

AN INTRODUCTION TO THE HONG KONG MONETARY AUTHORITY

2004 EDITION

incorporating the Summary Version of the HKMA Annual Report 2003



HONG KONG MONETARY AUTHORITY
香港金融管理局

THE HONG KONG MONETARY AUTHORITY


Established in April 1993, the Hong Kong Monetary Authority (HKMA) is the government authority in Hong Kong responsible for maintaining monetary and banking stability. The HKMA's policy objectives are

- to maintain currency stability, within the framework of the Linked Exchange Rate system, through sound management of the Exchange Fund, monetary policy operations and other means deemed necessary
- to promote the safety and stability of the banking system through the regulation of banking business and the business of taking deposits, and the supervision of authorized institutions
- to enhance the efficiency, integrity and development of the financial system, particularly payment and settlement arrangements.

Contents

	THE HKMA AND ITS FUNCTIONS
2	About The HKMA
12	Maintaining Monetary Stability
13	Promoting Banking Safety
14	Managing the Exchange Fund
15	Developing Financial Infrastructure
	REVIEW OF 2003
18	Chief Executive's Statement
24	The Economic and Banking Environment in 2003
28	Monetary Conditions in 2003
30	Banking Policy and Supervisory Issues in 2003
32	Market Infrastructure in 2003
34	International Financial Centre
36	Exchange Fund Performance in 2003
37	The Exchange Fund
39	The HKMA: The First 10 Years
46	Abbreviations
47	Reference Resources

The first part of this booklet introduces the work and policies of the HKMA. The second part of the booklet is a summary of the HKMA's Annual Report for 2003. The full Annual Report is available on the HKMA website both in interactive form and on PDF files. Hard copies may also be purchased from the HKMA: see Reference Resources on page 47 for details.

This booklet makes reference to documents and other materials available on the HKMA website www.hkma.gov.hk. These references appear as  in the relevant parts of the Report, followed by navigation guidance from the HKMA homepage.

All amounts in this booklet are in Hong Kong dollars unless otherwise stated.

ABOUT THE HKMA

The Hong Kong Monetary Authority is Hong Kong's central banking institution. The HKMA has four main functions: maintaining the stability of the Hong Kong dollar; promoting the safety of Hong Kong's banking system; managing Hong Kong's official reserves; and maintaining and developing Hong Kong's financial infrastructure.

The HKMA's legal mandate

The HKMA was established on 1 April 1993 by merging the Office of the Exchange Fund with the Office of the Commissioner of Banking. To facilitate the establishment of the HKMA, the Legislative Council passed amendments to the Exchange Fund Ordinance in 1992 empowering the Financial Secretary to appoint a Monetary Authority.

The powers, functions and responsibilities of the Monetary Authority are set out in the Exchange Fund Ordinance, the Banking Ordinance and other relevant Ordinances. The division of functions and responsibilities in monetary and financial affairs between the Financial Secretary and the Monetary Authority is set out in an Exchange of Letters between the two dated 25 June 2003. This Exchange of Letters also discloses the delegations made by the Financial Secretary to the Monetary Authority under these Ordinances. The letters are public documents: copies of them may be found on the HKMA website.

The Exchange Fund Ordinance establishes the Exchange Fund under the control of the Financial Secretary. According to the

Ordinance, the Fund shall be used primarily for affecting the exchange value of the Hong Kong dollar. It may also be used for maintaining the stability and integrity of the monetary and financial systems of Hong Kong, with a view to maintaining Hong Kong as an international financial centre.

The Monetary Authority is appointed under the Exchange Fund Ordinance to assist the Financial Secretary in performing his functions under the Exchange Fund Ordinance and to perform such other functions as are assigned by other Ordinances or by the Financial Secretary. The office of the Monetary Authority is known as the HKMA and the Monetary Authority as the Chief Executive of the HKMA.

The Banking Ordinance provides the Monetary Authority with the responsibility and powers for regulating and supervising banking business and the business of taking deposits. Under the Ordinance, the Monetary Authority is responsible, among other things, for the authorization of licensed banks, restricted licence banks, and deposit-taking institutions in Hong Kong.

 [About the HKMA](#) > [The HKMA](#) > [Who we are](#)

The HKMA and the Hong Kong SAR Government

The HKMA is an integral part of the Hong Kong SAR Government, but is able to employ staff on terms different from those of the civil service in order to attract personnel of the right experience and expertise. The Chief Executive of the HKMA remains a public officer, as do his staff. In its day-to-day work the HKMA operates with a high degree of autonomy within the relevant statutory powers conferred upon, or delegated to, the Monetary Authority.

The Financial Secretary is responsible for determining the monetary policy objective and the structure of the monetary system of Hong Kong: A letter from the Financial Secretary to the Monetary Authority dated 25 June 2003 specifies that these should be currency stability defined as a stable exchange value at around HK\$7.80 to one US dollar maintained by Currency Board arrangements. The Monetary Authority is on his own responsible for achieving the monetary policy objective, including determining the strategy, instruments and operational means for doing so. He is also responsible for maintaining the stability and integrity of the monetary system of Hong Kong.

The Financial Secretary, assisted by the Secretary for Financial Services and the Treasury, has responsibility for policies for maintaining the stability and integrity of

Hong Kong's financial system and the status of Hong Kong as an international financial centre. In support of these policies, the Monetary Authority is responsible, among other things, for

- promoting the general stability and effective working of the banking system
- promoting the development of the debt market, in co-operation with other relevant bodies
- matters relating to the issuance and circulation of legal tender notes and coins
- promoting the safety and efficiency of the financial infrastructure through the development of payment, clearing and settlement systems and, where appropriate, the operation of these systems
- seeking to promote, in co-operation with other relevant bodies, confidence in Hong Kong's monetary and financial systems, and appropriate market development initiatives to help strengthen the international competitiveness of Hong Kong's financial services.

The Exchange Fund is under the control of the Financial Secretary. The Monetary Authority, under delegation from the Financial Secretary, is responsible to the Financial Secretary for the use of the Exchange Fund, and for the investment management of the Fund.

 [> About the HKMA](#) [> The HKMA](#) [> Who we are](#)

Accountability and transparency


The autonomy given to the HKMA in its day-to-day operations, and in the methods it uses to pursue policy objectives determined by the Government, is complemented by a high degree of accountability and transparency.

The HKMA serves Hong Kong by promoting monetary and banking stability, by managing the official reserves effectively, and by developing a robust and diverse financial infrastructure. These processes help to strengthen Hong Kong's role as an international financial centre and to foster Hong Kong's economic well-being. The HKMA must have the confidence of the community if it is to perform its duties well. The HKMA therefore takes seriously the duty of explaining its policies and work to the general public and makes every effort to address any concerns within the community relevant to the HKMA's responsibilities.

The HKMA is accountable to the people of Hong Kong through the Financial Secretary, who appoints the Monetary Authority, and through the laws passed by the Legislative Council that set out the Monetary Authority's powers and responsibilities. The HKMA also recognises a broader responsibility to promote a better understanding of its roles and objectives and to keep itself informed of community concerns. In its day-to-day operations and in its wider contacts with the community, the HKMA pursues a policy of transparency and accessibility. This policy has two main objectives:

- to keep the financial industry and the public as fully informed about the work of the HKMA as possible, subject to considerations of market sensitivity, commercial confidentiality and statutory restrictions on disclosure of confidential information
- to ensure that the HKMA is in touch with, and responsive to, the community it serves.


The HKMA seeks to follow international best practices in its transparency arrangements. It maintains extensive relations with the mass media and produces a range of regular and special publications in both English and Chinese. The HKMA's bilingual website (www.hkma.gov.hk) carries all HKMA's publications, press releases, speeches and presentations, in addition to special sections on research, statistics, consumer information and other topics. The HKMA maintains an Information Centre at its offices, consisting of a library and an exhibition area, which is open to the public six days a week. The HKMA also organises an annual public education programme, which seeks to inform the public, and in particular students, about the work of the HKMA through seminars and guided tours at the Information Centre. The HKMA's weekly *Viewpoint* column, carried on the HKMA website and in about ten Hong Kong newspapers, informs the public about aspects of the HKMA's work. Further information on the HKMA's media work, publications and public education programmes is contained in the Chapter on Professional and Corporate Services in the *HKMA Annual Report 2003*.

 > [Viewpoint](#)


 > [HKMA Information Centre](#)

Over the years the HKMA has progressively increased the detail and frequency of its disclosure of information on the Exchange Fund and Currency Board Accounts. Since 1999 the HKMA has participated in the International Monetary Fund's Special Data Dissemination Standard project for central banks. The HKMA publishes records of meetings of the Exchange Fund Advisory Committee's Sub-Committee on Currency Board Operations, along with the monthly reports on Currency Board operations. The supervisory policies and guidelines on banking have been published on the website since 1996.

 > [Information Centre > Press Releases > The Exchange Fund category](#)

 > [Policy Areas > Supervisory Policy Manual](#)

The relations between the HKMA and the Legislative Council play an important part in the process of accountability and transparency. There is a formal commitment from the Chief Executive of the HKMA to appear before the Legislative Council Panel on Financial Affairs three times a year to brief Members and to answer questions on the HKMA's work. At one of these briefings, usually in May, the HKMA's Annual Report is presented. In addition, staff from the HKMA attend Legislative Council Panel meetings to explain and discuss particular issues, and Committee meetings to assist Members in their scrutiny of draft legislation.

 > [Information Centre > Legislative Council Issues](#)



Advisory and other Committees

Exchange Fund Advisory Committee

In his control of the Exchange Fund, the Financial Secretary is advised by the Exchange Fund Advisory Committee (EFAC). EFAC is established under Section 3(1) of the Exchange Fund Ordinance, which requires the Financial Secretary to consult the Committee in his exercise of control of the Exchange Fund. The Financial Secretary is ex officio chairman of EFAC. Other members, including the Monetary Authority, are appointed in a personal capacity by the Financial Secretary under the delegated authority of the Chief Executive of the Hong Kong SAR. Members of EFAC are appointed for the expertise and experience that they can bring to the committee. Such expertise and experience includes knowledge of monetary, financial and economic affairs and of investment issues, as well as of accounting, management, business and legal matters.

EFAC advises the Financial Secretary on investment policies and strategies for the Fund and on projects, such as the development of financial infrastructure, that are charged to the Fund. Since the operating and staff costs of the HKMA are also chargeable to the Exchange Fund, EFAC advises the Financial Secretary on the HKMA's annual administration budget and on the terms and conditions of service of HKMA staff. EFAC meets regularly and on other occasions when particular advice is being sought.

Membership (1 April 2004)

Chairman

The Hon. Henry Tang Ying Yen, GBS, JP
The Financial Secretary

Members

Mr Joseph Yam, GBS, JP
The Monetary Authority

Dr The Hon. David Li Kwok Po, LLD, GBS, JP
Chairman and Chief Executive
The Bank of East Asia Limited

Mr Marvin Cheung Kin Tung, DBA Hon., SBS, JP

Mr David Eldon, JP
Chairman
The Hongkong and Shanghai Banking Corporation Limited

Dr James Z M Kung, GBS
Chairman
Chekiang First Bank Limited

Professor Richard Y C Wong, SBS, JP
Dean, Faculty of Business and Economics
The University of Hong Kong

Mr Christopher Cheng Wai Chee, JP
Chairman
USI Holdings Limited

Mr Victor Lo Chung Wing, GBS, JP
Chairman and Chief Executive
Gold Peak Industries (Holdings) Limited

Mr Patrick Wang Shui Chung, JP
Chairman and Chief Executive Officer
Johnson Electric Holdings Limited

Mr He Guangbei
Vice Chairman & Chief Executive
Bank of China (Hong Kong) Limited

Mr Peter Wong Tung Shun, JP
CEO, Greater China, and Director
Standard Chartered Bank

Secretary

Mr Christopher Munn



EFAC is assisted in its work by three specialised sub-committees, which monitor specific areas of the HKMA's work and report and make recommendations to EFAC.

