



HONG KONG MONETARY AUTHORITY
香港金融管理局

**AN INTRODUCTION TO THE
HONG KONG MONETARY AUTHORITY
2008 EDITION**

Incorporating the Summary Version of the HKMA Annual Report 2007

Hong Kong Monetary Authority

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
- to manage the Exchange Fund
- to promote the safety and stability of the banking system
- to maintain and develop Hong Kong's financial infrastructure.

The HKMA is part of the Hong Kong Special Administrative Region Government operating with a high degree of autonomy, complemented by a high degree of accountability and transparency. The HKMA is accountable to the people of Hong Kong through the Financial Secretary and through the laws passed by the Legislative Council that set out the Monetary Authority's powers and responsibilities. In his control of the Exchange Fund, the Financial Secretary is advised by the Exchange Fund Advisory Committee.

The HKMA's offices are at 55/F Two International Finance Centre, Central, Hong Kong

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The HKMA Information Centre is located at 55/F Two International Finance Centre, Central, Hong Kong and is open from 10 a.m. to 6 p.m. Monday through Friday and 10 a.m. to 1 p.m. on Saturday (except public holidays).

The Centre consists of an exhibition area and a library containing materials on Hong Kong's monetary, banking and financial affairs and central banking topics.

The HKMA's bilingual website (www.hkma.gov.hk) provides comprehensive information about the HKMA including its main publications and many other materials.

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The first part of this booklet introduces the work and policies of the HKMA. The second part contains a summary of the HKMA's Annual Report for 2007. The full Annual Report is available on the HKMA website. Hard copies may also be purchased from the HKMA.

This booklet makes reference to documents and other materials available on the HKMA website www.hkma.gov.hk. These references appear as , 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 after 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, the Deposit Protection Scheme Ordinance, the Clearing and Settlement Systems 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 them 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 and 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 is 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 for the authorization of licensed banks, restricted licence banks, and deposit-taking companies in Hong Kong.

The Clearing and Settlement Systems Ordinance provides a statutory regime for the Monetary Authority to designate and oversee clearing and settlement systems that are material to the monetary or financial stability of Hong Kong or to the functioning of Hong Kong as an international financial centre.

Under the Deposit Protection Scheme Ordinance the Monetary Authority is charged with implementing the decisions of the Hong Kong Deposit Protection Board, such as deciding whether compensation should be paid to the depositors of a failed scheme bank pursuant to the Ordinance.

 > The HKMA

THE HKMA AND THE HONG KONG SPECIAL ADMINISTRATIVE REGION GOVERNMENT

The HKMA is an integral part of the Hong Kong 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 and his staff are public officers. 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's responsibilities include

- 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 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.

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 and overseeing 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 a large number of HKMA 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 public education programmes 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 several 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.

 > [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 Currency Board Sub-Committee of the Exchange Fund Advisory Committee and the monthly reports on Currency Board operations. The supervisory policies and guidelines on banking have been published on the website since 1996.

 > [Press Releases > Exchange Fund](#)

 > [Supervisory Policy Manual](#)

 > [Guidelines and Circulars](#)

The relations between the HKMA and the Legislative Council play an important part in promoting accountability and transparency. There is a formal commitment from the Chief Executive of the HKMA to appear before the Panel on Financial Affairs of the Legislative Council three times a year to brief Members and to answer questions on the HKMA's work. Representatives from the HKMA attend Legislative Council Panel meetings from time to time to explain and discuss particular issues, and Committee meetings to assist Members in their scrutiny of draft legislation.

 > [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 Special Administrative Region. 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.

About the HKMA

EFAC is assisted in its work by five Sub-Committees, which monitor specific areas of the HKMA's work and report and make recommendations to the Financial Secretary through EFAC. The Committee held six meetings in 2007 to discuss the full range of issues relating to the work of the HKMA, most of which had been previously discussed by the relevant Sub-Committees.

Terms of reference of the Sub-Committees are available in the *HKMA Annual Report*, the *HKMA Background Brief No.3: Mandate and Governance of the Hong Kong Monetary Authority*, and the HKMA website.

Membership (1 April 2008)

Chairman

The Hon. John TSANG Chun-wah, JP

The Financial Secretary

Members

Mr Joseph YAM, GBS, JP

The Monetary Authority

Dr The Hon. Marvin CHEUNG Kin-tung,

DBA Hon., SBS, JP

Mr Christopher CHENG Wai-chee, GBS, JP

Chairman

USI Holdings Limited

Mr HE Guangbei

Vice Chairman and Chief Executive

Bank of China (Hong Kong) Limited

The Hon. Henry FAN Hung-ling, SBS, JP

Managing Director

CITIC Pacific Limited

Mr Simon IP Sik-on, JP

Mr Thomas KWOK Ping-kwong, SBS, JP

Vice-Chairman and Managing Director

Sun Hung Kai Properties Limited

Mr Vincent CHENG Hoi-chuen, GBS, JP

Chairman

The Hongkong and Shanghai Banking Corporation Limited

Dr Patrick FUNG Yuk-bun

Chairman and Chief Executive

Wing Hang Bank Limited

Professor Lawrence J. LAU, JP

Vice-Chancellor

The Chinese University of Hong Kong

Mr David SUN Tak-kei, BBS

Chairman and Managing Partner

Ernst & Young Far East Area & Greater China

Mr Nicholas SALLNOW-SMITH

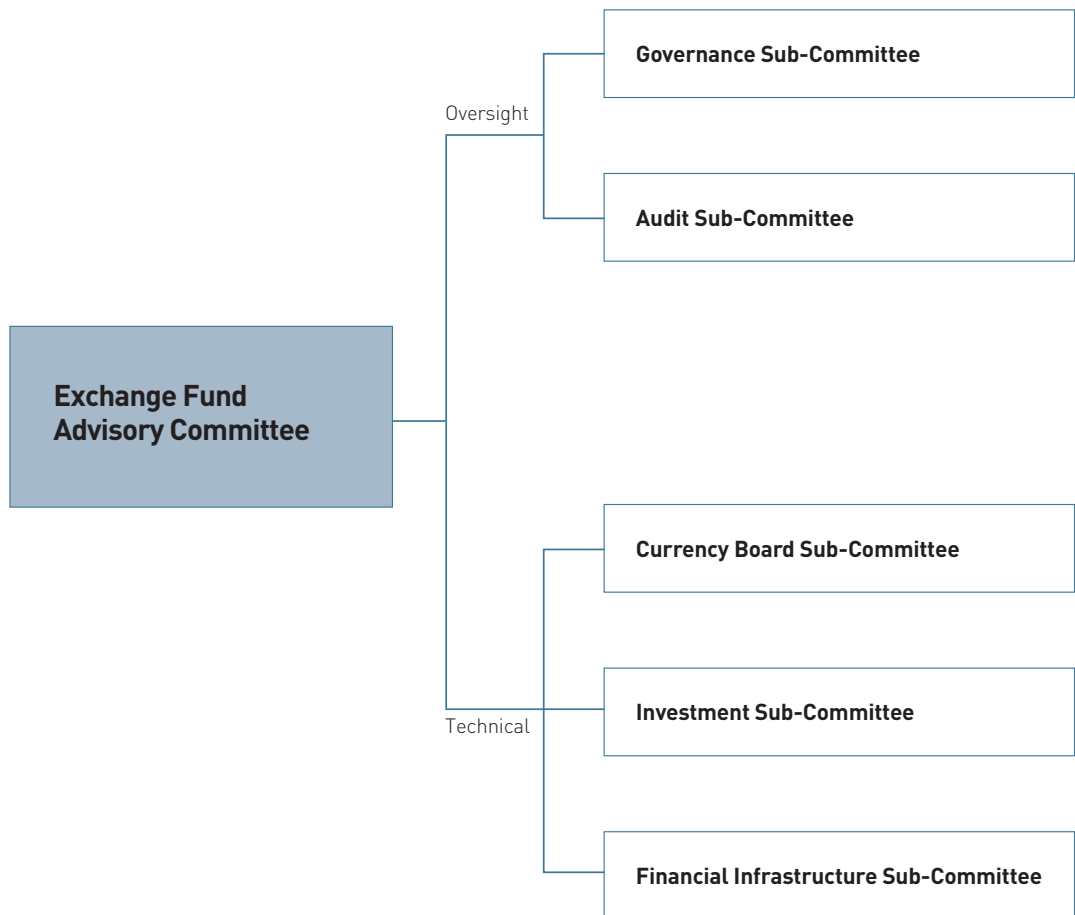
Regional Chief Executive for North East Asia

