

# International Financial Centre

Continuing regional turmoil in 1998 and the eruption of interconnected crises in many other parts of the world demonstrated the extent to which financial markets have become globalised: they also revealed serious problems in the international financial architecture. Throughout 1998 the HKMA played a prominent role in seeking solutions to these problems: it also stepped up its efforts to promote Hong Kong as a major international financial centre.

## Overview

Nineteen-ninety-eight was been an exceptionally eventful and challenging year on the external front. The Asian financial crisis developed into a global emerging market crisis and even mature markets, such as the US, were affected. Many international organisations and forums were active during the year in debating the causes of the crisis, finding ways to facilitate the recovery of crisis-hit economies, and working out approaches to prevent such crises in the future. Hong Kong, as a major international financial centre, has been active, through these multilateral discussions, in contributing to collaborative efforts aimed at strengthening the international financial architecture.

Against a backdrop of global financial turmoil, the Hong Kong dollar came under several rounds of

increasingly sophisticated speculative attacks in 1998. In August, the HKMA countered such attacks with unconventional measures that have preserved confidence and successfully defended the Hong Kong dollar and the linked exchange rate system. It was a major task for the HKMA to explain to both local and international financial communities the rationale behind these actions and the subsequent measures to strengthen our currency board system. The HKMA reaffirmed Hong Kong's commitment to maintaining the Hong Kong dollar link and to preserving free market principles.

Meanwhile, the HKMA continued its efforts in promoting the status of Hong Kong as a major international financial centre through organising various roadshows, seminars, conferences and other related activities.

## Achievements

### Strengthening of international financial architecture

The global financial crisis revealed itself to be highly contagious and demonstrated how integrated and interdependent the global financial system has become: it also underlined the deficiencies of the present system for preventing and resolving crises. It has become increasingly clear that volatile capital flows and the development of financial markets have outgrown the international financial system.

As a leading international financial centre, Hong Kong has actively participated in a series of international and regional initiatives to reform the international financial architecture. This participation has been advanced through the HKMA's continuing dialogue with industrial and emerging market economies with the aim of increasing the stability of the global financial system and fostering regional co-operation. The focus has been on enhancing the transparency and accountability of the public sector, the private sector and international financial institutions, as well as on promoting safe and sound capital flows and the global capacity to cope with financial crises.

Throughout 1998, the HKMA was engaged in the G22 process and its three working groups. The HKMA co-chaired one of these groups, the Working Group on Transparency and Accountability, which drew up a framework of recommendations for disclosure in both the public and private sectors. We also participated in one of the other two working

groups, the Working Group on International Financial Crises, which studied approaches to preventing and resolving financial crises, including burden-sharing by the private sector in the workout of financial crises. Some of the recommendations, in particular those on enhancing disclosure requirements for market participants, have been followed up by the Basle-based Euro-currency Standing Committee (now renamed the Committee on the Global Financial System). The HKMA participated in two of this Committee's sub-groups – the Working Group on Enhanced Disclosure by Individual Institutions and the Working Group on Enhanced Transparency Regarding Aggregate Positions.



Bilateral meeting between the HKMA and the Reserve Bank of Australia, 16 October 1998.

In parallel, the HKMA has also been active in other forums. At the meeting of APEC Finance Ministers in Kananaskis, Canada in May 1998, the Ministers invited Hong Kong to co-ordinate a collaborative initiative to promote the development of domestic bond markets. This is an important ingredient in helping economies to improve their intermediation process and avoid reliance on volatile capital flows. For this purpose, Hong Kong convened a workshop

on 18 December 1998. Representatives from APEC member economies, together with participants from international financial institutions and the private sector, met in Hong Kong to discuss technical issues relating to the development of domestic bond markets in the Asia-Pacific region.

At the workshop, the HKMA presented the findings of a survey on the potential for the development of bond markets in Asian economies. After reviewing the current state of the debt market in the Asia-Pacific region and the factors affecting market development, the member economies agreed to explore measures to set up a website as a resource centre and to draw up guidelines on best market practices. These projects will help member economies to develop further their domestic bond markets.

**Reinforcing the status of Hong Kong as an international financial centre**

During the year, HKMA senior executives continued their efforts to promote understanding of the monetary autonomy of Hong Kong under the "one country, two systems" principle enshrined in the Basic



Chief Executive Joseph Yam (fourth from right) at the Roadshow to Tokyo on 3 March 1998. The Roadshow was co-organised by the HKMA and the Hong Kong Trade Development Council.

Law of the Hong Kong Special Administrative Region. They were also active in explaining the operation of the Hong Kong dollar linked exchange rate mechanism and the handling of the speculative attacks in Hong Kong.

In 1998, the HKMA organised a number of well received roadshows to Tokyo, New York, London, Sydney, Melbourne and Paris. These seminars were organised jointly with various bodies such as the Hong Kong Trade Development Council, the national central banks or the relevant Hong Kong Economic and Trade Offices.



Deputy Chief Executive Norman Chan (third from right) attending the Roadshow to New York on 5 March 1998. The Roadshow was co-organised by the HKMA and the Hong Kong Trade Development Council.

Within Hong Kong, the HKMA has been active in bringing influential and distinguished central bankers and visitors from the international financial and academic community to seminars and lectures in Hong Kong to help them better understand the functioning of Hong Kong's monetary and financial systems.

In January 1998, Dr Willem Duisenberg, President of the European Monetary Institute, delivered the keynote address at the Second HKMA Distinguished

Lecture to review the process of transition and the international role of the euro. Mr. Akira Nagashima, former Deputy Governor of the Bank of Japan, was the discussant for the Lecture. The Lecture was very well received by the participants and was well covered by the media.

The Bank for International Settlements (BIS) opened its Representative Office for Asia and the Pacific in Hong Kong on 11 July 1998. The first overseas office of the BIS, this office serves as a regional centre for the activities of the BIS in Asia. The Chief Executive of the Hong Kong SAR hosted a reception for many G10 and regional central bank governors attending the opening ceremony.



HKMA Chief Executive Joseph Yam in conversation with the Chairman of the US Federal Reserve Board, Alan Greenspan.

### **Regional monetary co-operation and participation in multilateral agencies**

On regional monetary co-operation, the HKMA continued to foster bilateral relationships with regional central banks and held periodic meetings to exchange views on economic development, banking supervisory matters, co-operation in the development of financial infrastructure, and other areas.

The HKMA continued its active participation in the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP). Three working groups have been established under EMEAP to examine central banking issues, including payment and settlement systems, financial market development and banking supervision. The HKMA chairs the Working Group on Banking Supervision. In July 1999, the HKMA will host the Fourth EMEAP Governors' meeting in Hong Kong.

To keep close track of developments in international finance, the HKMA continued to participate in the annual meetings of the Asian Development Bank, the International Monetary Fund and the World Bank. The HKMA is an observer in the OECD Committee on Financial Markets to monitor developments in international financial markets. The HKMA has seconded staff to the OECD in Paris and to the World Bank representative office in Beijing to support the work of such bodies and to broaden our staff exposure.

## Challenges

The Asian financial turmoil highlighted the importance of Hong Kong as an international financial centre and the pivotal role that we can play in the region. The long-term measures to prevent or resolve future turmoil require concerted and collective action within the region and throughout the international community. These preventive measures should include reforms to the international financial architecture to enable it to cope with sophisticated financial markets and volatile capital flows.

The HKMA will continue its efforts to strengthen central bank co-operation, in close liaison with multilateral organisations and in the forums established to maintain global and regional monetary and financial stability.