The ***Sub-Committee on Currency Board Operations*** monitors and reports on the Currency Board arrangements that underpin Hong Kong's Linked Exchange Rate system. It is responsible, among other things, for ensuring that Currency Board operations are in accordance with established policy, recommending improvements to the Currency Board system, and ensuring a high degree of transparency in the operation of the system. The Sub-Committee is composed of members of EFAC, a representative of the Hong Kong Association of Banks, additional members with expertise on the Currency Board system, and senior HKMA staff. Records of the Sub-Committee's meetings and the reports on Currency Board operations submitted monthly to the Sub-Committee are published.

 [Information Centre](#) > [Press Releases](#) > [Monetary Policy category](#)

Membership (1 April 2004)

Chairman

Mr Joseph Yam, GBS, JP
The Monetary Authority

Members

Mr Norman Chan, SBS, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr William Ryback
Deputy Chief Executive
Hong Kong Monetary Authority

Dr The Hon. David Li Kwok Po, LLD, GBS, JP
Chairman and Chief Executive
The Bank of East Asia Limited

Mr Marvin Cheung Kin Tung, DBA Hon., SBS, JP

Professor Richard Y C Wong, SBS, JP
Dean, Faculty of Business and Economics
The University of Hong Kong

Mr John Greenwood
Group Chief Economist
INVESCO Asset Management Limited

Professor Tsang Shu Ki
Department of Economics
Hong Kong Baptist University

Mr Peter Wong Tung Shun, JP
Chairman
The Hong Kong Association of Banks

Secretary

Mr Christopher Munn



The **Remuneration and Finance Sub-Committee** makes recommendations to EFAC on pay and conditions of service, human resources policy, and budgetary and administrative issues. The Sub-Committee is composed of non-official non-banking Members of EFAC.

Membership (1 April 2004)

Chairman

Mr Marvin Cheung Kin Tung, DBA Hon., SBS, JP

Members

Professor Richard Y C Wong, SBS, JP
Dean, Faculty of Business and Economics
The University of Hong Kong

Mr Christopher Cheng Wai Chee, JP
Chairman
USI Holdings Limited

Mr Victor Lo Chung Wing, GBS, JP
Chairman and Chief Executive
Gold Peak Industries (Holdings) Limited

Mr Patrick Wang Shui Chung, JP
Chairman and Chief Executive Officer
Johnson Electric Holdings Limited

Secretary

Mr Christopher Munn

The **Audit Sub-Committee** reviews and reports to EFAC on the HKMA's financial reporting process and the adequacy and effectiveness of the internal control systems of the HKMA. The Sub-Committee reviews the HKMA's financial statements, and the composition and accounting principles adopted in such statements. It also examines and reviews with both the external and internal auditors the scope and results of their audits. The Sub-Committee consists of four non-executive, non-official members of EFAC. It held three meetings in 2003.

Membership (1 April 2004)

Chairman

Mr Marvin Cheung Kin Tung, DBA Hon., SBS, JP

Members

Mr David Eldon, JP
Chairman
The Hongkong and Shanghai Banking Corporation Limited

Mr He Guangbei
Vice Chairman & Chief Executive
Bank of China (Hong Kong) Limited

Mr Peter Wong Tung Shun, JP
CEO, Greater China, and Director
Standard Chartered Bank

Secretary

Mr Christopher Munn

The Banking Advisory Committee

The Banking Advisory Committee is established under Section 4(1) of the Banking Ordinance to advise the Chief Executive of the Hong Kong SAR on matters relating to the Banking Ordinance, in particular matters relating to banks and the carrying on of banking business. The Committee consists of the Financial Secretary, who is the chairman, the Monetary Authority, and other persons appointed by the Financial Secretary under the delegated authority of the Chief Executive of the Hong Kong SAR.

Membership (1 April 2004)

Chairman

The Hon. Henry Tang Ying Yen, GBS, JP
The Financial Secretary

Ex Officio Member

Mr Joseph Yam, GBS, JP
The Monetary Authority

Members

The Hon. Frederick Ma Si Hang, JP
Secretary for Financial Services and the Treasury

Mr He Guangbei

Vice Chairman & Chief Executive
Bank of China (Hong Kong) Limited
Representing Bank of China (Hong Kong) Limited

Mr Raymond C F Or

General Manager
The Hongkong and Shanghai Banking Corporation Limited
Representing The Hongkong and Shanghai Banking Corporation Limited

Mr Peter Wong Tung Shun, JP

CEO, Greater China, and Director
Standard Chartered Bank
Representing Standard Chartered Bank

Mrs Chan Hui Dor Lam Doreen

President & Chief Executive Officer
Citic Ka Wah Bank Limited

Mrs Angelina P L Lee, JP

Partner
Woo, Kwan, Lee & Lo
Solicitors and Notaries

Dr The Hon. David Li Kwok Po, LLD, GBS, JP

Chairman and Chief Executive
The Bank of East Asia Limited

Mr Tatsuo Tanaka

Director and Chief Executive Officer for China
The Bank of Tokyo-Mitsubishi, Ltd.

Mr Samuel N Tsien

President and Chief Executive Officer
Bank of America (Asia) Limited

Mr David S Y Wong, JP

Chairman
Dah Sing Bank Limited

Ms Maria Xuereb

Financial Services Partner
Deloitte Touche Tohmatsu

Secretary

Ms Carman Chiu

The Deposit-Taking Companies Advisory Committee

The Deposit-Taking Companies Advisory Committee is established under Section 5(1) of the Banking Ordinance to advise the Chief Executive of the Hong Kong SAR on matters relating to the Banking Ordinance, in particular matters relating to deposit-taking companies and restricted licence banks and the carrying on of a business of taking deposits by them. The Committee consists of the Financial Secretary, who is the chairman, the Monetary

Authority, and other persons appointed by the Financial Secretary under the delegated authority of the Chief Executive of the Hong Kong SAR.

Membership (1 April 2004)

Chairman

The Hon. Henry Tang Ying Yen, GBS, JP
The Financial Secretary

Ex Officio Member

Mr Joseph Yam, GBS, JP
The Monetary Authority

Members

The Hon. Frederick Ma Si Hang, JP
Secretary for Financial Services and the Treasury

Mr Andrew Sheng, SBS, JP
Chairman
Securities and Futures Commission
Representing The Securities and Futures Commission

Mrs Pamela Chan Wong Shui, BBS, JP
Chief Executive
Consumer Council
Representing The Consumer Council

Mr Clifford Forster
Chairman
Hong Kong Association of Restricted Licence Banks and Deposit-Taking Companies (The DTC Association)
Representing The DTC Association

Mr Mohan Kohli
Partner
Financial Services Division
PricewaterhouseCoopers

Mr Andrew Kuo
Managing Director
J.P. Morgan Securities (Asia Pacific) Limited

The Hon. Eric K C Li, GBS, JP
Senior Partner
Li, Tang, Chen & Co
Certified Public Accountants

Mr Geoffrey J. Mansfield
Director and Chief Executive
PrimeCredit Limited

Mr Mok Wai-kin
Director
Hang Seng Finance Limited

Mr Poon Kwok Yuen
President & Chief Executive Officer
AIG Finance (Hong Kong) Limited

Mr Tan Yoke Kong
General Manager
JCG Finance Company, Limited

Mr Frank J. Wang
Deputy Chief Executive
Wing Hang Finance Company Limited


Secretary

Ms Carman Chiu

The latest membership lists of the various Committees and Sub-Committees, brief biographies and the Code of Conduct for EFAC Members can be found on the HKMA website. A Register of Members' Interests, which contains the declarations of interests by Members of EFAC, is available for public inspection during office hours (9:00 a.m. to 5:00 p.m. Monday to Friday and 9.00 a.m. to 12 noon Saturday) at the HKMA, 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

Chief Executive's Committee

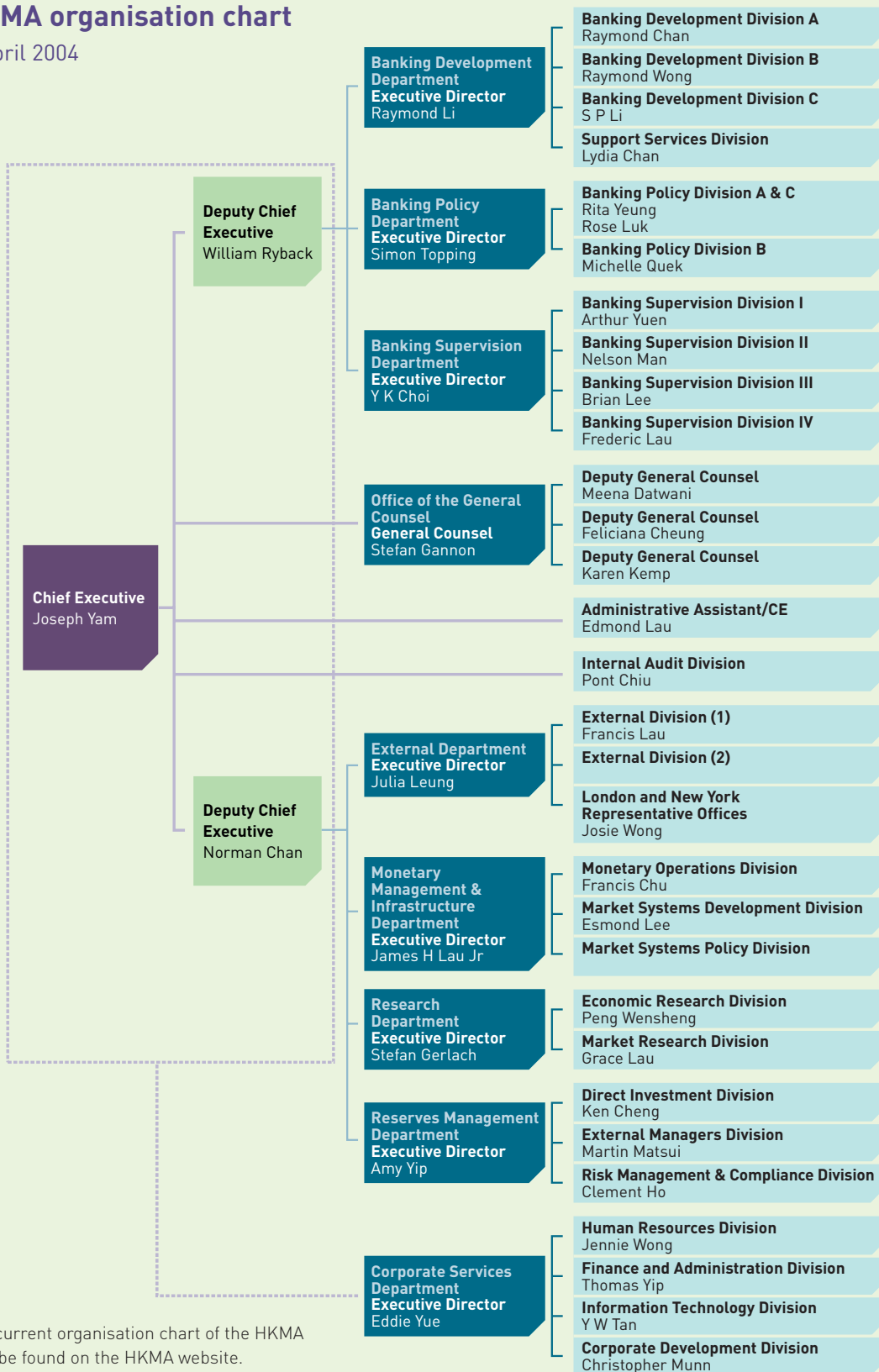
The Chief Executive's Committee is chaired by the Chief Executive of the HKMA and consists of the Deputy Chief Executives and the Executive Directors of the HKMA. The Committee meets weekly to report to the Chief Executive on the progress of major tasks being undertaken by the various departments of the HKMA and to advise him on policy matters relating to the operations of the HKMA.