Standard Chartered Bank (Hong Kong) Limited

Secretary

Mr Trevor KEEN

EXCHANGE FUND ADVISORY COMMITTEE SUB-COMMITTEE STRUCTURE



About the HKMA

The *Governance Sub-Committee* monitors the performance of the HKMA and makes recommendations on remuneration and human resources policies, and on budgetary, administrative and governance issues. The Sub-Committee met seven times in 2007 to consider a range of subjects including disclosure of information on the HKMA's expenditure budget, the HKMA's performance assessment, the annual pay review, the *HKMA Annual Report*, strategic planning matters and a review of the HKMA's work on banking stability. The Sub-Committee also received regular reports on the work of the HKMA.

Membership (1 April 2008)

Chairman

Mr Christopher CHENG Wai-chee, GBS, JP

Chairman

USI Holdings Limited

Members

Dr The Hon. Marvin CHEUNG Kin-tung,

DBA Hon., SBS, JP

The Hon. Henry FAN Hung-ling, SBS, JP

Managing Director

CITIC Pacific Limited

Mr Simon IP Sik-on, JP

Mr Thomas KWOK Ping-kwong, SBS, JP

Vice-Chairman and Managing Director

Sun Hung Kai Properties Limited

Secretary

Mr Trevor KEEN

The *Audit Sub-Committee* reviews and reports 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. None of the members of the Sub-Committee performs any executive functions in the HKMA. The Sub-Committee met twice in 2007.

Membership (1 April 2008)

Chairman

Dr The Hon. Marvin CHEUNG Kin-tung,

DBA Hon., SBS, JP

Members

Mr HE Guangbei

Vice Chairman and Chief Executive

Bank of China (Hong Kong) Limited

Mr Simon IP Sik-on, JP

Mr Vincent CHENG Hoi-chuen, GBS, JP

Chairman

The Hongkong and Shanghai Banking Corporation Limited

Mr David SUN Tak-kei, BBS

Chairman and Managing Partner

Ernst & Young Far East Area & Greater China

Mr Nicholas SALLNOW-SMITH

Regional Chief Executive for North East Asia

Standard Chartered Bank (Hong Kong) Limited

Secretary

Mr Trevor KEEN

About the HKMA

The *Currency Board Sub-Committee* monitors and reports on the Currency Board arrangements that underpin Hong Kong's Linked Exchange Rate system. It is responsible 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. Records of the Sub-Committee's meetings and the monthly reports on Currency Board operations submitted to the Sub-Committee are published. In 2007 the Sub-Committee met four times.

 > [Press Releases](#) > [Monetary Policy](#)

Membership (1 April 2008)

Chairman

Mr Joseph YAM, GBS, JP

The Monetary Authority

Members

Mr Peter PANG, JP

Deputy Chief Executive

Hong Kong Monetary Authority

Mr Y K CHOI, JP

Deputy Chief Executive

Hong Kong Monetary Authority

Mr Eddie YUE, JP

Deputy Chief Executive

Hong Kong Monetary Authority

Mr John GREENWOOD

Group Chief Economist

INVESCO Asset Management Limited

Professor TSANG Shu-ki

Department of Economics

Hong Kong Baptist University

Professor Lawrence J. LAU, JP

Vice-Chancellor

The Chinese University of Hong Kong

Mr HE Guangbei

Chairman

The Hong Kong Association of Banks

Secretary

Mr Trevor KEEN

The *Investment Sub-Committee* monitors the HKMA's investment management work and makes recommendations on the investment policy and strategy of the Exchange Fund and on risk management and other related matters. The Sub-Committee held six meetings during 2007.

Membership (1 April 2008)

Chairman

Mr Joseph YAM, GBS, JP

The Monetary Authority

Members

Mr Eddie YUE, JP

Deputy Chief Executive

Hong Kong Monetary Authority

Mr Christopher CHENG Wai-chee, GBS, JP

Chairman

USI Holdings Limited

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CITIC Pacific Limited

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Chairman

The Hongkong and Shanghai Banking Corporation Limited

Mr Nicholas SALLNOW-SMITH

Regional Chief Executive for North East Asia

Standard Chartered Bank (Hong Kong) Limited

Secretary

Mr Trevor KEEN

About the HKMA

The *Financial Infrastructure Sub-Committee* monitors the work of the HKMA in relation to the development and operation of the financial infrastructure in Hong Kong and makes recommendations on measures and initiatives relating to the HKMA's responsibilities for promoting the safety, efficiency and development of Hong Kong's financial infrastructure. In 2007 the Sub-Committee met twice.

Membership (1 April 2008)

Chairman

Mr Joseph YAM, GBS, JP

The Monetary Authority

Members

Mr Eddie YUE, JP

Deputy Chief Executive

Hong Kong Monetary Authority

Mr Christopher CHENG Wai-chee, GBS, JP

Chairman

USI Holdings Limited

Mr HE Guangbei

Vice Chairman and Chief Executive

Bank of China (Hong Kong) Limited

Mr Vincent CHENG Hoi-chuen, GBS, JP

Chairman

The Hongkong and Shanghai Banking Corporation Limited

Dr Patrick FUNG Yuk-bun

Chairman and Chief Executive

Wing Hang Bank Limited

Secretary

Mr Trevor KEEN

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 Special Administrative Region 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 Special Administrative Region.

