

International Financial Centre

In 2000 the HKMA continued to play an active role in promoting reforms to the international financial architecture. Within the Asia-Pacific Region, the HKMA also continued to lead initiatives aimed at strengthening the infrastructure of the domestic and regional debt markets.

| Overview |

2000 was a year of robust economic recovery for both Hong Kong and the region. To keep Hong Kong in the forefront of international financial and monetary developments, the HKMA continued to participate actively in various international, multilateral and regional forums contributing to the reform of the international financial architecture. This participation is also important in promoting international understanding of, and support for, monetary and banking policies in Hong Kong, and is therefore crucial to Hong Kong's ability to maintain its competitiveness and its role as an international financial centre.

The HKMA also continued its regular bilateral meetings with other central banks in the region. With the growing integration of international financial markets, the meetings provide important opportunities for sharing information about financial developments so as to facilitate the proper oversight of financial markets and the prudential supervision of financial institutions, and thereby to enhance regional monetary and financial stability. To strengthen financial intermediation for domestic and regional savings to fund economic development and recovery, the HKMA devoted considerable efforts to promoting the development of domestic and regional debt markets.

Meanwhile, the HKMA continued to promote the status of Hong Kong as a major international centre through participating in various roadshows, and organising seminars, conferences and other related activities. Hong Kong's position as the premier international financial centre in the region was underscored by the opening of the new offices of the International Monetary Fund (IMF), International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD).

| Achievements in 2000 |

Reforming the international financial architecture

It has become increasingly clear from the Asian financial crisis that the present international financial system cannot effectively deal with systemic crisis and the risks associated with globalisation, the integration of financial markets, and volatile capital flows. Recognising these issues, the international financial community has accorded a high priority to building a more robust international financial architecture. The HKMA actively supports these international initiatives.

In the second half of 1999, the HKMA joined the Financial Stability Forum (FSF), a leading international forum established by the G-7 countries with a view to promote international financial stability through enhanced information exchange and co-operation in financial supervision and surveillance. Through active participation in the FSF Working Group on Highly Leveraged Institutions (HLIs), the HKMA has been instrumental in promoting a better understanding and recognition of the concerns about the potential destabilising impact of large HLIs on small and medium-sized open economies, such as Hong Kong.

In addition, as a follow-up to the recommendation of the Working Group, the HKMA has worked with a small group of central banks, including the Federal Reserve Bank of New York, to encourage a private sector task force to develop model guidelines on good trading practices in the foreign exchange markets. The task force has developed a set of model guidelines, which were promulgated in February

2001. The next stage is for the international code-writers and foreign exchange and market practices committees in major international financial centres to consider adopting these guidelines.

Domestically, the HKMA has reviewed the domestic framework for monitoring capital flows in Hong Kong, and has compared the framework with those of developed and regional economies. A number of initiatives have been agreed with the relevant regulatory authorities in Hong Kong to strengthen the domestic surveillance framework. Returns from authorized institutions will be improved with a view to obtaining more data on foreign exchange market activities. The Census and Statistics Department will collect portfolio investment flow statistics on a monthly basis.

Regional monetary co-operation and participation in multilateral institutions

The HKMA continued to play an active role in multinational institutions and central banking forums to keep Hong Kong in the forefront of financial and monetary development.

The HKMA participated actively in the Executives' Meeting of the East Asia and Pacific Central Banks (EMEAP) and its working groups. The HKMA is a member of the EMEAP Working Group on Financial Markets and Working Group on Payment & Settlement Systems, and chairs the Working Group on Banking Supervision. The HKMA hosted the EMEAP Deputies' Meeting and the Working Group on Financial Markets Meeting in March 2000.



The HKMA plays host to central bank representatives attending the 19th EMEAP Deputies' Meeting.



At the 6th Meeting of Finance and Central Bank Deputies of the Manila Framework Group, Chief Executive Joseph Yam (standing) and Deputy Chief Executive Norman Chan (3rd from right) represent the HKMA on the chairing panel.