 > [About the HKMA > Advisory Committees](#)

 > [About the HKMA > The Chief Executive's Committee](#)

HKMA organisation chart

1 April 2004



The current organisation chart of the HKMA may be found on the HKMA website.

[About the HKMA](#) > [The HKMA](#) > [Organisation Chart](#)

MAINTAINING MONETARY STABILITY

The Linked Exchange Rate system

The monetary policy objective of Hong Kong is currency stability. This is defined as a stable external exchange value of the Hong Kong dollar in terms of its exchange rate against the US dollar at around HK\$7.80 to one US dollar. The monetary policy objective is achieved through the Linked Exchange Rate system, which has been implemented since 17 October 1983. The Linked Exchange Rate system plays an important part in supporting Hong Kong's role as a trading, service and financial centre.

The Currency Board system

Exchange rate stability in Hong Kong is achieved through a Currency Board system. The Monetary Base is consequently fully backed by foreign currency reserves at the fixed exchange rate of HK\$7.80 to US\$1. Under the Currency Board system, any change in the Monetary Base must be fully matched by corresponding changes in foreign currency reserves.

Hong Kong's Monetary Base consists of four components:

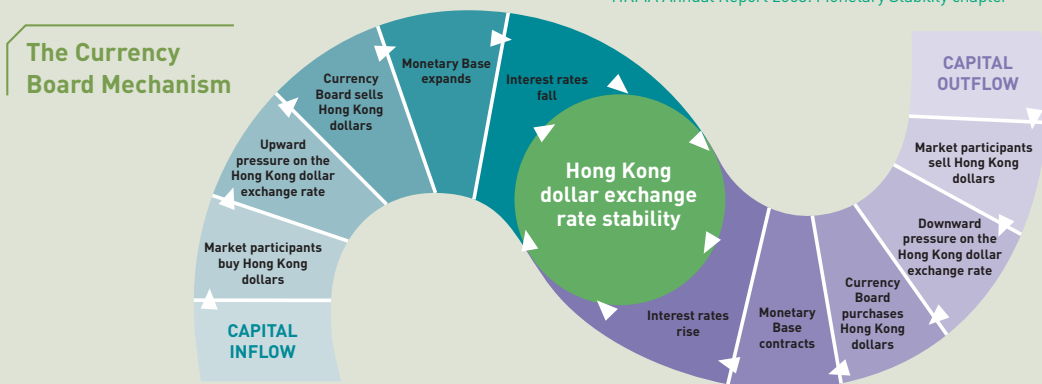
- Certificates of Indebtedness, which back the banknotes issued by the three note-issuing banks
- Government-issued currency notes and coins in circulation
- the sum of the balances on the clearing accounts maintained by banks with the HKMA (known as the Aggregate Balance)
- Exchange Fund Bills and Notes, which are issued by the HKMA to facilitate liquidity management by banks.

Under the Currency Board system, the stability of the Hong Kong dollar exchange rate is maintained through an interest rate adjustment mechanism.

In recent years the Currency Board system has been strengthened to make it more transparent and resilient to external shocks. In particular, the HKMA has provided a clear undertaking to all banks to convert their Hong Kong dollar clearing balances into US dollars at the convertibility rate of HK\$7.80.

[Policy Areas > Monetary Stability > Currency Board System](#)

[Further reading:](#)
HKMA Background Brief No.1 – Hong Kong's Linked Exchange Rate System
HKMA Annual Report 2003: Monetary Stability chapter



PROMOTING BANKING SAFETY

The principal function of the HKMA as banking supervisor is to promote the general stability and effective working of the banking system in Hong Kong. The HKMA seeks to ensure that banks and deposit-taking companies in Hong Kong operate in an effective, responsible, honest and business-like manner to provide a measure of protection to depositors. The HKMA derives its powers as banking supervisor from the Banking Ordinance.


The three tiers of banking in Hong Kong


Hong Kong's banks are divided into three tiers of authorized institutions (AIs). The main distinctions lie in the deposit business each tier of institution is allowed to conduct under the Banking Ordinance.

The HKMA is the licensing authority for AIs under the Banking Ordinance. The HKMA's supervisory approach is based on a policy of

continuous supervision. This involves continuous monitoring of AIs through the use of a variety of techniques, including on-site examinations, off-site reviews, prudential meetings, meetings with boards of directors, co-operation with external auditors, and sharing of information with other supervisors. The aim is to try to ensure that any problems affecting AIs are detected and addressed at an early stage.

The HKMA uses a risk-based supervisory approach to ensure that AIs have the necessary risk management systems in place to identify, measure, monitor and control the risks inherent in their operations. This enables the HKMA to be more proactive in taking actions to pre-empt any serious threat to the stability of the banking system.

 > [Policy Areas](#) > [Banking Stability](#)

 Further reading:
[HKMA Background Brief No.2 – Banking Supervision in Hong Kong](#)
[HKMA Annual Report 2003: Banking Stability chapter](#)

Three tiers of authorized institutions	Deposit business permitted
Licensed banks	<ul style="list-style-type: none">• Current accounts, savings deposits and time deposits of any size and maturity
Restricted licence banks	<ul style="list-style-type: none">• Time deposits of HK\$500,000 or more for any maturity• Savings and current accounts are not permitted
Deposit-taking companies	<ul style="list-style-type: none">• Time deposits of HK\$100,000 or more for at least three months• Savings and current accounts are not permitted

MANAGING THE EXCHANGE FUND

The Exchange Fund

Established in 1935, the Exchange Fund is the cornerstone of monetary stability in Hong Kong. Its primary objective is to safeguard the exchange value of the Hong Kong dollar. Hong Kong's foreign currency reserves, held in the Exchange Fund, form the backing for the Linked Exchange Rate system.

The Exchange Fund is managed by the HKMA under powers delegated by the Financial Secretary to the Monetary Authority under the Exchange Fund Ordinance. The Exchange Fund Advisory Committee advises the Financial Secretary, as Controller of the Fund, on the investment policies and strategies for the Fund.

Investment objectives

The investment objectives of the Exchange Fund are:

- (a) to preserve capital;
- (b) to ensure that the entire Monetary Base at all times will be fully backed by highly liquid short-term US dollar denominated securities;
- (c) to ensure sufficient liquidity for the purpose of maintaining monetary and financial stability; and
- (d) subject to (a) – (c) above, to achieve an investment return that will preserve the long-term purchasing power of the assets.


Investment process


The Exchange Fund is managed as two main portfolios – the Backing Portfolio and the Investment Portfolio. The Backing Portfolio is used to back the Monetary Base of Hong Kong. The Investment Portfolio is used to preserve the value and long-term purchasing power of assets.

The long-term asset allocation strategy of the Fund is governed by the investment benchmark, which is set by the Exchange Fund Advisory Committee. This defines the allocation of investments to different asset classes by country and by sector as well as the overall currency mix for the Fund.

Use of external managers

The Exchange Fund employs global external managers to manage about one third of its total assets and all of its equity portfolios. The purpose of appointing external managers is to tap the best of the investment expertise available in the market, to capture a diverse mix of investment style within the global investment field, and to transfer market knowledge and information.

 [Policy Areas > Monetary Stability > Exchange Fund](#)

 Further reading:
[HKMA Annual Report 2003: Reserves Management chapter](#)

DEVELOPING FINANCIAL INFRASTRUCTURE



Policy objective

The HKMA is committed to promoting a safe, efficient and reliable financial market infrastructure to help maintain Hong Kong's status as an international financial centre. The HKMA oversees the operation of the interbank payment and clearing systems in Hong Kong and assumes a leading role in developing infrastructure to accommodate the evolving needs of Hong Kong. The HKMA pays particular attention to fostering the local and regional debt markets and developing clearing systems to facilitate cross-border transfers of funds and securities. The long-term aim is for Hong Kong to be a leading centre of financial intermediation, where all types of financial transactions, initiated from whatever location or time zone and in whatever currency, whether at the wholesale or retail level, can be executed and settled in real time.

Payment systems in Hong Kong

Since 1996, interbank funds transfers have been settled real-time through the Hong Kong dollar Real Time Gross Settlement (RTGS) system – the Clearing House Automated Transfer System (CHATS). This means that payment is processed continuously and that finality of settlement is instantaneous. The advantages are speed, efficiency and safety.

On an average business day around 360 billion Hong Kong dollars worth of transactions are settled through Hong Kong's RTGS system. Every year, the total turnover through this system amounts to some 90 trillion Hong Kong dollars, which is equivalent to more than 70 times Hong Kong's annual gross domestic product. The system processes the larger transactions between banks arising from the money and capital markets. It also handles smaller retail payment items, such as cheque and autopay transactions.

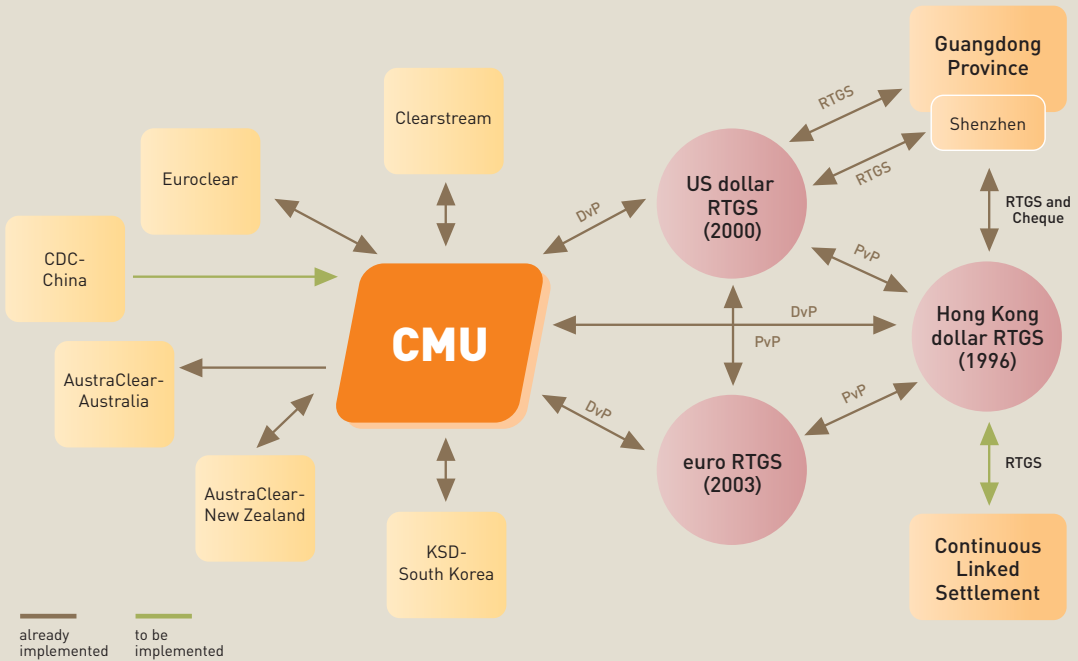
Building on the technology of the Hong Kong dollar RTGS system, the HKMA introduced a US dollar RTGS system in 2000 and a euro RTGS system in 2003.