Membership (1 April 2008)

Chairman

The Hon. John TSANG Chun-wah, JP

The Financial Secretary

Ex Officio Member

Mr Joseph YAM, GBS, JP

The Monetary Authority

Members

Professor The Hon. K C CHAN, SBS, JP

Secretary for Financial Services and the Treasury

Mr HE Guangbei

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

Mr Peter WONG Tung-shun, JP

Executive Director
The Hongkong and Shanghai Banking Corporation Limited
Representing The Hongkong and Shanghai Banking Corporation Limited

Mr Benjamin HUNG

Executive Director and Chief Executive Officer
Standard Chartered Bank (Hong Kong) Limited
Representing Standard Chartered Bank (Hong Kong) Limited

Mrs Doreen CHAN HUI Dor-lam

President and Chief Executive Officer
CITIC Ka Wah Bank Limited

Mrs Mignonne CHENG

Head of North and East Asia
BNP Paribas

Dr The Hon. David LI Kwok-po, LLD, GBM, GBS, JP

Chairman and Chief Executive
The Bank of East Asia Limited

Mr James C K WONG

Chief Executive Officer
Dah Sing Life Assurance Company Limited

Mr Stanley Y F WONG, JP

Director & Deputy General Manager
Industrial and Commercial Bank of China (Asia) Limited

Ms Maria XUEREB

Financial Services Partner
Deloitte Touche Tohmatsu

Mr Sim S LIM

Citi Country Officer, Hong Kong
Head of Markets & Banking, Hong Kong & Taiwan
Citibank, N.A.

Secretary

Ms Theresa KWAN

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 Special Administrative Region 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 Special Administrative Region.

Membership (1 April 2008)

Chairman

The Hon. John TSANG Chun-wah, JP

The Financial Secretary

Ex Officio Member

Mr Joseph YAM, GBS, JP

The Monetary Authority

Members

Professor The Hon. K C CHAN, SBS, JP

Secretary for Financial Services and the Treasury

Mr Martin WHEATLEY

Chief Executive Officer

Securities and Futures Commission

Representing the Securities and Futures Commission

Mr Geoffrey J MANSFIELD

Chairman

The DTC Association (The Hong Kong Association of
Restricted Licence Banks and Deposit-taking Companies)

Representing The DTC Association

Ms Connie LAU Yin-hing

Chief Executive

Consumer Council

Representing the Consumer Council

The Hon. CHAN Kam-lam, SBS, JP

Member

Legislative Council

Mr Michael CHANG Ming-yuen

Chairman

Fubon Credit (Hong Kong) Limited

Ms Kitty IU Pui-pui

Managing Director

Scotiabank (Hong Kong) Limited

Mr Mervyn JACOB

Partner

Assurance, Financial Services Practice

PricewaterhouseCoopers

Mr Frank J WANG

Executive Director and Deputy Chief Executive
Wing Hang Finance Company Limited

Mr Erik Helge WEINER

Chairman & Chief Executive
JP Morgan Securities (Asia Pacific) Limited

Mr Frederick CHIN

Chief Executive
Banc of America Securities Asia Limited

Secretary

Ms Theresa KWAN

Chief Executive's Committee

The Chief Executive's Committee comprises the Chief Executive of the HKMA, who chairs the Committee, 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.

Brief biographies of and the Code of Conduct for EFAC Members may be found on the HKMA website. A Register of Members' Interests, which contains the declarations of interests by Members, is available for public inspection from 9:00 a.m. to 5:00 p.m. Monday to Friday (except public holidays) at the HKMA Offices.

 > [The HKMA > Advisory Committees](#)

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

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 fully backed by foreign currency reserves at the fixed exchange rate of HK\$7.80 to US\$1. 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:

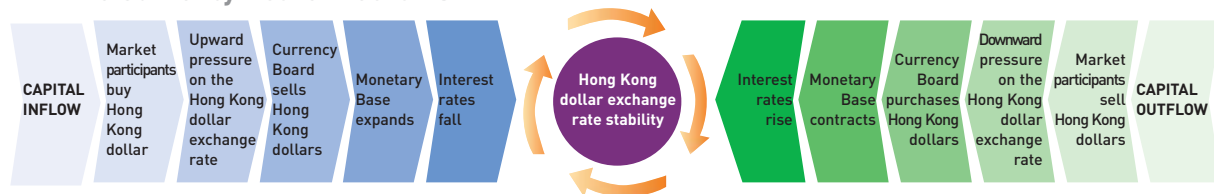
- Certificates of Indebtedness, which back the banknotes issued by the three note-issuing banks
- government-issued currency notes and coins in circulation
- the sum of the balances of the clearing accounts maintained by banks with the HKMA (known as the Aggregate Balance)
- Exchange Fund Bills and Notes,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

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

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\$7.85 to US\$1, and in the other direction to convert their US dollars into Hong Kong dollars at the Convertibility Rate of HK\$7.75 to US\$1.

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

The Currency Board mechanism



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 ongoing 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 or board-level committees, 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 to identify, measure, monitor and control the risks inherent in their operations. This enables the HKMA to be more proactive in pre-empting any serious threat to the stability of the banking system.

 > Banking Stability

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

The Exchange Fund was established in 1935 with the primary objective to safeguard the exchange value of the Hong Kong dollar. Holding Hong Kong's foreign currency reserves, the Exchange Fund is the cornerstone of maintaining the stability and integrity of monetary and financial systems in Hong Kong, and provides the backing to maintain the Linked Exchange Rate system.

The Exchange Fund Ordinance stipulates the establishment, control and management of the Exchange Fund. The Exchange Fund is under the control of the Financial Secretary, who delegates the management responsibilities of the Exchange Fund to the Monetary Authority, based on the powers and duties conferred on him under the Ordinance.

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 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 Fund.

INVESTMENT PROCESS

The Exchange Fund has two main portfolios – the Backing Portfolio and the Investment Portfolio. The Backing Portfolio is used to hold US dollar denominated assets for the purpose of providing full backing for the Monetary Base of Hong Kong. The Investment Portfolio is used to hold different asset classes aiming at preserving the value and long-term purchasing power of the Fund. All Exchange Fund assets in the Backing Portfolio and the Investment Portfolio can be used to support the Hong Kong dollar exchange rate.

The long-term asset allocation strategy of the Fund is governed by the investment benchmark, which is set by the Financial Secretary on the advice of the Exchange Fund Advisory Committee. The benchmark represents the optimal mix of assets designed to meet the investment objectives.

USE OF EXTERNAL MANAGERS

The Exchange Fund employs global external managers to manage about one third of its total assets, including all of its equity portfolios and other specialised assets. The purpose of appointing external managers is to add value to the investment process by tapping the best of the investment expertise available in the market, to capture a diverse mix of investment styles within the global investment field, and, if possible, to help transfer market knowledge and information to in-house professionals.

 > Monetary Stability > Exchange Fund

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 important clearing and settlement systems in Hong Kong under the Clearing and Settlement Systems Ordinance. It fosters the local and regional debt markets and develops settlement systems for 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, Hong-Kong dollar interbank funds transfers have been settled in 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 finality of settlement is instantaneous. The advantages are speed, efficiency and safety.

Building on the technology of the Hong Kong dollar RTGS system, the HKMA introduced a US dollar RTGS system in 2000, a euro RTGS system in 2003 and a renminbi RTGS system in 2007.

