Interdependence of Hong Kong with China and the United States
by *Fuchun Jin*

- No.5/2002 Unobservable-Component Estimates of Output Gaps in Five Asia Economies
by *Stefan Gerlach and Matthew S. Yiu*
(forthcoming in Journal of Japanese and International Economies under the
title: "Estimating Output Gaps in Asia: A Cross-Country Study")
- No.4/2002 One Reason Countries Pay Their Debts: Renegotiation and International
Trade
by *Andrew K. Rose*
- No.3/2002 Monetary Policy in East Asia (and Elsewhere): Does Targeting Inflation
Require 'Inflation Targeting'?
by *Hans Genberg*
- No.2/2002 Inflation Targeting – The Holy Grail of Monetary Policy?
by *Hans Genberg*
(forthcoming in Journal of Policy Reform)
- No.1/2002 A Currency Board Model of Hong Kong
by *Yue Ma, Guy Meredith and Matthew S. Yiu*

Year 2001

- No.15/2001 Financial Constraints and Exchange Rate Flexibility in Emerging Market
Economies
by *Michael B. Devereux*
- No.14/2001 Interpreting the Term Structure of Interbank Rates in Hong Kong
by *Stefan Gerlach*
(forthcoming in Pacific-Basin Finance Journal)
- No.13/2001 Inflation Targeting in Emerging Market and Transition Economies: Lessons
after a Decade
by *Jeffery D. Amato and Stefan Gerlach*
(also published in the European Economic Review, Vol. 46, 2002, pp. 781-
790.)
- No.12/2001 International Risk-Sharing and the Exchange Rate: Re-evaluating the Case
for Flexible Exchange Rates
by *Michael B. Devereux*
(forthcoming in Journal of International Economics under a new
title: "Should the Exchange Rate be a Shock Absorber?")
- No.11/2001 Pricing in International Markets: A 'Small Country' Benchmark
By *David C. Parsley*
(forthcoming in Review of International Economics)
- No.10/2001 Exchange Rate Pass –Through in a Small Open Economy: Panel Evidence
from Hong Kong
By *David C. Parsley*
(also published in International Journal of Finance and Economics, Vol. 8, No.
2, pp. 99-107, 2003)
- No.9/2001 Taxation of Financial Intermediation Activities in Hong Kong
by *Jack M. Mintz and Stephen R. Richardson*
(also published in Tax Notes International, No. 7, 2002, pp. 771-96)

- No.8/2001 Growth and the Real Exchange Rate - Evidence from Eleven Countries
by *Mark Crosby and Glenn Otto*
- No.7/2001 Persistence of Output Fluctuations under Alternative Exchange Rate Regimes
by *Mark Crosby and Glenn Otto*
(forthcoming in Asian Economic Journal, Vol. 17, No. 3, September 2003)
- No.6/2001 Accounting for Real Exchange Rate Changes in East Asia
by *David C. Parsley*
- No.5/2001 Offshore Investment Funds: Monsters in Emerging Markets?
by *Woochan Kam and Shang-Jin Wei*
(also published in Journal of Development Economics, Vol. 68, No. 1, pp. 205-24, June 2002)
- No.4/2001 After the Crisis, the East Asian Dollar Standard Resurrected: An Interpretation of High Frequency Exchange Rate Pegging
by *Ronald I. McKinnon*
(also published in J. Stiglitz and S. Yusuf (eds.), *Rethinking the East Asian Miracle*, World Bank and Oxford University Press, pp. 197-246, May 2001)
- No.3/2001 Effects of US Inflation on Hong Kong and Singapore
by *Yin-Wong Cheung and Jude Yuen*
(also published in Journal of Comparative Economics, Vol. 30, No. 3, pp. 603-19, September 2002)
- No.2/2001 Currency Substitution between Hong Kong Dollar and Renminbi in South China
by *Kenneth S. Chan*
(also published in Pacific Economic Review, Vol. 7, No. 1, pp. 37-50, February 2002)
- No.1/2001 The Internationalisation of Hong Kong Dollar: An Analytical Framework
by *Kenneth S. Chan*

Year 2000

- No.11/2000 Hong Kong Output Dynamics: An Empirical Analysis
by *Yin-Wong Cheung*
(also published in Pacific Economic Review, Vol. 7 No. 3, pp. 465-87, October 2002)
- No.10/2000 Impact of Deposit Rate Deregulation in Hong Kong on the Market Value of Commercial Banks
by *Simon H. Kwan*
(forthcoming in Journal of Banking and Finance)
- No.9/2000 Mundell Revisited: A Simple Approach to the Costs and Benefits of a Single Currency Area
by *Stephen Ching and Michael B. Devereux*
(forthcoming in Review of International Economics)
- No.8/2000 Risk Sharing and the Theory of Optimal Currency Areas: A Re-examination of Mundell 1973
by *Stephen Ching and Michael B. Devereux*
- No.7/2000 Exchange Rates and Monetary Policy in Emerging Market Economies