Central Moneymarkets Unit

The Central Moneymarkets Unit (CMU), operated by the HKMA, provides an efficient clearing, settlement and depository service for both Hong Kong dollar and other international debt securities. Since its establishment in 1990 the CMU has developed external linkages with other regional and international central securities depositories. Through these links, overseas investors can hold and settle securities lodged with the CMU.

Hong Kong's Financial Infrastructure

(clearing and settlement systems for funds and securities operated, developed or overseen by the HKMA)



Delivery-versus-Payment (DvP): A securities delivery arrangement in which the delivery of securities takes place as soon as payment is made for them and confirmed final and irrevocable.

Payment-versus-Payment (PvP): A mechanism for settling a foreign exchange transaction to ensure that a final transfer of one currency occurs only if the corresponding final transfer of the other currency or currencies also takes place at the same time.

[Policy Areas > Financial Infrastructure](#)

Further reading:
[HKMA Annual Report 2003: Market Infrastructure chapter](#)

REVIEW OF 2003

Summary Version of the HKMA Annual Report 2003

The photographs

The first half of 2003 was a time of difficulty and challenge for people in Hong Kong. The second half brought new confidence and optimism. The theme for the photographs in the *HKMA Annual Report 2003* is the spirit of Hong Kong. The photographs show Hong Kong people working together, as individuals and in teams, often under pressure, to overcome challenges.



CHIEF EXECUTIVE'S STATEMENT



recovery in the second half of 2003

After six years of difficulty and uncertainty, Hong Kong's economy experienced a strong rebound in the second half of 2003. Helped by a more benign global environment, and by measures to strengthen economic ties between Hong Kong and the Mainland, this rebound continued its momentum into 2004. A broad and sustained economic recovery now appears to be in progress.

The rebound came after one of the most distressing episodes in Hong Kong's recent history: the outbreak between March and June of SARS (severe acute respiratory syndrome), which infected 1,755 people in Hong Kong, of whom 299 died. The people of Hong Kong faced this epidemic with courage and resilience, but the anxieties created by a new and virulent disease inevitably had their effects on daily life, on economic activity, and on confidence in the future. The difficulties in Hong Kong came against the background of the spread of SARS on the Mainland and in other parts of the world, uncertainties about the impact of the war in Iraq, and concerns about the performance of some of the major world economies.

Economic indicators for the second quarter of 2003 dramatically reflected the sharp decline in activity and confidence. Tourist arrivals plunged by 58% from a year earlier. Private consumption, already

weak, continued to decline. The unemployment rate rose to a record high of 8.7% in the middle of the year. Deflation deepened. Residential property prices continued to decline, and by July had dropped to about a third of their value when the property market peaked in 1997. The number of residential mortgages in negative equity rose to around 106,000 in June, which was around 22% of all residential mortgages.

These were indeed troubled times. But the economic impact of SARS was short-lived, and some important sectors of the economy, such as merchandise trade, were hardly affected at all. The rebound in the second half of the year was sufficient not only to cancel the negative economic impact of SARS but also to propel Hong Kong into what appears by all signs to be a robust recovery.

This rebound has been boosted by measures taken by the authorities in Hong Kong and the Mainland to strengthen economic ties through the Closer Economic Partnership Arrangement (CEPA) and by the relaxation of restrictions on travel by individuals to Hong Kong. With the sharp turnaround in tourist visits in the third quarter, a marked revival in private consumption, and continued buoyancy in exports, Hong Kong's real GDP grew by 3.3% for the year as a whole, compared with 2.3% in 2002 and 0.5% in 2001. Asset markets stabilised in the second half of the year, and the number of residential mortgages in negative equity declined by 36% to around 67,600 by the end of the year. Deflation, if measured month on month, appears to have come to an end in around August 2003. The unemployment rate, though still high by historical standards, declined to 7.3% in the fourth quarter of 2003.

During this eventful and turbulent year the Hong Kong Monetary Authority achieved its objectives of maintaining currency stability, promoting the safety and stability of the banking system, and enhancing the efficiency, integrity and development of the financial system. Hong Kong's Exchange Fund, which is managed by the HKMA, produced an investment return of 10.2%: this was 70 basis points above the return on the benchmark set by the Financial Secretary on the advice of the Exchange Fund Advisory Committee.

Hong Kong's banking sector withstood the stresses and strains of the second quarter and came out stronger. Banks had to manage a combination of challenges brought on by persistent economic difficulty and exacerbated by SARS: sluggish loan growth, pressure on lending margins, negative equity, and a high bankruptcy rate. Like many other organisations, they also had to cope with the challenge of maintaining

*the economic impact
of SARS*

*sharp rebound
supported by
deepening economic
integration with the
Mainland*

*strong investment
return on the
Exchange Fund*

***a robust and effective
banking system***

essential services and staff morale during a time of crisis. Not only did Hong Kong's banking system remain stable and effective: the banking sector as a whole managed to show an increase in profits for the year as a whole, thanks to the markedly improved economic conditions in the second half of the year and to their own efforts to diversify business. The HKMA continued to work with the banking sector on the planned implementation of a Commercial Credit Reference Agency in 2004, and with the Legislative Council on the bill for establishing a Deposit Protection Scheme. Since August 2003 banks have been able to share positive consumer credit data. This will help nurture a healthier credit environment and provide more competitive products for borrowers with good credit standing.

***a stable Hong Kong
dollar against volatile
world markets***

Despite the difficult second quarter and considerable volatility in the world's main currencies, the Hong Kong dollar continued to be stable under the Linked Exchange Rate system. There was a moderate rise in 12-month Hong Kong dollar forward points in April, reflecting concerns about the effects of SARS. But the most striking event of the year was the sharp strengthening of the Hong Kong dollar in late September. Forward points went into discount, and the Aggregate Balance – the most sensitive component of the Monetary Base – grew to historically high levels as the HKMA sold Hong Kong dollars to banks in response to the increased demand for Hong Kong dollar assets. Almost overnight, longstanding concerns about downward pressure on the Link gave way to complaints from some that the Hong Kong dollar was being allowed to strengthen too much.

This episode of strengthening is gradually playing itself out through the normal operation of the Currency Board arrangements, through which the Linked Exchange Rate is maintained. The causes of the strengthening were complex, but there were three main elements. Economic recovery and a rapid revival in confidence attracted a strong inflow of funds into the Hong Kong dollar. The sharp decline in the value of the US dollar against other major currencies pulled the Hong Kong dollar down with it – unjustifiably in the view of the market. Political pressure from outside for a revaluation of the renminbi encouraged the view that, if the renminbi were to be revalued, the Hong Kong dollar would be pulled up with it. The strong inflow of funds is a matter of fact. The other two elements are an interesting example of how suddenly market sentiment can change.

A strengthening Hong Kong dollar is a much more straightforward problem than a weakening Hong Kong dollar. In addition to normal

Currency Board operations, the HKMA has a range of tools – all of them consistent with Currency Board principles – that can be deployed to dampen excessive volatility in the Hong Kong dollar. Together with the Sub-Committee on Currency Board Operations of the Exchange Fund Advisory Committee, we shall continue to watch the situation carefully.

The excitement over the short-term movements of markets in the last quarter of 2003 may perhaps have obscured the longer-term view. The weakness of the US dollar has had the benign effect of moderating the pain of structural adjustment arising from the increasing economic integration between the Mainland and Hong Kong. It has helped lessen the extent of deflation necessary as part of that structural adjustment. Along with deflation, it has contributed to a decline in Hong Kong's real effective exchange rate – the true measure of an economy's competitiveness – of as much as 26% between its peak in August 1998 and the end of 2003.

Hong Kong's competitiveness as an international city has been strengthened considerably by the reductions in the cost of doing business here. But competitiveness is not just a matter of low costs. An international city must have the institutions, the talent, and the infrastructure to attract business. An important, though largely invisible, part of this infrastructure is the machinery for clearing and settling financial transactions and for linking the financial system with other financial systems.

Hong Kong has one of the world's most advanced financial infrastructures. We introduced real time gross settlement for the Hong Kong dollar in 1996 and extended this to the US dollar in 2000. In April 2003 we launched a euro clearing system, and in November, following approval from the State Council, the People's Bank of China agreed to provide clearing arrangements for personal renminbi business in Hong Kong. In February 2004, 35 banks in Hong Kong began to provide personal renminbi deposit, remittance and exchange services. These new arrangements are made on the principle of cautious and gradual change, taking into account the fact that the renminbi is not yet a fully convertible currency. Renminbi services in Hong Kong will facilitate the growing economic integration between Hong Kong and the Mainland. Looking further ahead, they will also help place Hong Kong in an excellent position as a centre for China's international financial transactions with the gradual liberalisation of the Mainland's monetary and financial systems in the future.

developing Hong Kong as an international financial centre

introduction of renminbi banking in Hong Kong

new Hong Kong banknotes

Other developments in Hong Kong's financial infrastructure in 2003 included the introduction in June of cheque imaging and truncation, which greatly reduces the need for physically delivering cheques for clearance, and the launch by the note-issuing banks in December of new \$100 and \$500 banknotes. These are the first of a new series of Hong Kong banknotes with fresh designs and improved security features: the remaining denominations in the new series will be issued later in 2004.

international standards

One of the aims of the HKMA is to ensure that Hong Kong's banking and monetary systems comply with international codes and standards. For this reason, the groundwork continued in 2003 for implementing the New Basel Capital Accord, which is targeted for implementation in late 2006. In June 2003 the joint IMF-World Bank mission under the Financial Sector Assessment Programme (FSAP) delivered its comprehensive report on Hong Kong. The report confirmed that Hong Kong complies with key international standards, that its financial system is fundamentally sound, and that its market infrastructure is robust and efficient.

operational autonomy of the HKMA

The FSAP mission made a number of recommendations for improving the regulation and transparency of Hong Kong's financial system. The great majority of these have been swiftly implemented. One of the recommendations was that the legal foundation of the HKMA should be clarified and the operational autonomy of the HKMA for the implementation of monetary policy should be explicitly recognised in a formal document. On 25 June the Financial Secretary and I, as Monetary Authority, exchanged a series of letters setting out the division between the two of us of functions and responsibilities in monetary and financial affairs. These letters, which are public documents, summarise governance and other provisions, under the Exchange Fund and Banking Ordinances, that have been in place for some years, and as such they make no change to existing arrangements.

Two aspects of this Exchange of Letters are, however, worth drawing particular attention to for the emphasis they place on the operational independence of the HKMA. First, disclosure is made in the letters, for the first time, of the details of the delegation of statutory powers from the Financial Secretary to the Monetary Authority. The Financial Secretary makes an undertaking to disclose publicly, within three months and giving reasons, any exercise by himself of those delegated powers or any overriding of the Monetary Authority in his exercise of

the delegated powers. Secondly, the Financial Secretary formally lays down, for the first time, the monetary policy objective and the structure of Hong Kong's monetary system: a stable exchange value of the Hong Kong dollar in terms of its exchange rate against the US dollar at around HK\$7.80 to US\$1 maintained by Currency Board arrangements.