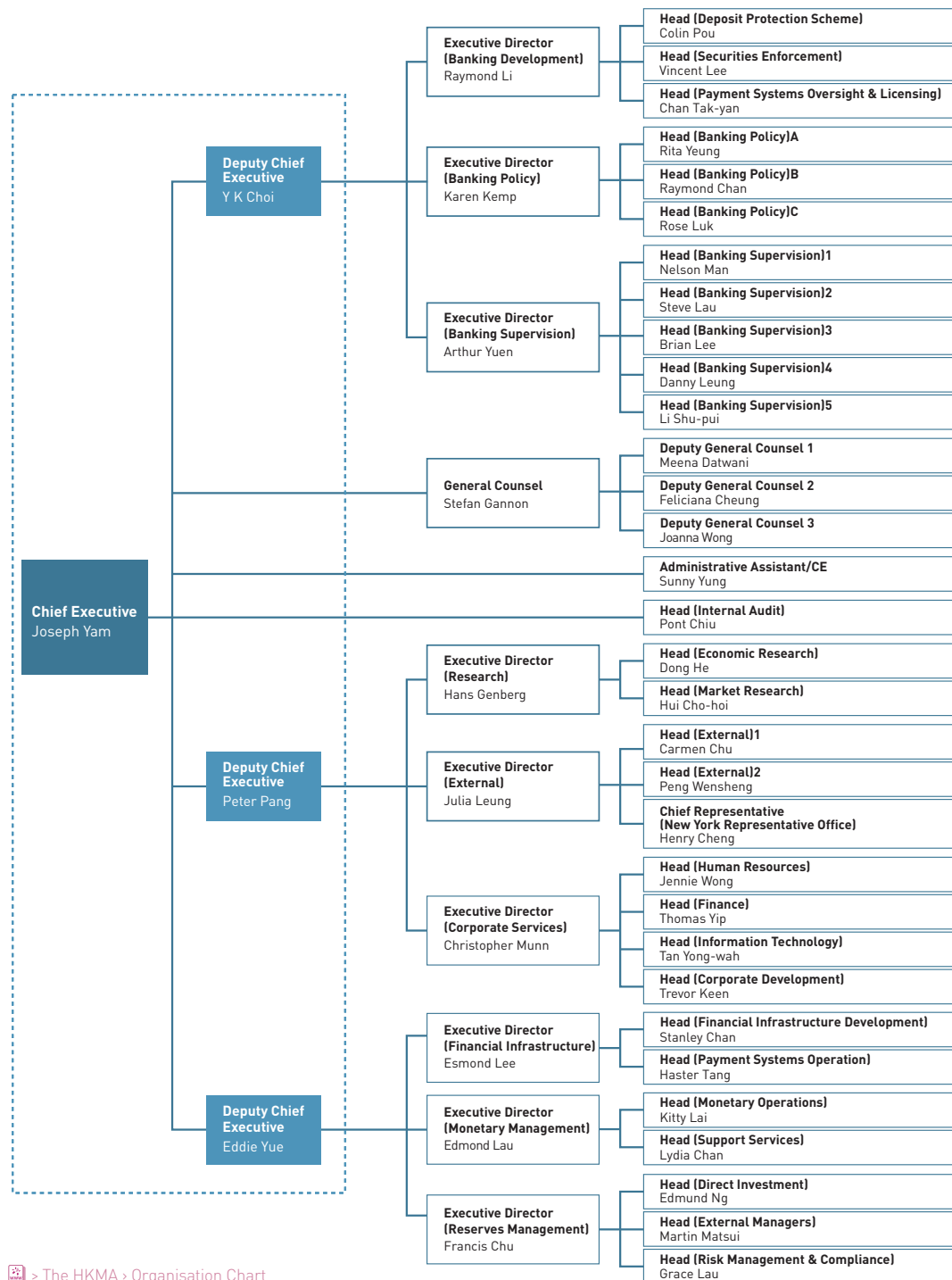
CENTRAL MONEYMARKETS UNIT

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 links with overseas central securities depositories. Through these links, local investors can hold and settle securities lodged with overseas depositories more efficiently, and overseas investors can do the same in Hong Kong.

 > Financial Infrastructure

HKMA ORGANISATION CHART

1 April 2008



> The HKMA > Organisation Chart

Review of 2007

Summary Version of the
HKMA Annual Report 2007



Chief Executive's Statement



Developments in 2007 kept the HKMA very busy: the further weakening of the US dollar and appreciation of the renminbi; the various measures by the Mainland authorities to cool the economy; continued strong economic growth at home; record activity in the Hong Kong stock market, resulting in significant inflows of funds and some upward pressure on the Hong Kong dollar; the sub-prime crisis and the resulting international

liquidity and credit crunch in the second half of the year – all of these helped make 2007 an interesting and challenging year for us. Volatility is a favourite word in central-banking circles, and we heard it often last year. And yet, against this difficult background, the Exchange Fund achieved a record investment return for the people of Hong Kong, the Hong Kong dollar and the local banking sector remained stable despite the market turbulence, we continued to strengthen Hong Kong's financial infrastructure and made further progress in developing and maintaining Hong Kong as an international financial centre.

Continuing economic growth

The local economy continued its above-trend growth, expanding by 6.3% in 2007, compared with 7.0% in 2006. Monetary conditions eased further as the US Federal Reserve began a series of interest-rate reductions in September, partly in response to the sub-prime problems that emerged in August. The unemployment rate continued to decline, reaching 3.4% in December, its lowest level for nearly 10 years. Although the average inflation rate in Hong Kong for the year measured by the Composite Consumer Price Index remained low at 2% (the figure was 3.8% at the

end of 2007), underlying inflation picked up to 2.8%. The main factors in this increase were strong domestic demand; increases in the prices of retained imports, especially food; a tightening labour market; and the weakness of the US dollar. We will need to be alert for any increase in the rate of inflation in the coming year.

The stock market had a very strong year with the Hang Seng Index closing at a record high of 31,638 points on 30 October before falling back towards the end of the year. But volatility also increased significantly and the turmoil in global markets clearly affected sentiment. Average daily turnover for the year was \$87 billion with a peak of \$210 billion on 3 October.

The Exchange Fund

The Exchange Fund achieved a record investment income of \$142.2 billion, a rate of return of 11.8%. It also outperformed the benchmark set by the Financial Secretary on the advice of the Exchange Fund Advisory Committee by 126 basis points. This was a very pleasing result, particularly since it was achieved in a year when there was more volatility and turbulence in global financial markets than we have seen for some time. And of course that volatility and turbulence have continued into 2008, making the investment environment for this year uncertain at best.

In these circumstances, it would be well to remember that the Exchange Fund is not primarily an investment fund: its primary purpose, set out in the Exchange Fund Ordinance, is to support the Hong Kong dollar. While it is obviously important to make the best return we can, it is even more important to maintain monetary stability for the benefit of the economic well-being of Hong Kong and its people.

Hong Kong dollar stability

And 2007 was also an eventful year in the area of monetary stability. In January, the renminbi appreciated past the Hong Kong-dollar spot exchange rate with the US dollar, passing through the Hong Kong-dollar Convertibility Zone by mid-February. This was, at least potentially, a psychologically sensitive event, and there was some market speculation that the Hong Kong dollar would be allowed to rise in the wake of the renminbi. To address this potentially de-stabilising sentiment, the HKMA re-doubled its efforts to communicate with the markets and the general community to stress that there was no intention of abandoning the Linked Exchange Rate system, which has served Hong Kong well through a number of financial storms in the last 24 years, and continues to be the best guarantee of stability. In the event, the appreciation of the renminbi past the Hong Kong dollar / US dollar exchange rate passed without much reaction in the markets, suggesting that our view of the importance of monetary stability is widely shared.

