

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.

THE HKMA'S POLICY OBJECTIVES

- 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.

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

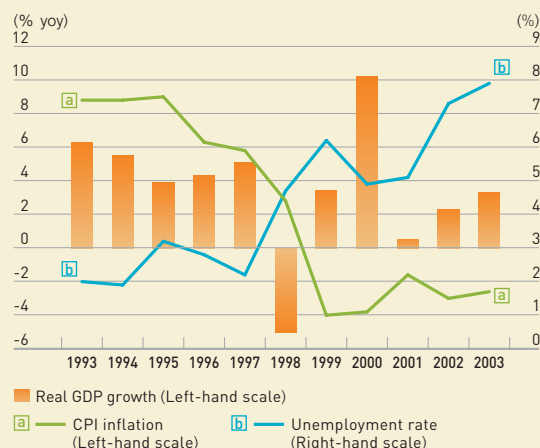
- real gross domestic product grew by an average rate of 3.3% per year, while nominal gross domestic product increased from US\$118 billion to US\$159 billion
- per capita gross national product rose from HK\$157,000 to HK\$187,000
- the workforce expanded from 2.9 million to 3.5 million
- real private 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:

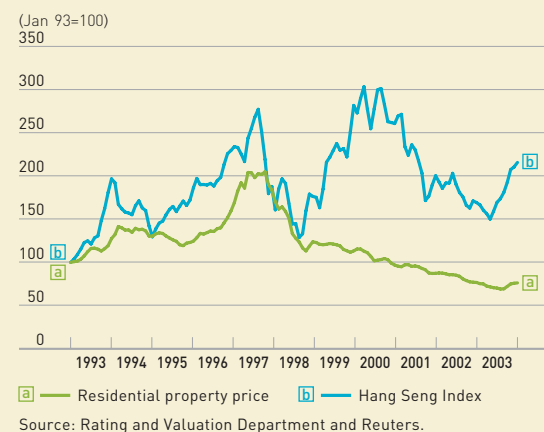
- the unemployment rate rose from 2.4% in January 1998 to 7.3% in December 2003
- the Composite Consumer Price Index declined by about 16% from its peak in May 1998
- residential property prices declined by about two-thirds from their peak in October 1997.

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

ECONOMIC DEVELOPMENT



ASSET PRICES



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.

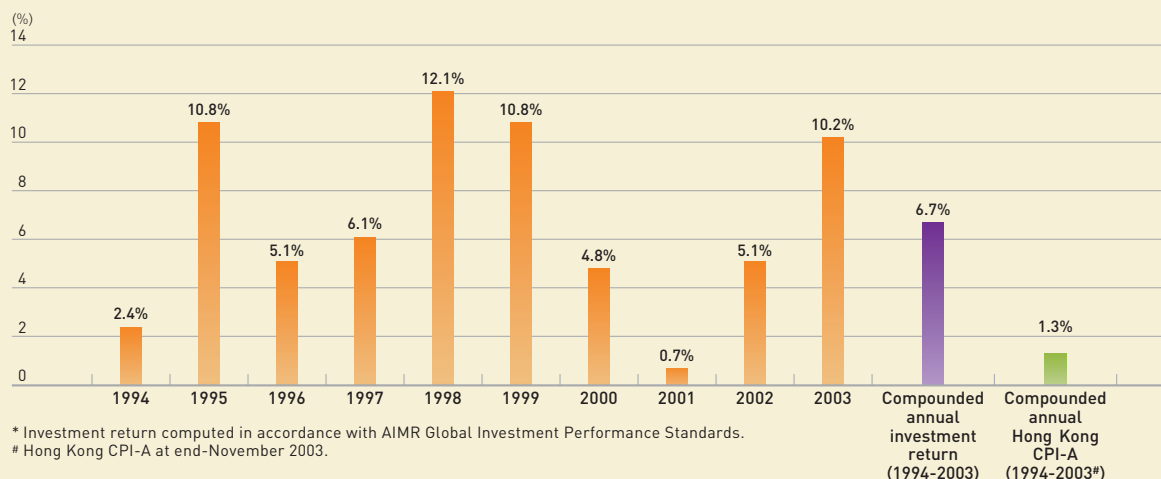
Currency stability

- 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.

INVESTMENT RETURN* OF THE EXCHANGE FUND



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.

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.



November 1994

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

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

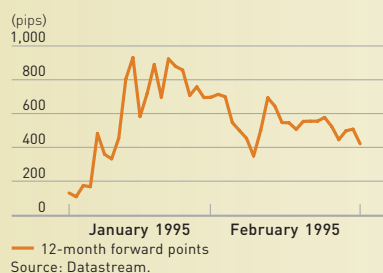
The interest rate cap on time deposits is lifted in phases. This marks the beginning of a relaxation of Interest Rate Rules in Hong Kong.

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



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.

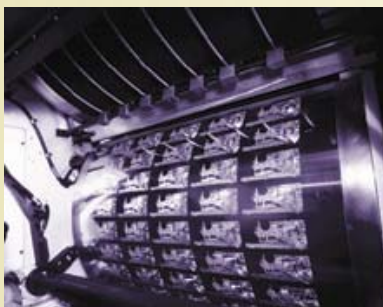
1997 – 1998

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

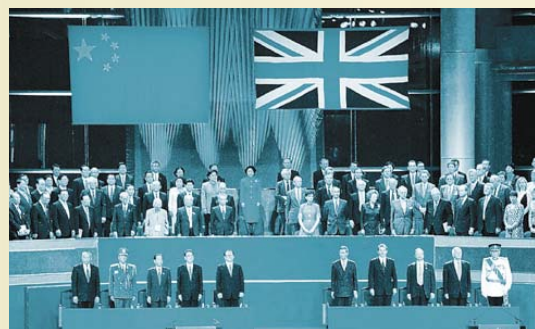
March 1997



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.

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.



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.



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).