These are, of course, the monetary arrangements that have been in place in Hong Kong for 20 years, and it is perhaps appropriate that, as it comes of age, the Linked Exchange Rate system, which was introduced on 17 October 1983, should be formally enunciated in this way. In April 2003 we also marked the 10th anniversary of the foundation of the HKMA. This has been a momentous decade for Hong Kong, and a time of great difficulty and anxiety. I believe, however, that the HKMA can look back on its achievements during these years with some satisfaction. In its contributions to maintaining monetary and financial stability, the HKMA has relied heavily upon its greatest asset – an excellent staff – and I pay tribute to them for their unfailing dedication and determination over the years. The HKMA has also received skilled guidance from successive Financial Secretaries and Members of the Exchange Fund Advisory Committee. And, most important of all, we have enjoyed the support and confidence of the people of Hong Kong: without this, and without the co-operation from their representatives on the Legislative Council, we could not fulfil our objectives.

Ten challenging years have taught us that there are few certainties and many surprises in this rapidly changing world. It would be unwise to try to predict what might happen in the next decade, although the prospects for Hong Kong in the coming year at least seem to be brighter than they have been for some time. The HKMA will, however, continue to do its best to ensure that Hong Kong's monetary and financial systems have the stability, the infrastructure, and the resources to manage whatever challenges, opportunities and crises that may lie ahead.



Joseph Yam
Chief Executive

*20th anniversary
of the Link,
10th anniversary
of the HKMA*

THE ECONOMIC AND BANKING ENVIRONMENT IN 2003

Economic performance in 2003

The Hong Kong economy rebounded strongly in the second half of 2003, after having been severely disrupted by the outbreak of SARS in the second quarter. Real GDP rose by 3.3% in 2003, reflecting buoyant exports of goods, a sharp turnaround in tourism, and a revival in private consumption.

Prospects for 2004

The economic recovery is expected to gather momentum and become more broad-based in 2004. In addition to the cyclical upturn, the economy is expected to benefit from policy initiatives that facilitate economic integration between Hong Kong and the Mainland, such as Closer Economic Partnership Arrangement (CEPA) and permission for banks to undertake personal renminbi business, which will secure growth over the medium to long term.

Performance of the banking sector in 2003

The banking sector continued to perform well in 2003, despite a number of negative factors in the first half of the year, including continuing

deflation and declining property prices, high unemployment, personal bankruptcies and the SARS outbreak.

In the second half of the year, however, the general economy started to pick up. Rising property prices helped ease the problem of negative equity. Banks' overall asset quality improved. The banking sector ended the year with a modest growth in profitability.

Prospects for the banking sector in 2004

The banking sector will see new opportunities and challenges in 2004. The launch of the positive data sharing credit bureau may prompt banks to repackage or introduce new consumer products with price differentiation to better reflect customer credit risks. The implementation of programmes under CEPA is expected to bring more business opportunities for the banking sector in Hong Kong through easier access to the Mainland banking sector. The introduction of personal renminbi business will broaden banks' revenue sources. The use of renminbi cards in Hong Kong is likely to boost business income for the tourist-related sectors as well as potentially increasing fee income for the banks.

More than 2,000 swimmers brave chilly waters to take part in the 27th International New Year Winter Swimming Championships held on the south side of Hong Kong Island to welcome the New Year in 2003.



In view of the competitive operating environment, consolidation and branch rationalisation are expected to continue.

Currency

The three note-issuing banks put into circulation new \$100 and \$500 Hong Kong banknotes in December 2003. The new banknotes incorporated advanced security features: the use of optical variable ink for denomination numerals, fluorescent machine-readable barcodes, a 4mm-wide windowed thread, and iridescent images. Security features and colour schemes were also standardised for the new banknotes.

The remaining three denominations of banknotes (\$20, \$50 and \$1,000) will be issued in the last quarter of 2004.

 [Consumer Information > Notes and Coins](#)

Hong Kong's economy in 2003

	2002	2003
Economic Growth and Inflation		
Real growth in Gross Domestic Product (%)	2.3	3.3 ^(a)
of which:		
Real growth in private consumption expenditure (%)	-1.2	0.0 ^(a)
Real growth in gross domestic fixed capital formation (%)	-4.3	-0.1 ^(a)
Real growth in exports (%)	9.3	12.7 ^(a)
Real growth in imports (%)	7.1	11.3 ^(a)
Composite Consumer Price Index (annual change, %)	-3.0	-2.6
Labour Market		
Employment (annual change, %)	-0.6	-0.3
Unemployment rate (annual average, %)	7.3	7.9
Money Supply (annual change, %)		
Hong Kong money supply (M1)	12.9	36.8
Hong Kong money supply (M2) ^(b)	-0.7	6.2
Hong Kong money supply (M3) ^(b)	-0.6	5.9
Interest Rates (end of year, %)		
Savings deposit rate	0.03	0.01
Best lending rate	5.00	5.00
Three-month interbank rate	1.41	0.07
Exchange Rates (end of year)		
Hong Kong dollar/US dollar	7.798	7.763
Trade-weighted effective exchange rate index (Jan 2000=100)	102.0	98.8
Hang Seng Index (end of year)		
	9,321	12,576

(a) The estimates are preliminary.

(b) Adjusted to include foreign currency swap deposits.

Performance of Hong Kong's banking sector in 2003

	2002 %	2003 %	2002 %	2003 %
	All AIs		Retail banks*	
Profitability^(a)				
Growth of pre-tax operating profit	N.A.	N.A.	11.7	5.34
Return on assets (operating profit before tax)	0.94	0.93	1.35	1.36
Return on assets (post-tax profit)	0.81	0.81	1.18	1.17
Net interest margin	1.52	1.41	2.09	1.91
Bad debt charge to average total assets	0.24	0.24	0.34	0.29
Business Profile^(a)				
Growth in loans to customers	-5.0	-2.0	0.3	-0.6
Growth in customer deposits (all currencies)	-2.6	7.5	0.7	7.4
Hong Kong dollar loan to deposit ^(b) ratio	88.5	81.5	78.6	71.6
Asset Quality^(c)				
Classified loans ^(d) as % of total loans	4.53	3.71	5.04	3.91
Non-performing loans ^(e) as % of total loans	3.46	2.94	3.94	3.16
			All locally incorporated AIs	
Capital Adequacy Ratio (consolidated)			15.7	15.3

Notes:

(a) Figures relate to Hong Kong office(s) only.

(b) Includes swap deposits.

(c) Figures relate to Hong Kong office(s) and in the case of local AIs include overseas branches.

(d) Denotes loans graded as "substandard", "doubtful" or "loss".

(e) Denotes loans on which interest has been placed in suspense or on which interest accrual has ceased.

N.A.: not available

* This comprises all the locally incorporated banks plus a number of the larger foreign banks which are not locally incorporated but whose operations are similar to those of the locally incorporated banks in that they operate a branch network and are active in retail banking.

MONETARY CONDITIONS IN 2003

The Linked Exchange Rate system continued to function smoothly in 2003 despite economic difficulties exacerbated by the outbreak of SARS in the spring, volatility in currency markets, and a surge in inflows of funds later in the year. The exchange rate was stable during the year, with a modest strengthening in the fourth quarter to close the year at HK\$7.76 to one US dollar (Chart 1).

The strength of the Hong Kong dollar is associated with a marked improvement in Hong Kong's economic prospects, portfolio re-allocations arising in part from Hong Kong's robust current account surpluses and international investment position, and the weakness of the US dollar.

In response to a rise in the demand for Hong Kong dollars, the HKMA sold Hong Kong dollars totalling \$31.9 billion to banks in exchange for US dollars between September and December

2003. The Aggregate Balance rose to \$28.3 billion at the end of the year (Chart 2).

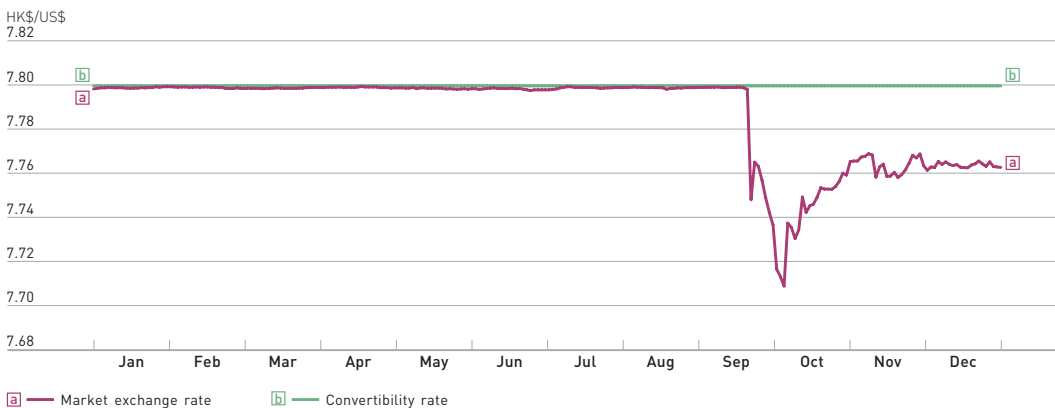
Interbank interest rates eased during the year, except for a brief increase in April on concerns about the impact of SARS. They dropped below US rates in September following a strong inflow of funds. Interest rate volatility remained low during the year.

Activities at the HKMA

The Exchange Fund Advisory Committee Sub-Committee on Currency Board Operations continued to monitor the operations of the Currency Board system in 2003 and examined issues affecting monetary and financial stability. These issues included

- the economic impact of SARS on Asian economies
- prospects for a re-emergence of inflation in Hong Kong

CHART 1 Market exchange rate and convertibility rate, January – December 2003



Highways Department staff work at night against tight deadlines to ensure that Hong Kong's roads are smooth and safe.



- the macroeconomic effects arising from maintaining the Linked Exchange Rate system
- the determinants of banking performance in Hong Kong.

The records of discussion of the meetings of the Exchange Fund Advisory Committee Sub-Committee on Currency Board Operations and reports on the operations of the Currency Board system are published in the HKMA's *Quarterly Bulletin* and on the HKMA website. Many of the papers the sub-committee considers are published in the *Quarterly Bulletin* as research articles or on the HKMA website as research memoranda.

The Hong Kong Institute for Monetary Research (HKIMR) published 24 working papers in 2003, and hosted workshops and conferences on strategic issues affecting monetary and financial development in Hong Kong and the region.

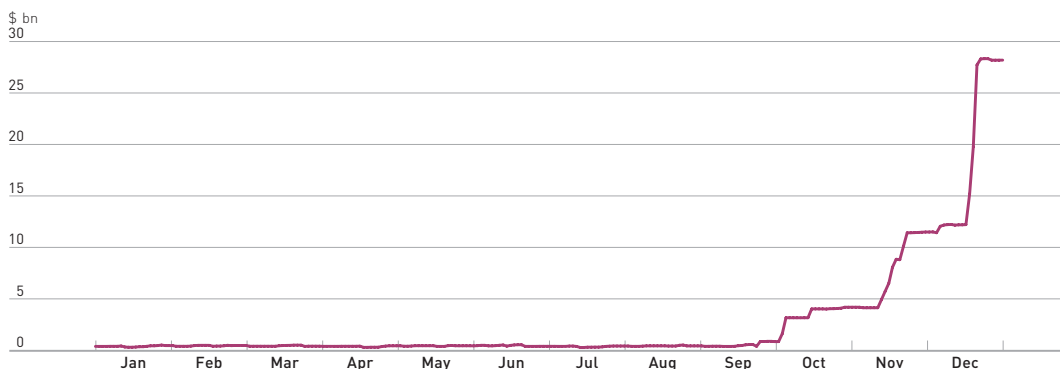
The working papers of the HKIMR are published on its website www.hkimr.org. Printed copies are available for reading at the library in the HKMA Information Centre.