In the first seven months of the year, the Hong Kong dollar weakened as domestic interest rates were below their US counterparts, and newly listed companies switched the proceeds of their IPOs out of the local currency. But from August to October, the exchange rate strengthened as the sub-prime crisis led to global risk aversion and the unwinding of Hong Kong-dollar-funded carry trades, demand for the local currency increased because of a series of large IPOs in the stock market, and a pilot scheme to allow individual Mainland investors to buy Hong Kong equities was announced. Short-term interest rates were firm and an up-coming IPO was expected to tighten the money market further. On 23 October, after the Hong Kong dollar had strengthened close to (and at one point touched) the strong-side Convertibility Undertaking, the HKMA operated within the Convertibility Zone to sell Hong Kong dollars against US dollars. Then the strong-side Convertibility Undertaking was triggered passively once on 26 October and five times on 31 October, with the HKMA selling Hong Kong dollars in accordance with the automatic mechanism of the Currency Board.

Following these market operations, the exchange rate and local interbank interest rates softened. In November and December the exchange rate moved back towards the centre of the Convertibility Zone and the Aggregate Balance stood at \$10.6 billion at the end of the year, having been steady at \$1.3 billion for more than two years. Earlier this year, the balance was reduced to \$4.6 billion through a tap issue of \$6 billion of three-month Exchange Fund Bills. This issue was well received by the market since it helped meet the increased demand for Exchange Fund paper for intra-day liquidity management.

Despite all the volatility, the very large fund flows, the external shocks and market speculation, monetary conditions remained stable during the year. I believe this underlines both the robustness of the Linked Exchange Rate system and its importance in protecting us from the turbulence in the global financial systems that is inevitable from time to time.

The banking sector

On 1 January, after long and intensive preparation, the new capital-adequacy framework for banks, known as Basel II, was implemented in Hong Kong, making us one of the first jurisdictions in the world to introduce the new system. This marks the fruition of several years' work for us and for the authorized institutions. But the work is far from over, and we are continuing to work with individual institutions, and the sector as a whole, on implementing the new system.

The banking sector remained very strong in 2007: aggregate pre-tax operating profits of retail banks' Hong Kong offices rose by 31.1%; the net interest margin widened to 1.87% from 1.80% in 2006; the retail banks saw improvements in income from fees, commissions and trading investment; and bad debt charges, although increasing in absolute terms compared with 2006, amounted to only 0.04% of average total assets, a record low. Lending grew strongly across the board as activity in the stock and property markets increased, and economic growth stimulated the trade and manufacturing sectors. Customer deposits also expanded and the banks remained highly liquid, with aggregate loan-to-deposit ratios of 65.1% in Hong Kong dollars and 45.5% in all currencies. The sector also remained very well capitalised, with the average consolidated capital-adequacy ratio of locally incorporated authorized institutions standing at 13.4% at the end of the year, calculated on the new Basel II basis.

Of course, the Hong Kong banking sector could not escape entirely the effects of the sub-prime crisis that began in the US in August, and some local institutions saw their profits adversely affected by exposure to sub-prime assets. Fortunately, the strong financial and liquidity positions of the sector as a whole provide a substantial cushion against any further problems in the global system, and I am sure the banks will exercise their customary prudence. But the world is an uncertain place, and in 2008 banks will need to pay particular attention to liquidity management and the risks arising from increased market volatility.

Hong Kong as an international financial centre

Towards the end of the year, we appointed a consultant to review how the HKMA can best fulfil its responsibilities in the area of ensuring banking stability. The local banking sector is healthy and, we believe, well regulated. But it does not pay to be complacent in a rapidly changing world, and we believe that an objective, outside view will help us to identify current and future challenges. The consultant will make his recommendations later this year, after consulting widely with the industry and the community.

The volatility in financial markets in 2007 underlines the need to keep a careful watch for risks to stability globally and in the region, including Hong Kong. We therefore stepped up our efforts, in co-operation with other central banks and regional and international bodies, to monitor and study economic and market developments that could affect financial stability.

We were particularly pleased to see a series of upgrades of Hong Kong's sovereign credit ratings during the year. At the end of the year Hong Kong enjoyed AA ratings, its highest ever. This may seem an obscure subject to many people, but better sovereign ratings lower the costs of funding for local debt issuers and help to increase market confidence in the Linked Exchange Rate system and monetary stability, which in turn helps to underpin economic growth. The HKMA was heavily involved during the year, with the Government, in making the case to the international credit rating agencies that Hong Kong's strong economic fundamentals and fiscal position merit higher ratings. We firmly believe that Hong Kong belongs among the world's triple-A economies and we will continue to argue for improvements to our ratings.

Probably the biggest factor in Hong Kong's status as an international financial centre is, of course, the increasing integration of our economy and financial systems with those of the Mainland. The HKMA played an important role in helping to draw up the Action Agenda on "China's 11th Five Year Plan and the Development of Hong Kong" released in January, and we continued to contribute to its implementation throughout the year. As a result, new measures were included in Supplement IV to CEPA to make it easier for Hong Kong banks to establish and expand their presence on the Mainland; expanded Qualified Domestic Institutional Investors schemes were introduced in August; and the State Administration of Foreign Exchange announced a pilot scheme for Mainland residents to invest in overseas markets. These developments will all contribute to making Hong Kong a platform for the orderly outflow of funds from the Mainland and help to develop the market.

A milestone in the development of renminbi business in Hong Kong was reached in July with the first issue of renminbi-denominated bonds by a Mainland institution in Hong Kong, the first time renminbi bonds have been issued anywhere outside the Mainland. By the end of the year, there had been three issues totalling RMB10 billion providing a new investment instrument for banks and depositors and a new source of funding for Mainland issuers.

We also increased our efforts in studying economic developments on the Mainland and their significance for Hong Kong during the year. Many of the studies we have carried out, and our other extensive research, can be viewed on the HKMA website and I hope they will be of interest to anyone who follows the continuing growth and liberalisation of the Mainland economy.

A safe and efficient financial infrastructure

We continued our efforts, in co-operation with the various financial intermediaries, to upgrade Hong Kong's already world-class financial infrastructure to ensure that investors and financial institutions find our city a safe and convenient place to do business.

The very high levels of turnover in the stock market illustrated just how important it is for the financial infrastructure not just to keep up with developments but to be ahead of them wherever possible. The Hong Kong-dollar Clearing House Automated Transfer System, which clears all Hong Kong-dollar interbank payments including those related to securities transactions, processed a daily average of \$879 billion in 2007 and, on 5 November, a record \$1.67 trillion passed through the system without incident. In these cases, the sheer capacity of the system is obviously a major consideration. A number of improvements were introduced during the year: these included a CCASS Optimiser to make it easier for banks to manage their funding; the Hong Kong-dollar RTGS and Central Moneymarkets Unit systems opening half an hour earlier; and an improved eIPO service introduced jointly with the Hong Kong Association of Banks and Hong Kong Interbank Clearing Limited to make liquidity management and the recycling of IPO funds back into the market more efficient. A renminbi RTGS system was introduced in June to support the expansion of renminbi-denominated business in Hong Kong. A link between the Hong Kong US-dollar RTGS system and Malaysia's securities settlement system was launched in October. An electronic bond-trading platform was introduced in December to improve price transparency and make bond trading more efficient.