by *Michael B. Devereux and Philip R. Lane*

- No.6/2000 The Transfer Problem Revisited: Net Foreign Assets and Real Exchange Rates
by *Philip R. Lane and Gian Maria Milesi-Ferretti*
- No.5/2000 The Foreign Exchange Origins of Japan's Economic Slump and Low Interest Liquidity Trap
by *Ronald McKinnon and Kenichi Ohno*
(also published in The World Economy, Vol.24 No.3, pp. 279-315, March 2001)
- No.4/2000 Monetary Policy in the Open Economy Revisited: Price Setting and Exchange Rate Flexibility
by *Michael B. Devereux and Charles Engel*
- No.3/2000 Exchange Rate Volatility and Macroeconomic Performance in Hong Kong
by *Mark Crosby*
(forthcoming in Review of Development Economics)
- No.2/2000 Contagion Effects, Informational Effects, and Economic Fundamentals: An Analysis of Exchange Rate Dynamics During the Asian Currency Crisis
by *Kam-hon Chu, Bob Y.C. Chan and Chor-yiu Sin*
- No.1/2000 Banking and Currency Crises: How Common Are the Twins?
by *Reuven Glick and Michael Hutchison*
(also published in R. Glick, R. Moreno and M.N. Spiegel (eds.), *Financial Crises in Emerging Markets*, Chapter 2, pp. 35-69, Cambridge University Press, 2001)

截至 2003 年 6 月 11 日止研究中心委任的研究員
List of HKIMR Research Fellows
as of 11 June 2003

	<u>研究員</u> Research Fellow	<u>機構</u> Organisation	<u>委任期</u> Period
1.	Dr. Stephen Ching	City University of Hong Kong	March-June 2000
2.	Mr. Dan Huynh	Bank of England	February-June 2000
3.	Dr. Yue Ma	Lingnan University of Hong Kong	July 2000
4.	Dr. Chander Kant	Setor Hall University, U.S.A.	July-November 2000
5.	Dr. Kenneth Chan	McMaster University, Canada	May-August 2000
6.	Dr. Glenn Otto	University of New South Wales, Australia	January-February 2001
7.	Dr. Shang-jin Wei	The Brookings Institution	February-June 2001
8.	Dr. Ramkishan Rajan	University of Adelaide, Australia	April-July 2001
9.	Dr. Zhi-jun Zhao	Chinese Academy of Social Services	May-August 2001
10.	Dr. Stephen Chiu	University of Hong Kong	June-August 2001
11.	Prof. Shucheng Liu	Chinese Academy of Social Services	July-October 2001
12.	Prof. Shu-ki Tsang	Hong Kong Baptist University	October-December 2001
13.	Dr. Simon Kwan	Federal Reserve Bank of San Francisco	May-August 2000
14.	Dr. Mark Crosby	University of Melbourne, Australia	January-February 2000 January-February 2001 January-February 2002
15.	Dr. David Parsley	Vanderbilt University, U.S.A.	March-June 2000 March-June 2001 March-June 2002
16.	Dr. James Yetman	University of Hong Kong	April-July 2002
17.	Prof. Anne Sibert	University of London	May-June 2002
18.	Prof. Laurence Ball	John Hopkins University, U.S.A.	July-August 2001 January 2002 July 2002
19.	Dr. Fuchun Jin	China Centre for Economic Research, Peking University	January-May 2001 July-September 2002 January-February 2003
20.	Prof. Hans Genberg	Graduate Institute of International Studies, Geneva, Switzerland	August-September 2001 July-September 2002

	研究員 <u>Research Fellow</u>	機構 <u>Organisation</u>	委任期 <u>Period</u>
21.	Prof. Assaf Razin	Cornell University, U.S.A. and Tel Aviv University, Israel	August 2002
22.	Prof. Andrew Rose	University of California at Berkeley	August 2002
23.	Prof. Paul De Grauwe	University of Leuven, Belgium	September 2002
24.	Dr. Boris Hofmann	University of Bonn, Germany	September-November 2002
25.	Prof. Harris Dellas	University of Bern, Switzerland	September-October 2002
26.	Ms. Joanne Cutler	Bank of England	October 2002 – February 2003
27.	Dr. O’lan Henry	University of Melbourne, Australia	October-December 2002
28.	Prof. Lars Svensson	Princeton University, U.S.A.	December 2002
29.	Prof. Shun-hua Shen	National Cheng-chi University, Taiwan	December 2002 – February 2003
30.	Prof. Salih Neftci	City University of New York, U.S.A.	December 2002 – January 2003
31.	Prof. Viv Hall	Victoria University of Wellington, New Zealand	January-March 2003
32.	Prof. Michael Funke	Hamburg University, Germany	February 2003
33.	Dr. Weshah Razzak	Labour Department, Government of New Zealand	February-April 2003
34.	Prof. William Branson	Princeton University, U.S.A.	August-November 2002 May-June 2003
35.	Dr. Elena Branson	Moscow State University, Russia	August-September 2002 May-June 2003
36.	Dr. Yangru Wu	Rutgers University, U.S.A.	June-September 2002 May-June 2003
37.	Prof. Yin-wong Cheung	University of California at Santa Cruz, U.S.A.	June-September 2000 June-July 2002 June-September 2003
38.	Prof. Michael Devereux	University of British Columbia, Canada	February-June 2000 June-July 2001 June-July 2002

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Hong Kong Institute for Monetary Research
11 June 2003