 > Information Centre > Publications

 > Information Centre > Press Releases > Monetary Policy category

 > Information Centre > Research Memoranda

CHART 2 Aggregate Balance, January – December 2003



BANKING POLICY AND SUPERVISORY ISSUES IN 2003

Operational supervision

The HKMA conducted 247 on-site examinations of authorized institutions' (AIs) operations in 2003, including 76 risk-focused, nine treasury and 18 securities examinations. The decrease in on-site examinations (down from 285 in 2002) mainly reflects precautionary measures taken during the outbreak of SARS to reduce physical interaction. Details of the operational supervisory work performed in 2003 are in Table 1.

TABLE 1 Operational supervision

	2002	2003
1. On-site examinations including those on	285	247
- treasury	(11)	(9)
- securities	(10)	(18)
- e-banking	(30)	(28)
- review of business continuity plans	(20)	(20)
- overseas examinations	(12)	(9)
2. Off-site reviews and prudential interviews	215	216
3. Tripartite meetings	78	77
4. Meetings with boards of directors of AIs	21	16
5. Approval of applications to become controllers, directors, chief executives, alternative chief executives of AIs	318	310
6. Reports commissioned under Section 59(2) of the Banking Ordinance	0	5
7. Cases considered by the Banking Supervision Review Committee	10	12

Supervision of banks

To promote the safety and soundness of AIs in 2003, the HKMA

- monitored the impact of SARS on AIs' asset quality and profitability
- recommended certain best practices on business continuity planning to AIs in handling outbreaks of communicable diseases
- continued its efforts to achieve further industry consolidation – two merger bills were enacted and one merger and acquisition transaction was completed
- signed Memorandums of Understanding with the Insurance Authority, the China Banking Regulatory Commission and the Commission Bancaire of France
- implemented the new supervisory regime for AIs' securities business following the commencement of the Securities and Futures Ordinance on 1 April 2003
- further developed guidance to AIs on the prevention of money laundering
- launched a consumer education programme on e-banking security.

Windsurfers compete in the Hong Kong Windsurfing Circuit in Sai Kung. The Circuit attracted around 100 competitors from Hong Kong and overseas.



Banking reform

The HKMA made progress with banking reform in 2003 through

- introducing the Deposit Protection Scheme Bill into the Legislative Council in April
- finalising the detailed design of the commercial credit reference agency in Hong Kong and continuing with customer education efforts.

New Basel Capital Accord

The HKMA continued to prepare for the New Basel Capital Accord, scheduled for implementation by the end of 2006, through

- completing the third Quantitative Impact Study to assess the potential impact of the New Accord on the local banking sector
- consulting the banking industry on proposals to implement the New Accord in Hong Kong
- developing proposals on the legislative approach.

Consumer protection

The HKMA continued to monitor AIs' compliance with the *Code of Banking Practice* by a self-assessment survey. The survey showed that the compliance status of the industry as a whole improved significantly in 2003 (99% of AIs reported either full or almost full compliance compared with 90% in 2002).

 [Information Centre > Press Releases > Banking in Hong Kong category](#)

 [Information Centre > Guidelines and Circulars](#)

 [Policy Areas > Supervisory Policy Manual](#)

 [Consumer Information](#)

MARKET INFRASTRUCTURE IN 2003

Payment systems in Hong Kong

The Hong Kong dollar payment system and the two foreign currency payment systems operated smoothly and efficiently in 2003.

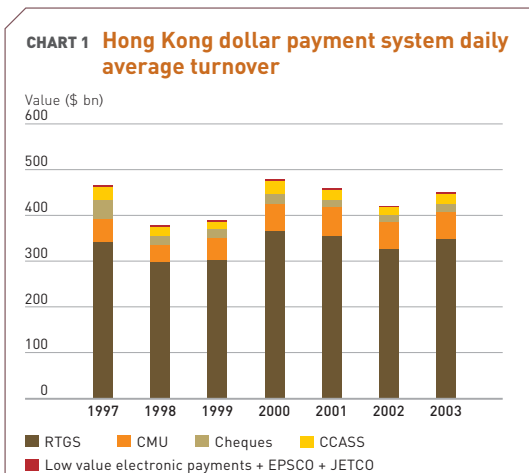
In 2003 Hong Kong Interbank Clearing Limited processed a daily average value of \$348 billion (13,721 items in volume) CHATS transactions and \$21.1 billion (138 items in volume) CMU secondary market transactions. The system also provided for the smooth settlement of the four daily bulk clearings – the money settlement of stock market transactions (CCASS), low-value bulk electronic payment items (EPSCO), cheques and low-value ATM transfers (JETCO) (Chart 1).

By the end of 2003 there were 67 direct and 160 indirect participants in the US dollar clearing system, including 113 indirect participants from outside Hong Kong. In the fourth quarter of 2003, the system handled on average 4,600 transactions a day with a total value of over US\$5.2 billion.

The euro clearing system, introduced in April 2003, operated smoothly in its first year. By the end of 2003, the system had 23 direct and 22 indirect participants, including nine indirect participants from outside Hong Kong. In the fourth quarter of 2003 the system handled an average of 30 transactions a day with a total value of over €740 million.

Cheque imaging and truncation

A new Cheque Imaging and Truncation System began operation in June 2003. Under the new system, low-value cheques are exchanged and cleared on the basis of an electronic presentation of cheque images and the relevant cheque data. This reduces the need for banks to physically deliver low-value cheques for clearing and settlement.



Engineering staff provide maintenance services to ensure aircraft safety at Hong Kong International Airport. Aircraft maintenance in Hong Kong uses the most technically advanced methods available and generates more than 1.5 million working hours of maintenance every year.



Formal oversight regime for the important clearing and settlement systems

Following recommendations by the International Monetary Fund, the HKMA introduced in December 2003 a Clearing and Settlement Systems Bill into the Legislative Council to provide statutory oversight and settlement finality for important clearing and settlement systems in Hong Kong. The Bill also facilitates the admission of Hong Kong dollar transactions into the Continuous Linked Settlement system – a global clearing and settlement system for cross-border foreign exchange transactions.

Debt market development in Hong Kong

During 2003, the HKMA endeavoured to promote the development of local debt market through

- enhancing the credibility and liquidity of the Hong Kong dollar benchmark yield curve by streamlining and adjusting the maturity mix of the Exchange Fund Bills and Notes (EFBN) portfolio, promoting active participation of market makers and facilitating price transparency in the EFBN market

- raising public awareness and broadening the investor base of Hong Kong dollar debt securities by implementing a pilot scheme for promoting Exchange Fund Notes (EFN) to retail investors and making information on EFN more easily accessible by the public
- working closely with industry associations and the Government on introducing policy initiatives conducive to market development.

 [Press Releases > Market Infrastructure category](#)

INTERNATIONAL FINANCIAL CENTRE

The HKMA and the international financial community

In 2003 the HKMA continued to strengthen its contacts with the international central banking and financial community. These contacts enable the HKMA

- to promote international understanding of, and confidence in, Hong Kong's monetary and financial systems
- to identify market proposals to promote the development of regional bond markets
- to share information with other central banks about financial developments so as to facilitate the proper oversight of financial markets and the prudential supervision of financial institutions
- to improve understanding of international economic and financial trends so as to facilitate more effective policy formulation in the HKMA
- to improve the HKMA's access to the technical expertise available in major central banks and multilateral institutions
- to promote the understanding of other central banks, international financial institutions, and investors on Hong Kong's monetary, financial and economic developments.

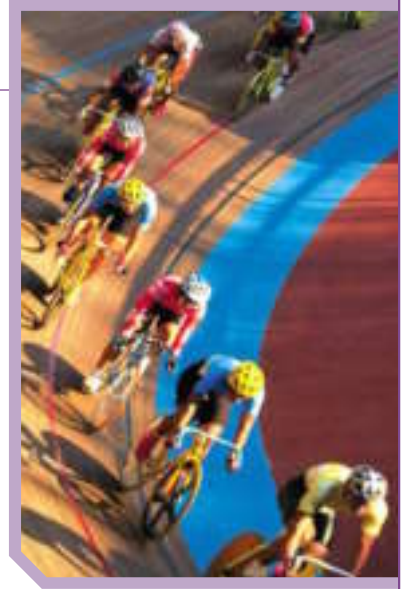
Regional monetary co-operation and participation in multilateral forums

The HKMA contributed actively to policy dialogues in international and regional forums in 2003. The HKMA participated in the meetings of the Asia-Pacific Economic Co-operation (APEC) forum, the Financial Stability Forum and the Bank for International Settlements (BIS) in 2003. The Chief Executive of the HKMA, Mr Joseph Yam, assumed the chairmanship of the BIS Asian Consultative Council since March 2003. Within the region, the HKMA continued to participate in the activities of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and chaired its Working Group on Financial Markets and the Forum on Foreign Exchange Markets from June 2002. The HKMA also maintained bilateral contacts with regional central banks. During the year, the HKMA held bilateral meetings with the Monetary Authority of Singapore and the Bank of Thailand.

Compliance with international codes and standards

The HKMA co-ordinated Hong Kong's participation in the Financial Sector Assessment Programme (FSAP), a joint IMF-World Bank initiative with the aim of promoting financial stability, which took place in the second half of 2002 and the first quarter of 2003. The FSAP mission concluded that Hong Kong complies with the key international standards applicable to the banking and financial sectors.

Hong Kong cyclists take part in the 9th All China Games, held in Guangzhou. Cyclists from Hong Kong have made a name for themselves in both national and international competitions. In this race Hong Kong takes the gold medal.



Hong Kong's international credit ratings

Since July 2003, the HKMA has been playing a key role in the adoption of a more pro-active approach towards Hong Kong's international credit ratings. The main purpose of this approach is to ensure a balanced view on Hong Kong through more effective communication between the international credit rating agencies and the relevant authorities in Hong Kong. In October 2003, Moody's decoupled Hong Kong's sovereign rating from that of China's by upgrading Hong Kong's foreign currency rating by two notches to A1.

Development of regional bond markets

The HKMA chairs the EMEAP Working Group on Financial Markets, and is contributing significantly to the design and launch of the Asian Bond Fund (ABF). The US dollar-denominated ABF (or ABF1) with an initial size of about US\$1 billion was launched in June 2003, and invested by all 11 EMEAP central banks. The ABF1 helps promote the efficiency of financial intermediation in the region and facilitates the channelling of a small portion of the foreign reserves held by the Asian economies back into the region to finance Asia's own economic development. The Working Group is now studying the structure and design of a local currency-denominated ABF (or ABF2).

The HKMA is co-leading with South Korea and Thailand an APEC Initiative on the Development of Securitisation and Credit Guarantee Markets, with the World Bank as sponsor. The first panel

visits to three APEC member economies were launched in 2003 to assist the economies in identifying market impediments and to devise proposals to remove them.

Financial market integration with Mainland China

On 18 November 2003 the Chief Executive of the Hong Kong Special Administrative Region announced that, following approval from the State Council, the People's Bank of China had agreed to provide clearing arrangements for personal renminbi business in Hong Kong. Renminbi banking in Hong Kong and greater access to Mainland market by banks in Hong Kong under CEPA will help provide further stimulus to the growing integration between Hong Kong and the Mainland.

The HKMA maintained close dialogue with Mainland authorities to further enhance Hong Kong's intermediary role in the flow of capital and knowledge. We have continued our research co-operation with Mainland academics and think-tanks to exchange views on issues of common interest.