There was also progress in the development of the debt market with the HKMA completing the second phase of its review of debt market development and submitting its recommendations to the Government. We also carried out a study, in co-operation with the Treasury Markets Association, on developing an Islamic financing platform in Hong Kong, in particular how our tax laws might be amended or clarified to provide a level playing field for the issuance of Islamic bonds. A number of refinements were also introduced in the Exchange Fund Bills and Notes Programme, including the publication of league tables for market makers and the first issue of 15-year Exchange Fund Notes.

On the currency front, the HKMA responded swiftly to the emergence in March of new counterfeits of the 2000- and 2002-series \$1000 notes issued by HSBC by alerting the public and giving information on how to identify the counterfeits. Speeding up the withdrawal of the old-series HSBC banknotes from circulation also helped contain the problem, which subsided in May. A new \$10 polymer note was put into circulation in the second half of the year to assess the performance and acceptability of polymer notes in Hong Kong.

Governance and transparency

Everyone at the HKMA strives to achieve the highest possible professionalism in fulfilling our responsibilities, and to be accountable to the community. We are aided in this by EFAC and its Sub-Committees, in particular the Governance Sub-Committee, whose wise advice is of great value to us. We also try to be as transparent as possible and this Annual Report has been expanded in a number of areas to include more information on how we carry out our work.

A particular challenge in 2007 was the turnover of staff. Although the overall figure was below 10%, it was the highest for some years and reached higher levels in some key departments as the economy continued to grow and the labour market tightened. Of course, turnover is inevitable in any organisation and, for a body like the HKMA, is healthy as long as it does not reach levels that undermine our ability to do our job. I am confident that that level has not been reached, but we will need to pay particular attention to how we can best retain staff, recruit replacements for those that do move on and to meet new and expanded responsibilities, and provide appropriate training and development to make the best use of our pool of talent. I am also keenly aware that too-rapid turnover creates additional pressure on staff.

Finally, as always I would like to express my thanks to my colleagues for their hard work and dedication in another busy and challenging year.

A handwritten signature in black ink, appearing to be 'Joseph Yam', with a long horizontal flourish extending to the right.

Joseph Yam
Chief Executive

Economic and Banking Environment in 2007

ECONOMIC PERFORMANCE

The Hong Kong economy grew above trend for the fourth consecutive year in 2007. Real GDP grew by 6.3%. Labour market conditions continued to improve, with the unemployment rate declining to 3.4% at the end of 2007, its lowest level in nearly 10 years. Underlying inflation accelerated during the year because of strong growth in aggregate demand and rising imported food prices.

PROSPECTS FOR 2008

Economic growth is expected to remain solid in 2008, although growth momentum will probably moderate. Strong domestic demand will continue to be the main driver of growth, while external demand may moderate due to a possible US-led global slowdown. Inflationary pressure is expected to rise further in 2008, driven by strong domestic demand and the weak US dollar. The outlook is surrounded by a number of uncertainties, including the possibility of a sharper-than-expected slowdown in the US economy, re-balancing of portfolios by global investors, rising inflation with a further tightening of labour market conditions and a larger-than-expected increase in housing rentals.

PERFORMANCE OF THE BANKING SECTOR

The banking sector remained sound, with retail banks healthily profitable and locally incorporated authorized institutions well capitalised. Stable macroeconomic conditions underpinned profitability and kept credit losses low.

PROSPECTS FOR THE BANKING SECTOR IN 2008

Although the US sub-prime problem had a major impact on the global financial systems, the Hong Kong banking sector was not affected significantly since it had little direct exposure. The strong financial and liquidity positions of the banks provide a substantial buffer against disturbances. The implementation of Basel II has also strengthened supervisory and risk-management practices, making the banking system more resilient. However, there may still be a longer-term impact, depending on developments in the US economy. Banks therefore need to pay more attention to liquidity management, conduct more rigorous stress testing, monitor asset quality for possible signs of deterioration, and adopt prudent valuations of structured products.

CURRENCY

At the end of 2007, the total value of notes and coins in circulation exceeded \$170 billion. The \$10 polymer note was put into circulation in July 2007. The HKMA will evaluate public acceptability of the note and its technical performance within the first two years of its circulation.

Chart 1. Distribution of banknotes in circulation at the end of 2007

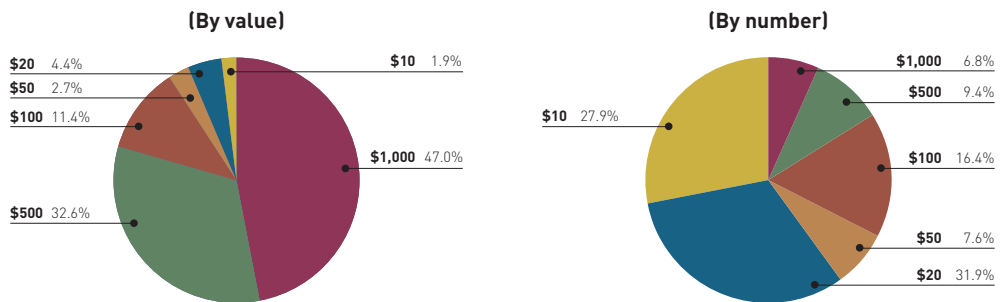
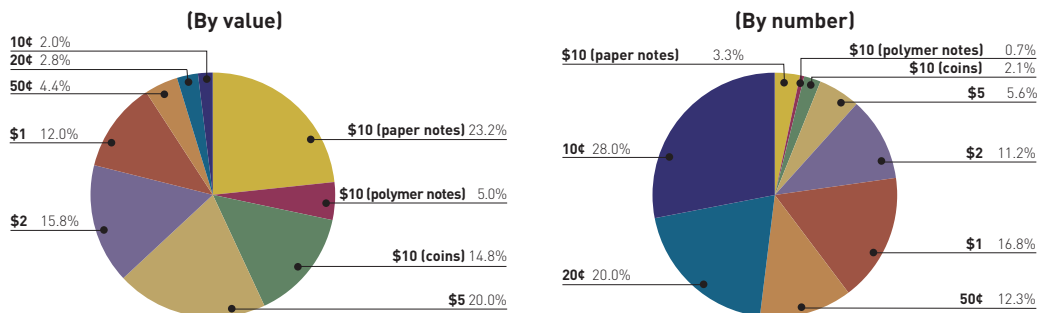


Chart 2. Government-issued notes and coins in circulation at the end of 2007



HONG KONG'S ECONOMY

	2006	2007
Economic growth and inflation		
Real growth in Gross Domestic Product (%)	7.0	6.3 ^(a)
of which:		
Real growth in private consumption expenditure (%)	6.0	7.8 ^(a)
Real growth in gross domestic fixed capital formation (%)	7.0	6.0 ^(a)
Real growth in exports (%)	9.4	7.9 ^(a)
Real growth in imports (%)	9.1	8.9 ^(a)
Composite Consumer Price Index (annual change, %)	2.0	2.0
Labour market		
Employment (annual change, %)	2.1	2.5
Unemployment rate (annual average, %)	4.8	4.0
Money supply (annual change, %)		
Hong Kong dollar money supply (M1)	11.4	17.1
Hong Kong dollar money supply (M2) ^(b)	19.2	18.1
Hong Kong dollar money supply (M3) ^(b)	19.2	18.1
Interest rates (end of year, %)		
Three-month interbank rate	3.84	3.31
Savings deposit rate	2.26	1.26
Best lending rate	7.75	6.75
Composite rate	2.86	2.29
Exchange rates (end of year)		
Hong Kong dollar/US dollar	7.775	7.802
Trade-weighted effective exchange rate index (Jan 2000=100)	94.3	88.6
Hang Seng Index (end of year)	19,965	27,813

(a) The estimates are preliminary.

