The 1st Annual Magyar Nemzeti Bank Institute – Fudan Fanhai Workshop

Thursday, 28th September 2023

9:00 am – 13:35pm (Budapest Time) / 15:00 pm – 19:35 pm(Beijing Time)

The webinar will be livestreamed at **Zoom**
(Meeting ID: 402 327 2104 / Password: 111222)

Welcome & Opening Remarks

15:00 – 15:20	**Opening Remarks -** *Jun Qian*, *Professor of Finance, Executive Dean, FISF*

Session 1	**Session Chair:** *Gábor Malatinszky, Senior Researcher, MNB*

15:20 – 15:50 **Drivers of the Global Financial Cycle**
By Wenbin Wu, Associate Professor of Finance, FISF

Abstract: Existing literature has documented the existence of a Global Financial Cycle (GFC) that can be captured by a unique factor extracted from a set of risky asset prices. Miranda-Agrippino & Rey (2020) find that US monetary policy has powerful spillover effects on the GFC and is the key driver of it. We re-examine this using a large-scale heteroskedasticity-based SVAR model and a stochastic volatility SVAR model. Both approaches allow for simultaneous identification of multiple shocks without having to rely on timing or sign restrictions. Using data from 1980-2019, we find that financial shocks--- which include shocks to US corporate bond spreads (or the excess bond premium, EBP), term premium, and leverage---have large effects on the global financial cycle and are the most important driver of it. Shocks to US corporate bond spreads are the most important, accounting for nearly 50-70% of the variance in the short run. In the medium run (2-3 years), shocks to credit spreads still account for about 30-40%, and shocks to leverage account for about 20%. US monetary policy shocks account for only about 20% of the GFC factor in the long run and considerably less in the short run. Our results suggest that the hegemon of the US in global financial systems may be rooted in its powerful financial intermediaries rather than the Fed itself.

15:50 – 16:20 **Aspiration Levels and Asset Prices**
By Gábor Neszveda, Associate Professor of Finance at MNB Institute, John von Neumann University, Hungary, and Head of Department at the Central Bank of Hungary

Abstract: We develop a consumption-based asset pricing model with novel preferences. Our representative agent derives utility not only from a consumption stream, but also directly from the performance of her financial portfolio. Our model can generate a highly volatile stock market return and excess return with stochastic mean and stochastic volatility, and a time-varying (but stable) risk-free rate. The means and standard deviations of our model-implied returns and excess return match closely their empirical counterparts. Our stock market return exhibits weak negative autocorrelation over the medium and long run, and it can be predicted by the dividend yield. Our model-implied price-dividend ratio is highly volatile and exhibits strong positive autocorrelation. Furthermore, our model implies time-varying pro-and countercyclicality of the interest rate dynamics, low correlation

between consumption growth and stock market returns, and it can reproduce the occasional occurrence of negative risk premia.

16:20 – 16:50 **Portfolio Flows, Household Rebalancing, and House Prices**

By Chang Ma, Associate Professor of Finance, FISF

Abstract: We study how cross-border portfolio flows affect households' portfolio rebalancing and house price expectations. Estimating both a difference-in-differences regression around a specific inflow episode and continuous treatment specifications on household level data from the ECB's Household Finance and Consumption Survey over the period 2009-2018, we find that portfolio flows induce households with larger ex-ante bond and equity shares to rebalance more strongly towards housing. The effect is not driven by higher pre-treatment access to credit or higher credit growth during the treatment period. The effects are stronger for wealthier and less risk-averse households. We also find that portfolio flows, unlike direct investments or credit flows, predict aggregate house prices and that portfolio rebalancing is associated with higher household-level house price expectations.

16:50 – 17:50 **Break**

Session 2	Session Chair:
	Xiaxin Wang, Associate Professor of Economics, FISF

17:50 – 18:20 **Endogenous Kink Threshold Regression**

By Chaoyi Chen, Assistant Professor at MNB Institute, John von Neumann University, Hungary, and Researcher at the Central Bank of Hungary

Abstract: This paper considers an endogenous kink threshold regression model with an unknown threshold value in a time series as well as a panel data framework, where both the threshold variable and regressors are allowed to be endogenous. We construct our estimators from a control function approach and derive the consistency and asymptotic distribution of our proposed estimators. Monte Carlo simulations are used to assess the finite sample performance of our proposed estimators. Finally, we apply our model to analyze the effects of COVID-19 cases on the US and Canadian labor markets. We demonstrate that, although the impact of COVID-19 on unemployment is significantly positive in both regimes, the magnitude is more prominent if the case number exceeds a certain level.

18:20 – 18:50 **Bond Financing Channel of Monetary Policy: Evidence from Chinese Policy Bank Lending**
By Yi Huang, Professor of Finance, Assistant Dean, FISF

Abstract: Using granular loan-level data from a policy bank in China, we examine the lending response to bond financing costs fluctuation incurred by monetary policy shocks. Tighter monetary policy increases loan rate and loan spread, at the same time reduces loan volume and improves loan quality. The pass-through of monetary policy is genuinely heterogeneous—stronger during monetary contractions and market-oriented reform period, among manufacturing firms, in firms with more default risks, and in areas with lower income, weaker fiscal capacity, and smaller banking penetration.