The HKMA plays an active role in other regional groups, such as the Four Markets Meeting, Regional Foreign Exchange Markets Monitoring Meeting, G-20 Meetings, Central Banking Group of South East Asia, New Zealand and Australia (SEANZA) as well as the G-10 Committee on the Global Financial System Meetings. In March 2000, the HKMA hosted the Sixth Meeting of the Manila Framework Group, which discussed regional economic and financial surveillance, progress in the reform of the international financial architecture, and surveillance of cross-border capital flows.

The HKMA participated in the Asia-Pacific Economic Co-operation (APEC) Finance Ministers Meeting to discuss the regional economy and measures to ensure the sustainable growth necessary for increased economic prosperity in the

region. The HKMA represented Hong Kong in the negotiations for the Seventh Replenishment of the Asian Development Fund (ADF VIII), a concessionary lending facility of the Asian Development Bank (ADB) for the poorest people in the region. In December 2000, the Finance Committee of the Legislative Council approved Hong Kong's contribution of \$127 million (or US\$16.28 million) to ADF VIII. The Observer Status of Hong Kong in the OECD Committee on Financial Markets has been renewed.

To keep close track of international finance, the HKMA actively participated in the activities of the IMF, the BIS and the ADB. The HKMA also organised functions jointly with these institutions in Hong Kong. In December 2000, the HKMA held a seminar on sovereign debt management jointly with the IMF and the IBRD.



The Regional Conference on Public Debt Management jointly organised by the HKMA, the IMF and the IBRD.

With the aim of furthering regional monetary co-operation, the HKMA continued to foster bilateral contacts with regional central banks. During the year, the HKMA has held bilateral meetings with the Reserve Bank of Australia and the Monetary Authority of Singapore.

Strengthening Hong Kong's status as an international financial centre

The IMF Hong Kong Sub-Office of the Resident Representative Office in Beijing commenced operation in September 2000. An opening ceremony for the Sub-Office was officiated by Mr Horst Köhler, Managing Director of the IMF in January 2001. The Sub-Office tracks the economic and financial market developments in Hong Kong and the region. The presence of the Sub-Office will also facilitate technical co-operation and be helpful to our own financial market surveillance and monitoring of the region's developments.

In October 2000, the IFC and the IBRD opened a joint regional office in Hong Kong responsible for all IFC investments and the IBRD's private sector development activities in the region. The establishment of the joint office will help stimulate private sector investment in the region (Mainland China in particular) and will also provide more business opportunities for Hong Kong. The IFC's fund raising activities in Hong Kong should also stimulate the development of the domestic bond market and a regional bond market in Asia.

The establishment of these offices, along with the BIS Asian Office opened in 1998, has reinforced Hong Kong's status as an important centre for major international financial institutions responsible for financial market development and stability.



(From right) Chief Executive Joseph Yam, IMF Managing Director Horst Köhler and People's Bank of China Deputy Governor Liu Tinghuan officiate at the formal opening of the IMF Sub-office in Hong Kong, accompanied by the office's first Resident Representative William Lee.

Development of bond markets in the region

The HKMA continued to play an active role in promoting bond market development in the region. Following the promulgation of the APEC Compendium of Sound Practices on Domestic Bond Market Development in 1999, Hong Kong participated in the Four Markets Meeting Study Group on the Development of Regional Bond Markets. The Study Group examined obstacles to cross-border bond issues of the four economies of Australia, Hong Kong, Japan and Singapore and to provide practical recommendations for the removal of these impediments.

Plans for 2001

As growing globalisation and integration of financial markets brings both risks and opportunities, the HKMA will continue to monitor the developments in international financial issues and their implications for Hong Kong. It will continue to encourage central bank co-operation to ensure regional monetary and financial stability.

Long-term measures to reduce the systemic risks associated with increasingly interdependent financial markets entail the reform of the international financial architecture. This will require concerted and collective action within the region and throughout the international community. In order to ensure that the interests of Hong Kong and other emerging market economies are not overlooked, it is important that a close working relationship with multinational institutions be maintained.

At the same time, the HKMA will carry on its efforts to promote overseas and locally an understanding of, and support for, Hong Kong's role as a premier international financial centre.