(b) Adjusted to include foreign currency swap deposits.

PERFORMANCE RATIOS OF HONG KONG'S BANKING SECTOR

	2006 %	2007 %	2006 %	2007 %
	All AIs		Retail banks*	
Profitability^(a)				
Growth of pre-tax operating profit	N.A.	N.A.	10.21	31.05
Return on assets (operating profit before tax)	1.13	1.41	1.53	1.72
Return on assets (post-tax profit)	1.01	1.24	1.36	1.53
Net interest margin	1.29	1.31	1.80	1.87
Bad debt charge to average total assets	0.03	0.04	0.01	0.04
Business Profile^(a)				
Growth in loans to customers	6.7	20.0	4.0	12.6
Growth in customer deposits (all currencies)	17.0	23.4	15.6	18.4
Hong Kong dollar loan to deposit ^(b) ratio	74.7	71.0	69.1	65.1
Asset Quality^(c)				
Classified loans ^(d) as percentage of total loans	1.05	0.76	1.11	0.86
			All locally incorporated AIs	
Capital Adequacy Ratio (consolidated)^(e)			14.9	13.4

Notes:

(a) Figures are related to Hong Kong office(s) only.

(b) Includes swap deposits.

(c) Figures are related 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) From 1 January 2007, all locally incorporated AIs started to report their capital adequacy positions according to the Banking (Capital) Rules (i.e. the Basel II framework).

* This comprises all the locally incorporated banks plus a number of the large 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 2007

REVIEW OF 2007

Monetary conditions remained stable in 2007 despite continued appreciation of the renminbi, increased activities in the stock market, volatility in global financial markets and unpredictable capital flows. The stability of the Hong Kong dollar demonstrated the resilience of the Linked Exchange Rate system.

Throughout 2007, Hong Kong's foreign exchange and money markets were orderly, although there were increased volatilities in the foreign-exchange and interbank markets in the second half of 2007. Under the present monetary arrangements, the strong-side and weak-side Convertibility Undertakings limit the fluctuations of the Hong Kong dollar exchange rate within the Convertibility Zone and the Discount Window borrowing mechanism dampens the volatility of domestic interest rates.

The Hong Kong dollar exchange rate strengthened to near the strong-side Convertibility Undertaking of 7.75 in October, in part reflecting the unwinding of carry trades funded by Hong Kong dollars, equity-related demand for funds and general weakness in the US dollar. Taking into account market conditions, the HKMA operated within the Convertibility Zone to sell Hong Kong dollars for US dollars on 23 October. The strong-side Convertibility Undertaking was triggered on 26 October and 31 October, and the HKMA sold Hong Kong dollars to banks according to the Convertibility Undertaking arrangement. These operations softened both the Hong Kong dollar exchange rate and interbank interest rates.

Movements in the Hong Kong dollar interbank interest rates largely tracked those in their US-dollar counterparts, with occasional deviations due to sharp rises in funding demand arising from heavily subscribed initial public offerings. Banks and financial institutions in Hong Kong are generally well capitalised and experienced in dealing with volatility seen in the interbank market. There were no signs of stress in the local credit markets caused by the US sub-prime mortgage problems. Discount Window borrowing activities remained normal.

ACTIVITIES AT THE HKMA

The Currency Board Sub-Committee of the Exchange Fund Advisory Committee is responsible for overseeing the operation of the Currency Board system and examining issues affecting monetary and financial stability in Hong Kong. In 2007 the Sub-Committee examined a wide range of topics such as the behaviour of the Hong Kong dollar exchange rate within the Convertibility Zone and the credibility of the Linked Exchange Rate system, the significance of Mainland macroeconomic shocks for Hong Kong's interest rates, the impact of the renminbi exchange rate on Asian currencies, and the equilibrium real effective exchange rate of the Hong Kong dollar.

The Hong Kong Institute for Monetary Research supports research activities in monetary policy, banking and finance that are of strategic importance to Hong Kong and the region. In 2007 the Institute hosted 15 full-time and five part-time research fellows, and published 25

papers and jointly published a book entitled *Hong Kong's Link to the US Dollar* with the Hong Kong University Press. The Institute also organised a number of international conferences, seminars and workshops during the year.

Chart 1. Market exchange rate, January–December 2007



Chart 2. HIBORs and LIBORs, January–December 2007



Banking Policy and Supervisory Issues in 2007

BANKING SUPERVISION

In 2007 Hong Kong became one of the first jurisdictions to implement Basel II, the new international standard for capital and risk management. The HKMA continued to improve its banking supervisory approach through the wider use of thematic reviews to promote good risk management and internal control practices in various areas of business of the authorized institutions (AIs). Particular attention was paid to assessing the impact of the US sub-prime mortgage crisis on individual AIs and the banking sector as a whole.

During the year the HKMA conducted 246 on-site examinations, 193 off-site reviews and 39 tripartite meetings. The Banking Supervision Review Committee considered 10 cases relating to the licensing of AIs and money brokers and two cases concerning possible contraventions of the Banking Ordinance by AIs. In addition, 296 applications to become controllers, directors, chief executives and alternate chief executives of AIs were approved.

Table 1. Operational supervision

	2006	2007
1. On-site examinations	247	246
<i>Regular examinations</i>	96	95
- risk-based	86	86
- overseas	10	9
<i>Basel II - IRB validation</i>		15
- qualitative	-	5
- quantitative	-	5
- IT aspects	-	5
<i>Specialised examinations</i>	40	30
- treasury and derivatives activities	9	10
- securities (tier-2)	7	7
- business continuity plan	15	5
- e-banking activities and technology risk management	5	5
- AML/CFT controls (tier-2)	4	3
<i>Thematic examinations</i>	111	106
- renminbi banking business	25	22
- QDII scheme	-	7
- retail wealth management	22	18
- relevant individuals registration controls for securities business	-	11
- IT problems and system change management	-	13
- operational risk management	-	11
- AML/CFT controls over correspondent banking and private banking	22	-
- AML/CFT customer due diligence	-	8
- AML/CFT on-going transaction monitoring	-	6
- AML/CFT implementation of FATF special recommendation VII in remittance transactions	-	10
- controls for protecting customer data	15	-
- implementation of Standardised (credit risk) approach and the IRB approach under Basel II	17	-
- investment advisory activities	10	-
2. Off-site reviews and prudential interviews	185	193
3. Tripartite meetings	51	39
4. Meetings with boards of directors or board-level committees of AIs	21	18
5. Approval of applications to become controllers, directors, chief executives, alternate chief executives of AIs	278	296
6. Reports commissioned under Section 59(2) of the Banking Ordinance	1	3
7. Cases considered by the Banking Supervision Review Committee	15	12

RISKS POSED BY THE US SUB-PRIME PROBLEMS

The HKMA has been closely monitoring individual Als' exposure to US sub-prime mortgages and conducting stress tests on the financial positions of local banks with sub-prime or related exposure. Based on the information submitted by the Als, the aggregate exposure of the Hong Kong banking sector to the US sub-prime or sub-prime-related instruments is not significant relative to the sector's total assets and does not pose any systemic risk.

