

International Financial Centre

In 2002 the HKMA continued to play a leading role in promoting regional co-operation, particularly in the development of the Asian bond market. Through active participation in international financial and central banking forums, the HKMA contributed to the discussions on important international financial issues that are relevant to Hong Kong's position as an international financial centre.



OVERVIEW

2002 was an eventful year for global financial markets. The collapse of Enron and subsequent revelations about other corporate misconduct in the US sent shock waves across the financial world. The global economy appeared to have entered a disinflationary phase in 2002, driven by factors such as sluggish demand and increased productivity.

Against this background, the HKMA played an active role in international and regional financial and central banking forums and in fostering regional co-operation. Working with other economies, we pursued the Asian Bond Fund proposal under the Executives' Meeting of East-Asia Pacific Central Banks (EMEAP) forum and co-chaired the initiative on the development of securitisation and credit guarantee markets under the Asia-Pacific Economic Co-operation (APEC) forum.

The HKMA continued to develop its relationship with Mainland authorities and academic institutions. At a time of gradual opening of the Mainland's financial markets, such co-operation has helped strengthen Hong Kong's role as the base for intermediating trade, funds and knowledge into and out of Mainland China. The HKMA participated in various roadshows and organised seminars, conferences and other activities in the Mainland to promote Hong Kong's financial services.

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ACHIEVEMENTS IN 2002

Regional monetary co-operation and participation in multilateral institutions

The HKMA contributed significantly to policy dialogues in the international as well as regional arena in 2002. The HKMA hosted the 7th semi-annual meeting of the Financial Stability Forum¹ in March 2002 and facilitated the organisation of the Bank for International Settlements (BIS) Special Governors' Meeting in Hong Kong in February 2002.

In terms of regional central banking cooperation, the HKMA continued to participate actively in the work of the EMEAP. Since being elected to be the Chair of the Working Group on Financial Markets and the EMEAP Forum on Foreign Exchange Markets in June, the HKMA has expanded the scope of discussion on financial markets to cover the latest developments in reserves management, foreign exchange and bond markets. The HKMA has also increased the Group's interface with other international bodies, including the G-10 Markets Committee, the Federal Reserve Bank of New York, the European Central Bank and the Bank of England.

The HKMA hosted the APEC Policy Dialogues on strengthening Market Disciplines and strengthening Corporate Governance in the Financial Sector during July and August 2002 and the South East Asia, New Zealand and Australia (SEANZA) Governors' Symposium and Governors' Meeting in November 2002.

¹ The FSF was established in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, to promote international financial stability. Members of the FSF include national financial authorities from G7, Australia, Hong Kong, the Netherlands, and Singapore; the European Central Bank; international financial institutions; international regulatory and supervisory groupings; and committees of central bank experts.

With the aim of furthering regional monetary co-operation, the HKMA continued to maintain bilateral contacts with regional central banks. During the year, the HKMA held its first bilateral meeting with the Bahrain Monetary Agency.

Relationships with the Mainland

In 2002 the HKMA continued to pursue initiatives to help integrate the financial markets in Hong Kong and the Mainland. In recent years, we engaged academics and think tanks to study financial market liberalisation and reform on the Mainland. We also explored with the People's Bank of China (PBoC) the feasibility of banks in Hong Kong taking renminbi deposits for placing back to the Mainland banking system. To promote mutual understanding, the HKMA invited Mainland officials and academics to visit Hong Kong to exchange views on issues of common interest.

Training

Using its expertise in banking and financial supervision, the HKMA designed a series of training programmes for officials of the PBoC. These included a four-week banking supervision course for PBoC's banking supervisors and a two-week financial supervision seminar for its senior officials coming from different areas of central banking. Overall, the HKMA provided

eight courses or seminars, or 3,964 days of training, to 272 PBoC officers in 2002.

The HKMA also hosted the 24th SEANZA Central Banking Course, a two-week course for about 30 participants mostly from Asian central banks, and a regional course on market risk analysis under the APEC financial regulators' training initiative.

Compliance with international codes and standards

As a means to enhance Hong Kong's status as an international financial centre, the HKMA acted as the co-ordinator for Hong Kong's participation in the Financial Sector Assessment Programme (FSAP), a joint International Monetary Fund (IMF) - World Bank initiative designed to promote financial stability. An FSAP Mission, comprising experts from the IMF, the World Bank and collaborating institutions (such as the UK Financial Services Authority and Banque de France), conducted two rounds of visits in the third quarter of 2002 to examine Hong Kong's compliance with 8 key international standards covering the banking, securities, insurance and other financial sectors. The Mission confirmed that the financial system of Hong Kong is fundamentally sound and that the market infrastructure is robust and efficient.



The HKMA plays host to heads of central banks attending the SEANZA Governors' Symposium in November 2002.

Development of regional bond markets

During the year the HKMA spearheaded the development of an Asian Bond Fund (ABF) idea under the EMEAP forum. This is designed to facilitate the investment of a small portion of Asian central banks' foreign reserves in Asian bonds for portfolio diversification and yield enhancement purposes, as well as to help develop the Asian bond market. The ABF represents a significant step in regional central bank co-operation whereby some of Asia's official reserves can be channelled back to the region to finance Asia's own economic development.

In addition, the HKMA is co-chairing with Korea and Thailand an APEC initiative on the development of securitisation and credit guarantee markets, sponsored by the World Bank. The initiative was formally endorsed in September 2002 and commended by APEC Economic Leaders in the 2002 Leaders' Declaration. The initiative aims at promoting understanding and awareness of the importance of securitisation and credit guarantees to bond market development in the region. At the same time, panels of experts drawn from the public sector, international financial institutions, the academic world and researchers have been formed to visit and advise APEC economies on how to identify and remove impediments to the development of securitisation and credit guarantee markets.



PLANS FOR 2003 AND BEYOND

With global financial markets facing another challenging year in 2003, the HKMA will continue to monitor closely latest developments and their implications for Hong Kong. We will ensure that the views and concerns of Hong Kong on important issues affecting financial stability are heard in the central banking and international financial forums.

As part of our effort to buttress Hong Kong's status as a premier international financial centre, the HKMA will work with regional economies to implement existing initiatives, such as the ABF and the APEC initiative on the development of securitisation and credit guarantee markets, and will continue to study new initiatives to promote the development of deeper and more liquid bond markets in the Asian region.

Hong Kong's intermediary role with the Mainland is set to grow in line with the increased inward and outward investment and trade flows following the Mainland's accession to the World Trade Organisation. Given its sound legal and financial infrastructure and good knowledge of the Mainland, Hong Kong is in a competitive position to capitalise on future opportunities. The HKMA will further strengthen co-operation with the Mainland authorities to enhance the financial intermediation role of Hong Kong in facilitating fund flows between the Mainland and the rest of the world. We will also explore ways to help Mainland companies make better use of Hong Kong's financial markets, and to facilitate smoother financial flows related to our economic integration and the surge in cross-border tourism.