 [Information Centre](#) > [Press Releases](#) > [International Relations category](#)

EXCHANGE FUND PERFORMANCE IN 2003



Green volunteers plant shrubs during a campaign in the Tai Po Waterfront Park in September 2003. Hong Kong currently has over 1,000 Green Volunteers, all of whom are trained to nurture and care for trees and plants and to promote the greening of Hong Kong.

The financial markets were turbulent in 2003 (Table 1).

In 2003 the Exchange Fund recorded foreign exchange gains of \$22.9 billion, mainly owing to the appreciation of the euro against the US dollar. Investment gains from Hong Kong equities and foreign equities were \$21.2 billion and \$26.8 billion respectively. The income from bond holdings amounted to \$18.8 billion. The investment strategy produced an overall investment income of \$89.7 billion, or an investment return of 10.2%.

The investment return of the Exchange Fund relative to the investment benchmark and domestic inflation rate for the period 1993-2003 is set out in Table 2. The currency mix of the Fund's assets at 31 December 2003 is set out in Table 3.

 [Information Centre](#) > [Press Releases](#) > [The Exchange Fund category](#)

TABLE 1 2003 market returns

Currencies	
Appreciation against the US dollar	
euro	20.2%
yen	10.7%
Bond markets	
JP Morgan US Government Bond (1-7 years) Index	2.3%
Equity markets	
Standard & Poor's 500 Index	+26.4%
Hang Seng Index	+34.9%

TABLE 2 Gross investment return of the Exchange Fund (in US dollar terms)¹

	Return on total assets	Return on investment benchmark ²	CPI(A) ³
2003	10.2%	9.5%	-1.2%
2002	5.1%	3.9%	+1.0%
1993 – 2003 cumulative	105.3%	N/A	24.0%
1993 – 2003 annualised	6.8%	N/A	2.0%

¹ For the Annual Reports in 2000 and preceding years, return on total assets and return on investment benchmark is in Hong Kong dollar terms.

² Established in January 1999.

³ December year-on-year percentage change in the HK-CPI(A) index. CPI(A) is calculated based on the 1999/2000 base new series.

TABLE 3 Currency mix of the Exchange Fund's assets (at 31 December 2003) – including forward transactions

	HK\$ billion	%
US dollar bloc		
US dollar ¹	786.2	77.7
Hong Kong dollar	77.9	7.7
Non-US dollar bloc		
	147.5	14.6
Total	1,011.6	100.0

¹ Included US dollar bloc foreign currencies such as Canadian dollar, Australian dollar and New Zealand dollar.

THE EXCHANGE FUND

The financial position of the Exchange Fund in 2003 is shown below in the Income and Expenditure Account and Balance Sheet, which are extracted from the *HKMA Annual Report* for 2003.

The audited full statement of account of the Exchange Fund for 2003 may be found on pages 92 to 121 of the full Annual Report.

EXCHANGE FUND – INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2003

(Expressed in millions of Hong Kong dollars)

	2003	2002
INCOME		
Interest income		
Interest income on debt securities	23,103	29,662
Other interest income	2,410	3,608
Total interest income	25,513	33,270
Dividend income from listed equity securities	3,751	3,237
Dividend income from subsidiaries	140	-
Net realised and revaluation gains/(losses) on other investments in securities	29,384	(6,542)
Other net realised and revaluation gains/(losses)	7,960	(10,184)
Net exchange gains	22,900	27,241
Bank licence fees	130	134
Others	49	33
TOTAL INCOME	89,827	47,189
EXPENDITURE		
Interest expense	29,847	21,169
Operating expenses	1,179	1,162
Note and coin expenses	229	273
TOTAL EXPENDITURE	31,255	22,604
SURPLUS BEFORE DEFICIT ON REVALUATION OF PREMISES	58,572	24,585
Deficit on revaluation of premises	876	-
SURPLUS FOR THE YEAR	57,696	24,585

EXCHANGE FUND – BALANCE SHEET

as at 31 December 2003

(Expressed in millions of Hong Kong dollars)

	2003	2002
ASSETS		
Cash and money at call	19,143	15,956
Placements with banks and other financial institutions	41,549	35,475
Investment securities	300	300
Other investments in securities	931,737	878,838
Gold	217	179
Thailand financing package	-	1,058
Other assets	13,503	19,678
Investments in subsidiaries	2,145	2,145
Fixed assets	3,051	1,436
TOTAL ASSETS	1,011,645	955,065
LIABILITIES AND FUND EQUITY		
Certificates of Indebtedness	134,215	118,475
Government-issued currency notes and coins in circulation	6,297	5,891
Balance of the banking system	28,277	525
Exchange Fund Bills and Notes	123,520	122,925
Placements by banks and other financial institutions	44,542	36,270
Placements by other Hong Kong Special Administrative Region government funds	252,296	301,669
Placements by Hong Kong statutory bodies	164	4,279
Other liabilities	37,455	37,857
Total liabilities	626,766	627,891
Accumulated surplus	384,870	327,174
Premises revaluation reserve	9	-
Fund equity	384,879	327,174
TOTAL LIABILITIES AND FUND EQUITY	1,011,645	955,065

THE HKMA : THE FIRST 10 YEARS

The Hong Kong Monetary Authority marked its 10th anniversary on 1 April 2003.

The decade between 1993 and 2003 was a period of political transition, culminating in Hong Kong's establishment as a Special Administrative Region of the People's Republic of China on 1 July 1997. This was also a decade of economic change and stress. Hong Kong's economy became more closely integrated with that of the Mainland of China. Following the Asian financial crisis in 1997, Hong Kong experienced a period of prolonged economic difficulty.

The HKMA was formed with the aim of placing under one authority the official responsibilities for maintaining monetary and financial stability and for developing an efficient and robust financial infrastructure. The decision to establish the HKMA in 1993 took into account the growing importance of Hong Kong as an international financial centre, the need to ensure monetary stability during a period of political and economic transition, and the increasing risks posed by the globalisation of finance.

Hong Kong's economy developed between 1993 and 2003. Over the decade

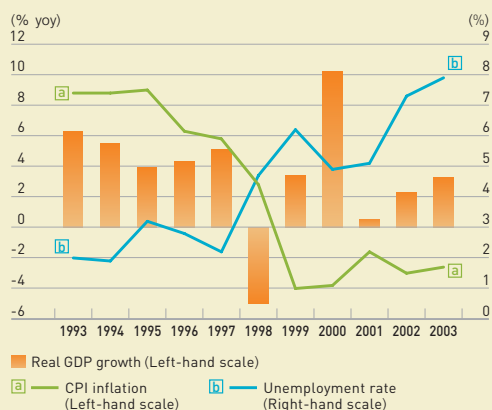
- real gross domestic product grew by an average rate of 3.3% per year, while nominal gross domestic product increased from US\$118 billion to US\$159 billion
- per capita gross national product rose from HK\$157,000 to HK\$187,000
- the workforce expanded from 2.9 million to 3.5 million
- real private consumption increased by one-fifth, recording an average annual increase of 1.9%
- real exports of goods and services almost doubled, increasing by an average of 6.6% a year
- broad money, in terms of Hong Kong dollar M3, grew by an average of 8.5% a year, from HK\$939 billion to HK\$2,123 billion
- the share of the value-added of the service sector in gross domestic product rose from 81% to 88% between 1993 and 2002.

These positive figures must, however, be set against indicators that reflect the difficulties of the second half of the decade:

- the unemployment rate rose from 2.4% in January 1998 to 7.3% in December 2003
- the Composite Consumer Price Index declined by about 16% from its peak in May 1998
- residential property prices declined by about two-thirds from their peak in October 1997.

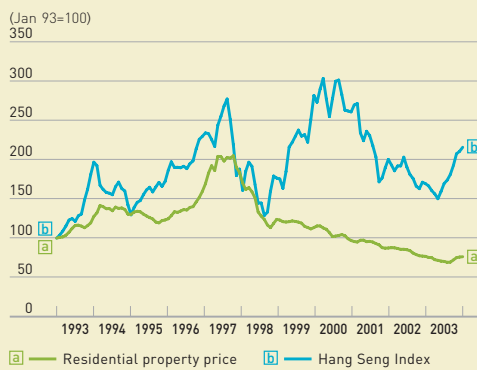
The charts on page 40 illustrate the stresses and volatilities during these years.

ECONOMIC DEVELOPMENT



Source: Census and Statistics Department.

ASSET PRICES



Source: Rating and Valuation Department and Reuters.

Economic distress and financial crisis placed strains and burdens on the whole community of Hong Kong. Extreme conditions and speculative attacks presented challenges that tested the HKMA’s ability to achieve its aims and which, in retrospect, amply justified the decision to establish the HKMA in 1993.

During its first decade the HKMA fully delivered on its policy objectives and was able to promote development in the financial sector and in Hong Kong’s financial infrastructure. In the process, the HKMA became more transparent in the information it makes available to the markets and in its accountability to the community.

Currency stability

- the market exchange rate of the Hong Kong dollar stayed close to the official Linked Exchange Rate of HK\$7.80 to one US dollar throughout the decade
- following the Asian financial crisis a series of reforms and refinements were made to the Currency Board system to ensure smooth functioning in periods of stress.

Exchange Fund

- between January 1994 and December 2003 the Exchange Fund achieved an annual compounded rate of return of 6.7%, which was consistently higher than the investment benchmark and the Consumer Price Index
- the Accumulated Surplus of the Exchange Fund increased from about HK\$127.5 billion at the end of 1993 to over HK\$380 billion at the end of 2003.

Banking stability

- the total assets of the banking sector grew by 7.3% between 1993 and 2003
- the total capital adequacy ratio of Hong Kong's banking sector remained above 15% throughout the decade
- the supervisory framework for the banking sector was brought into line with international standards, and reforms were made to increase competitiveness while maintaining safety and stability.

Financial infrastructure

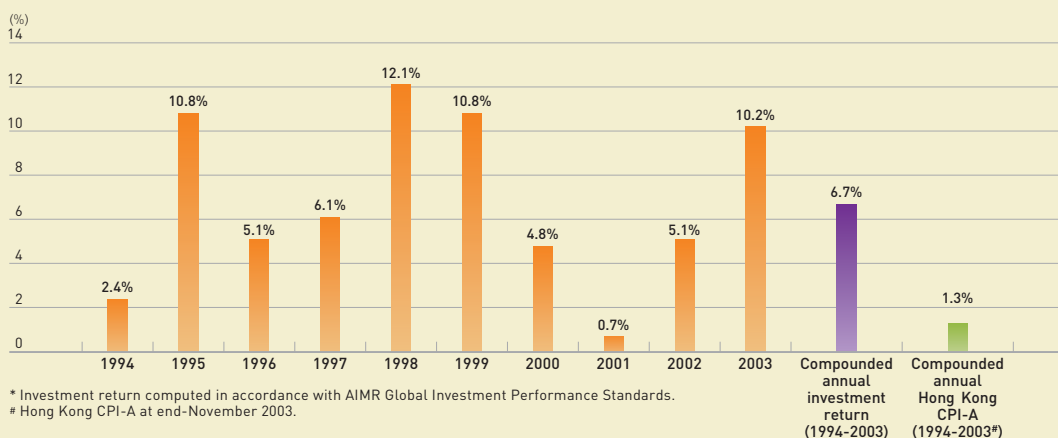
- real time gross settlement was introduced for the Hong Kong dollar in 1996, for the US dollar in 2000 and for the euro in 2003
- Exchange Fund paper was further developed to facilitate liquidity management and the growth of the debt market

- linkages for clearing and settling securities were established with five jurisdictions outside of Hong Kong
- Hong Kong dollar and US dollar clearing and settlement arrangements were extended to Guangdong Province.

