



中央财经大学

金融学院

Central University of Finance and Economics
School of Finance



Deutsche Gesellschaft für
Internationale Zusammenarbeit



Deutsches Institut für
Entwicklungspolitik

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中央财经大学金融学院
中央财经大学国际金融研究中心
德国国际继续教育与发展协会 (GIZ)
德国发展研究所

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**School of Finance, Central University of Finance and Economics
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
German Development Institute (DIE)**

Workshop on

**“Financial Stability in Emerging Markets:
Dealing with Global Liquidity”**

Beijing, 21 October 2011

Background

Most emerging market economies have weathered the global financial crisis reasonably well and their recoveries have been faster and more sustained than in most advanced economies. While the central banks of the major advanced economies continue their expansionary monetary policy aimed at stabilising financial sectors and economic recovery, emerging economies have already started with monetary tightening. The resulting widening of interest rate differentials between currencies and the associated carry trade are now leading to an inflow of short-term capital to emerging economies with higher yields. Debt problems in European countries and the US further increase the attractiveness of channelling investment to emerging economies. These capital inflows create inflationary pressure as well as appreciation pressure on currencies. The latter has led to fears of a currency war with beggar-thy-neighbour policies and competitive non-appreciation. Moreover, excessive capital inflows increase the risk of fuelling new asset price bubbles in financial and real estate markets in emerging economies and might create severe problems in case of a sudden stop or reversal of capital flows. Against this backdrop, the workshop will discuss the risks originating from excess global liquidity for inflation and the development of new bubbles in emerging economies. It will analyse how emerging economies can respond to capital flows through capital account and exchange rate management and macroprudential regulation and discuss the associated challenges for international monetary cooperation. It will also address the specific policy options for countries with high savings surpluses, such as China and Germany, taking into account the Mutual Assessment Process and the commitment for coordinated policy action in the framework of the G20.

Conference Concept

This CUFE-GIZ-DIE-dialogue aims to bring together experts from emerging and advanced countries to discuss the challenges posed by global liquidity and international capital flows to emerging economies. It will provide a platform for mutual learning and peer-to-peer discussion about the challenges for strengthening global economic cooperation and securing financial market stability and development in order to enable global growth and sustainable development.

The workshop will place particular emphasis on an exchange between government officials and academics to address the public policy-oriented issues related to macroeconomic and financial stability and global economic governance. It will bring together policy makers and policy advisors from relevant public institutions and academic research from China and other Asian countries with their peers from international and German bodies.

The in-depth exchange of academic and policy analysis should help to shape policy responses to the challenges of global liquidity and the adverse effects of capital flows to emerging countries. The discussion on policy alternatives and networking opportunities offer a starting point for future coordinated action by devising cooperative policies on the national level as well as in the framework



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of the G20 and in multilateral institutions. The workshop is expected to generate ideas for future policy cooperation. A conference report with key messages from the conference discussions will be distributed.

Programme

08:50 – 09:10 **Welcome and Opening Remarks**

Liqing Zhang, Dean, School of Finance, Central University of Finance and Economics (CUFE), Beijing

Sebastian Paust, Member of the Management Board, GIZ

09:10 – 10:30 **Keynote Speeches: “Global Rebalancing with Financial Stability: Challenges and Opportunities”**

Yongding Yu, Senior Fellow, Institute of World Economy and Politics, CASS

Menzie D. Chinn, Professor of Public Affairs and Economics, Robert M. La Follette School of Public Affairs and Department of Economics, University of Wisconsin, Madison

10:30 – 10:40 **Coffee Break**

10:40 – 12:30 **Session 1: Global Liquidity – Consequences and Policy Options**

This session will discuss the impact that expansionary monetary policies in the major economies and the resulting increase in global liquidity have on international commodity and food prices and on asset prices in emerging economies. It will examine possible linkages between the development of potential asset price bubbles in financial and real estate markets in emerging economies and global macroeconomic conditions. It will also consider the findings of the G20's Mutual Assessment Process regarding international interdependencies and policy spillovers, and adequate policies for adjustment to resulting imbalances.