18:50 – 19:20   **Estimation of Nonlinear Effects of the Fed's Interest Rate Policy Using the Generalized Propensity Score**
By Balázs Vonnák, Associate Professor at MNB Institute, John von Neumann University, Hungary, and Senior Researcher at the Central Bank of Hungary

Abstract: This paper presents a novel methodology for estimating the effect of the Fed's interest rate decisions on the main macro variables. The estimator is based on the generalized propensity score. The main advantage of using the propensity score is the reduction of dimensionality, which allows estimation of nonlinear effects even from short time series. According to the results, monetary policy exerts a fast and significant impact on GDP and consumer prices when the interest rate is high. In a low interest rate environment, however, conventional monetary policy loses its effectiveness.

19:20 – 19:35   **Closing Remarks -** *Kristóf Lehmann, the head of the MNB Institute at John von Neuman Univeristy and the director of the Directorate for International Monetary Policy Analysis and Economic Sciences at the MNB*

Speakers

Wenbin Wu

Associate Professor of Finance, Fanhai International School of Finance, Fudan University

Professor Wenbin Wu's research interests mainly focus on Monetary Economics and International Finance. He was awarded 2023 FISF Faculty Recognition Award (FMBA PT), 2018 & 2020 FISF Research Excellence Award, and sponsored by Shanghai Pujiang Program 2018. He was supervised by the world-renowned American economist, James D. Hamilton. He has published various papers on the academic journals such as *Journal of Monetary Economics*，*Review of Economic Dynamics*, *Journal of Money, Credit and Banking, and Journal of International Money and Finance, etc.*

Gábor Neszveda

Associate Professor of Finance at MNB Institute, John von Neumann University, Hungary, and Head of Department at the Central Bank of Hungary

After graduating at Tilburg University, Netherlands, in behavioral finance, he joined the Central Bank of Hungary in 2017. His main research interests are behavioral economics and finance including decision-making, investments, and policymaking. He was a member of a two-year research grant in Hong Kong, and he received the Corvinus Research Excellence Award in 2021 and the John von Neumann University Excellence Award in 2022 in the Best Paper category.

Chang Ma

Associate Professor of Finance, Fanhai International School of Finance, Fudan University

Professor Ma has worked at the IMF as a summer intern in 2016 and has been a visiting researcher at Bank of Finland in 2020 and HKIMR in 2022.Professor Ma's research focuses on International Finance, Macroeconomics and Macroprudential Policy. His paper has been published in leading academic journals including *Review of Financial Studies, Journal of International Economics, Journal of the European Economic Association,* etc. His research is widely featured in the *Wall Street Journal, UNIDO, VoxEU, VoxChina,* etc. He has won the 2019/2020 FISF Research Excellence Award and 2020 Pu Shan Young Scholars Academic Paper Award, and was sponsored by 2019 Shanghai Pujiang Program and 2020 National Natural Science Funds Young Talents Funds Program.

Chaoyi Chen

Assistant Professor at MNB Institute, John von Neumann University, Hungary, and Researcher at the Central Bank of Hungary

Professor Chen's research interests mainly focus on Econometrics. His is also interested in empirical macroeconomics and financial econometrics. His paper has been published in academic journals including *Econometric Reviews*, *Journal of Empirical Finance*, etc. He was awarded 2020 Distinguished Scholar Medal from the Gordon S. Lang School of Business and Economics at the University of Guelph in Canada.

Yi Huang

Professor of Finance, Assistant Dean of Fanhai International School of Finance, Fudan University

Prior to joining Fudan in 2021, Professor Huang was Pictet Chair in Finance and Development and associate professor at the Graduate Institute of International and Development Studies (Geneva, Switzerland) and a research affiliate at the Center for Economic and Policy Research (CEPR), the Asian Bureau of Finance and Economic Research (ABFER) and Academic Fellow at the Luohan Academy. Prof. Huang was an economist in the research department of the International Monetary Fund (IMF). Prof. Huang's research consists of international macro and finance, digital economics & fintech, international capital market and entrepreneurship &innovation. His recent research focuses on the influence of corporation's financing and investment to financial market in the era of globalization and digital age. His research is published in academic journals such as the *Review of Economic Studies, Journal of Finance, Management Science and Journal of International Economics.*

Balázs Vonnák

Associate Professor at MNB Institute, John von Neumann University, Hungary, and Senior Researcher at the Central Bank of Hungary

Previously, he was the head of Monetary Strategy Division and the director of Financial System Analysis at the MNB. Professor Vonnák's main research interest is in Macroeconomics, Monetary Policy and Time Series Econometrics.