International financial centre

- the HKMA became a member of the Bank for International Settlements in 1996
- Hong Kong hosted the World Bank/IMF Annual Meetings in 1997
- Hong Kong played a prominent role in regional and international initiatives for promoting financial stability and developing the regional and domestic bond markets
- approval was given in 2003 for banks in Hong Kong to conduct personal renminbi business.

INVESTMENT RETURN* OF THE EXCHANGE FUND



MAJOR EVENTS 1993–2003

1993

April 1993

The Hong Kong Monetary Authority is established with responsibility for monetary and banking stability, reserves management, and financial infrastructure.

May 1993

The Government starts to replace the Queen's Head coins with the new bauhinia design.



July 1993

The Government announces the sale of Overseas Trust Bank for HK\$4,457 million. The sale of the bank, taken over in June 1985, marks the end of the Government's efforts to rescue banks in the 1980s.



July 1993

Hong Kong becomes the first city in the world to have a completely digital telephone network.



1994

May 1994

The Bank of China issues its first Hong Kong banknotes.



June 1994

The Government announces a package of measures to dampen property speculation.

August 1994

The Hang Seng China Enterprises Index is launched to serve as an indicator of the overall performance of Hong Kong-listed, state owned enterprises of the People's Republic of China.

September 1994

The first issue of five-year Exchange Fund Notes is launched. The issue helps extend the benchmark yield curve for Hong Kong dollar debt to the five year area.

October 1994

The interest rate cap on time deposits is lifted in phases. This marks the beginning of a relaxation of Interest Rate Rules in Hong Kong.

November 1994

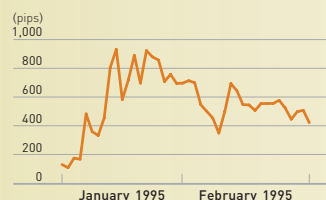
Hong Kong issues its first bimetallic coin – the bauhinia \$10 coin.

1995

January 1995

In the aftermath of the Mexican peso crisis, the Hong Kong dollar comes under selling pressure along with other Asian currencies.

Hong Kong dollar forward exchange rate



— 12-month forward points
Source: Datastream.

May 1995

Hong Kong Interbank Clearing Limited is established to provide interbank clearing functions in Hong Kong.



HONG KONG INTERBANK CLEARING LIMITED
香港銀行同業結算有限公司

June 1995

The HKMA becomes the licensing authority of three types of authorized institutions, following the enactment of the Banking (Amendment) Ordinance 1995.

July 1995

The Companies Ordinance is amended so that depositors are entitled to receive priority payment in the liquidation of banks.

November 1995

The Government decides to publish the size of Hong Kong's foreign exchange reserves (i.e. foreign currency assets of the Exchange Fund) every quarter instead of every six months.

November 1995

The first issue of seven-year Exchange Fund Notes is launched.

1997 – 1998

Financial crisis in several Asian countries including South Korea, Indonesia and Thailand.

1996

January 1996

The Exchange Fund acquires the De La Rue banknote printing plant in Tai Po, which is renamed "Hong Kong Note Printing Limited".



September 1996

The HKMA is invited to join the Bank for International Settlements, the Swiss-based forum promoting co-operation among central banks.

October 1996

The first issue of ten-year Exchange Fund Notes is launched.

December 1996

Real Time Gross Settlement is launched in Hong Kong, enabling interbank payments to be settled real time.

1997

March 1997



The Hong Kong Mortgage Corporation is established. It will buy mortgage loans for its own portfolio and issue mortgage-backed securities.

July 1997

Hong Kong becomes a Special Administrative Region of the People's Republic of China.



July 1997

The assets of the Land Fund are handed over to Hong Kong SAR Government with a net value of HK\$197 billion. From July 1997 to October 1998 these assets are managed by the HKMA as a separate fund within the fiscal reserves. On 1 November 1998 the assets of the Land Fund are merged with the Exchange Fund and managed as part of the investment portfolio of the Exchange Fund.

July 1997

The *Code of Banking Practice* is issued to improve the transparency and quality of banking services in Hong Kong.



September 1997

The Octopus card appears in Hong Kong. This contact-free stored value card is used for transport fares and retail



purchases. By 2003, there are around nine million Octopus cards in circulation in Hong Kong (or 1.3 for every resident) and over seven million daily Octopus transactions.

September 1997

World Bank/IMF Annual Meetings are held in Hong Kong. Central bank and finance ministry officials from some 180 countries attend the meetings.



1997 – 2003

Economic Downturn in Hong Kong. After the Asian financial crisis Hong Kong experiences a period of prolonged economic difficulty, relieved only by a brief recovery in 2000. A series of external shocks, coupled with sharp declines in asset prices, result in high unemployment, deflation and fiscal deficits.

1998

July 1998

Hong Kong International Airport opens at Chek Lap Kok.



July 1998

The Bank for International Settlements opens its representative office for Asia and the Pacific in Hong Kong.

August 1998

Using HK\$118 billion out of the Exchange Fund, the Hong Kong SAR Government launches a stock market operation to frustrate manipulation of the money and stock markets.

September 1998

The HKMA introduces seven technical measures to strengthen the Currency Board arrangements.



October 1998

Exchange Fund Investment Limited is established to manage the portfolio of Hang Seng Index constituent stocks acquired by the Exchange Fund in the market operation of August.

1999

January 1999

The foreign currency assets and the balance sheet data of the Exchange Fund are published monthly, in line with the standard set by the International Monetary Fund.

August 1999

Exchange Fund Notes commence listing on the Hong Kong Stock Exchange.

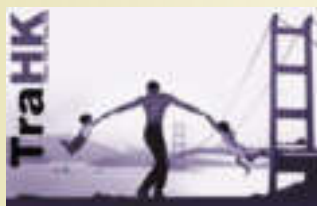
August 1999

The Hong Kong Institute for Monetary Research is established.



November 1999

The Tracker Fund of Hong Kong is established as a vehicle for gradually disposing of the majority of the stocks acquired by the Exchange Fund in the 1998 market operation.



2000

August 2000

Hong Kong processes its first transaction through the new US dollar clearing system.


October 2000

Hong Kong is selected as President for 2001–2002 of the Financial Action Task Force on Money Laundering, an international body.

December 2000

Hong Kong's Mandatory Provident Fund System comes into full operation after years of preparation.


2001

 **January 2001**

The International Monetary Fund opens a sub-office in Hong Kong.

 **April 2001**

The Government approves in principle the proposal to introduce a deposit protection scheme in Hong Kong.

 **July 2001**

Interest Rate Rules are completely deregulated. Banks are free to set interest rates for all types of deposits.

 **November 2001**

All restrictions on the number of branches of foreign banks are lifted.


December 2001

China enters the World Trade Organisation.


2002

March 2002

The Securities and Futures Ordinance is passed by the Legislative Council. The Ordinance consolidates and modernises 10 existing ordinances into a single piece of legislation to govern financial and investment products, regulate the securities and futures markets, and protect investors.

 **May 2002**

The Government endorses the HKMA's proposals to relax certain market entry criteria for the banking sector.

 **September 2002**

The Government issues new \$10 currency notes.



2003

March to June 2003

Outbreak of Severe Acute Respiratory Syndrome (SARS). 1,755 people in Hong Kong are infected and 299 people die.

 **June 2003**

Exchange of letters between the Financial Secretary and the Monetary Authority on functions and responsibilities in monetary and financial affairs.

 **November 2003**

The HKMA moves its offices to permanent premises at Two International Finance Centre.

 **November 2003**

Following approval from the State Council, the People's Bank of China agrees to provide clearing arrangements for banks in Hong Kong to conduct personal renminbi business on a trial basis. The scope of the business to be conducted includes deposit-taking, exchange, remittances and debit and credit cards.

December 2003

The three note-issuing banks issue new \$100 and \$500 notes with additional security features.

 **April 2003**

Hong Kong processes its first transaction through its new euro clearing system.

June 2003

The Mainland and Hong Kong sign the Closer Economic Partnership Arrangement (CEPA).



ABBREVIATIONS

ABF	– Asian Bond Fund
ABF1	– US dollar-denominated Asian Bond Fund
ABF2	– Local currency denominated Asian Bond Fund
AI	– Authorized institution
APEC	– Asia-Pacific Economic Co-operation
ATM	– Automated teller machine
BIS	– Bank for International Settlements
bn	– billion
CCASS	– Central Clearing and Settlement System
CEPA	– Closer Economic Partnership Arrangement
CHATS	– Clearing House Automated Transfer System
CMU	– Central Moneymarkets Unit
CPI	– Consumer Price Index
DvP	– Delivery-versus-Payment
e-banking	– electronic banking
EFAC	– Exchange Fund Advisory Committee
EFBN	– Exchange Fund Bills and Notes
EFN	– Exchange Fund Notes
EMEAP	– Executives' Meeting of East Asia-Pacific Central Banks
EPSCO	– Electronic Payment Services Company (HK) Limited
FSAP	– Financial Sector Assessment Programme
GDP	– Gross Domestic Product (in real terms unless otherwise stated)
HK	– Hong Kong
HKIMR	– Hong Kong Institute for Monetary Research
HKMA	– Hong Kong Monetary Authority
HKSAR	– Hong Kong Special Administrative Region
JETCO	– Joint Electronic Teller Company Limited
mn	– million
PvP	– Payment-versus-Payment
RTGS	– Real Time Gross Settlement
SARS	– Severe Acute Respiratory Syndrome

REFERENCE RESOURCES

The *HKMA Annual Report* is published in April or May each year. A number of other HKMA publications provide explanatory and background information on the HKMA's policies and functions. These include

HKMA Quarterly Bulletin

(published in March, June, September and December each year)

HKMA Monthly Statistical Bulletin (on-line publication)

(published in two batches on the third and sixth business days of each month)

Guide to Hong Kong Monetary and Banking Terms (Second Edition)

HKMA Background Brief No. 1 – Hong Kong's Linked Exchange Rate System

HKMA Background Brief No. 2 – Banking Supervision in Hong Kong


Money in Hong Kong: A Brief Introduction

Educational leaflets on various topics including notes and coins and banking issues

HKMA publications may be purchased or obtained from the **HKMA Information Centre**, 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The HKMA Information Centre consists of an Exhibition Area and a Library. The Centre introduces the work of the HKMA and houses books, journals and other texts on central banking and related subjects. The Centre is open to the public six days a week.

 [> The HKMA Information Centre](#)

Most HKMA publications are also available for download free of charge from the HKMA website (www.hkma.gov.hk). A mail order form for the purchase of print publications can be found on the website.

 [> Information Centre > Publications](#)

The main texts of the regular briefings by the HKMA to the Legislative Council Panel on Financial Affairs are available online.

 [> Information Centre > Legislative Council Issues](#)

The HKMA website contains detailed and extensive information on the whole range of the HKMA's work. This information includes press releases, statistics, speeches, guidelines and circulars, research memoranda, and features on topical issues.

Acknowledgements:

Apple Daily
Hong Kong Aircraft Engineering Company Limited
Hong Kong Tourism Board
Information Services Department
Leisure and Cultural Services Department
Mingpao
Sing Tao Daily

Design: Format Limited

This booklet is printed on environmental paper
© 2004 Hong Kong Monetary Authority

Hong Kong Monetary Authority

55/F, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

Enquiries (852) 2878 8222

Fax (852) 2878 2010

E-mail hkma@hkma.gov.hk

www.hkma.gov.hk