Chair: **Haihong Gao**, Director, Department of International Finance, Institute of World Economy and Politics, CASS

Input 1: "Do Capital Inflows into China Fuel Asset Bubbles?"
Liqing Zhang, Dean, School of Finance, CUFE, and **Zhigang Huang**, Assistant Professor, School of Finance, CUFE

Comment: **Bernd Braasch**, Director, Financial Stability Department, Deutsche Bundesbank

Input 2: "The Effect of Global Liquidity on Commodity and Food Prices"
Ulrich Volz, Senior Researcher, German Development Institute (DIE), Bonn

Comment: **Dantao Zhu**, Division Chief and Senior Fellow, Development Research Center (DRC), Beijing

Input 3: "Macroeconomic policy options for surplus countries – Recommendations from the Mutual Assessment Process"



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Comment: **Krishna Srinivasan**, Head, Multilateral Surveillance Unit, IMF, Washington DC
Wei Benhua, Director, ASEAN+3 Macroeconomic Research Office (AMRO),
Singapore

12:30 – 13:30 **Lunch**

13:30 – 15:20 **Session 2: Dealing with International Capital Flows**

This session will discuss policy options for emerging economies to respond to risks stemming from a surge in capital inflows. It will discuss macroprudential regulation as a policy tool for responding to capital inflows, and analyse the People's Bank of China's monetary policy response to global liquidity and inflationary pressures from capital inflows. It will also examine the Korean experience with capital account management and the lessons that can be derived for other emerging economies.

Chair: **Peter Wolff**, Head of Department, World Economy and Development Financing,
German Development Institute (DIE), Bonn

Input 1: "China's Monetary Policy Response to Global Liquidity",
Pu Yongxiang, Division Chief, Research Department, People's Bank of China,
Beijing (tbc)

Comment: **Gunther Schnabl**, Professor of Economics, University of Leipzig

Input 2: "Macroprudential Regulation and Capital Inflows"
Zhang Xiaopu, Deputy Director, Supervisory Rules & Regulations Department,
China Banking Regulatory Commission, Beijing

Comment: **Thorsten Giehler**, GIZ, Beijing

Input 3: "The Korean Experience with Capital Account Management"
Yung Chul Park, Research Professor and Director, Center of International
Commerce and Finance, Seoul National University, Seoul

Comment: **Jie Li**, Associate Professor and Director of Research Centre of Foreign Exchange
Reserve

15:20 – 15:30 **Coffee Break**

15:30 – 17:30 **Panel Discussion: International Capital Flows and the International Monetary System**

This panel discussion will look into the flaws of the international financial and monetary system and discuss proposals for addressing these weaknesses. It will pay particular emphasis on how the current system can be made more resilient and what role international cooperation can play in crisis prevention and resolution. Questions to be discussed include:

What areas should be given priority in the reform of the international monetary and financial system?

Can the G20 process contribute to a reduction of global imbalances?

Do we need a global financial safety net?

What role can the IMF play in crisis prevention, e.g. through precautionary crisis lending?

What is the case for regional financial and monetary cooperation in the face of a stalling reform of the international financial architecture?



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Chair:

Liqing Zhang, Dean, School of Finance, Central University of Finance and Economics (CUFE), Beijing

Menzie D. Chinn, Professor of Public Affairs and Economics, Robert M. La Follette School of Public Affairs and Department of Economics, University of Wisconsin, Madison

Yung Chul Park, Research Professor and Director, Center of International Commerce and Finance, Seoul National University, Seoul

Gunther Schnabl, Professor of Economics, University of Leipzig

Krishna Srinivasan, Head, Multilateral Surveillance Unit, IMF, Washington DC

Yongding Yu, Senior Fellow, Institute of World Economy and Politics, CASS

18:15 – 20:15 **Conference Dinner**