DEPOSIT PROTECTION SCHEME

The Deposit Protection Scheme marked the first anniversary of its operation on 25 September 2007. Eligible depositors are entitled to compensation of up to \$100,000 in the event of a bank failure. Opinion surveys indicated the Board's publicity activities were effective in fostering and maintaining a high level of public awareness of the Scheme. The HKMA will continue to provide support to the operations of the Scheme.

CONSUMER PROTECTION

The industry's overall state of compliance with the Code of Banking Practice has continued to improve since the introduction of the self-assessment mechanism in 2001-2002. The percentage of Als reporting full or almost full compliance (with five or fewer instances of non-compliance) with the Code reached 98.3% in 2005-2006. The self assessment by the Als is undertaken every two years.

In 2007 the HKMA received 469 complaints about banking services or products of authorized institutions, compared with 292 in 2006. The increase was across all types of banking products, including deposits, loans, credit cards and securities.

Market Infrastructure in 2007

OPERATIONS OF PAYMENT SYSTEMS

The Hong Kong dollar, US dollar, euro and renminbi payment systems continued to function efficiently in 2007. A daily average of \$879 billion of Hong Kong-dollar interbank payments was processed. Both the Hong Kong dollar and US dollar RTGS systems registered daily-turnover records in November, reflecting the increased money demand arising from large initial public offerings.

Chart 1. Hong Kong dollar payment system daily average turnover

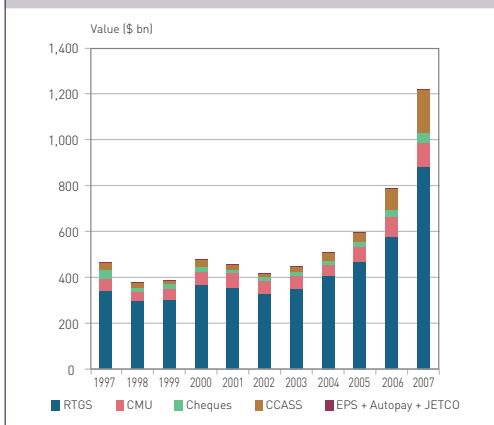


Chart 2. US dollar clearing system daily average turnover

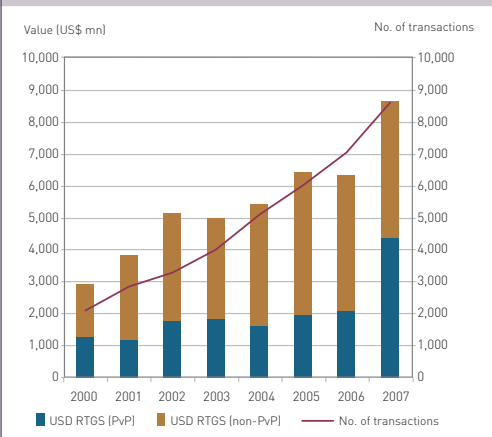
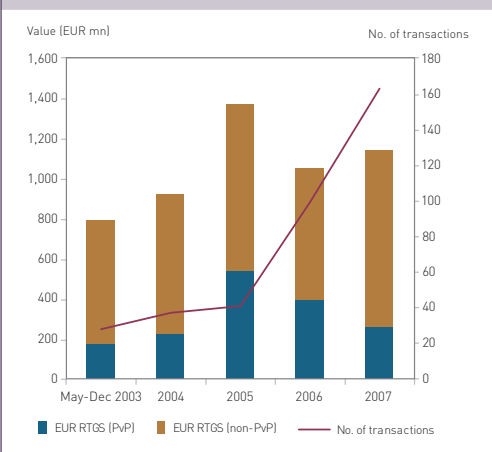


Chart 3. Euro clearing system daily average turnover



In 2007 the HKMA upgraded the Renminbi Settlement System to a fully fledged RTGS system, established a delivery-versus-payment link between Hong Kong's US dollar RTGS system and Malaysia's debt securities settlement system, introduced a one-way joint clearing facility for Hong Kong dollar cheques between Hong Kong and Macau, launched the electronic bond trading platform and the regional CHATS service.

INFORMAL OVERSIGHT OF RETAIL PAYMENT SYSTEMS

The HKMA encourages the retail payment industry to adopt a self-regulatory approach by issuing codes of practice to promote safety and efficiency. The HKMA is responsible for ensuring that Octopus Cards Limited complies with the *Code of Practice for Multi-purpose Stored Value Card Operation*, and the eight credit and debit card scheme operators comply with the *Code of Practice for Payment Card Scheme Operators*.

EXCHANGE FUND BILLS AND NOTES PROGRAMME

In 2007 the HKMA continued to implement the recommendations from the review of the programme. It began granting exclusive tender rights to top-performing market makers, issued the first 15-year Exchange Fund Notes and removed the seven-year Notes, and introduced an electronic trading platform.

TREASURY MARKETS ASSOCIATION

Nearly 2,000 individual and 86 institutional members have joined the Treasury Markets Association since its establishment in 2005. The Association submitted a report to the Government in 2007 assessing the market potential for the development of Islamic financing in Hong Kong and recommending changes that would be needed in the taxation, legal and regulatory frameworks. The HKMA and the Association co-organised the Treasury Markets Summit in Beijing in December, attracting more than 400 professionals from the financial institutions and corporations on the Mainland.

International Financial Centre

2007 was a challenging year for global financial markets. Tensions in the US and European markets arising from the sub-prime problems in the US made the markets in the region more volatile. Economic and financial developments in Mainland China continued to be favourable, but inflation continued to reach new highs. These developments highlighted the importance of promoting and maintaining financial stability in the region and in Hong Kong.

REGIONAL CO-OPERATION AND PARTICIPATION IN MULTILATERAL INSTITUTIONS

In 2007 the HKMA organised a number of international and regional meetings and seminars to bring together monetary and financial experts to discuss issues of significance and interest. These included a high-level seminar co-organised with the International Monetary Fund on the role of hedge funds in Asian financial markets. The HKMA attended meetings of the Asia-Pacific Economic Co-operation, the Financial Stability Forum and the Bank for International Settlements. These forums provide useful channels for the HKMA to exchange views with the international community and promote understanding of monetary and financial issues in Asia and Hong Kong.

PROMOTING MONETARY AND FINANCIAL STABILITY IN ASIA

Under the auspices of the Monetary and Financial Stability Committee established under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the HKMA developed an integrated monitoring framework analysing the potential contagion risks and their implications for regional financial stability. The HKMA is responsible for co-ordinating EMEAP members' inputs to the framework.

UPGRADING HONG KONG'S SOVEREIGN CREDIT RATING

The HKMA continued to work with the Government in making the case to the international credit rating agencies that Hong Kong's strong economic fundamentals and fiscal position merit higher ratings. These efforts bore fruit in 2007, with three international rating agencies upgrading Hong Kong's ratings and outlook. Hong Kong now enjoys AA ratings from all major rating agencies, the highest ever assigned to Hong Kong.

ADVANCED FINANCIAL CO-OPERATION WITH THE MAINLAND

After helping to draw up the Action Agenda on “China’s 11th Five Year Plan and the Development of Hong Kong”, the HKMA continued to contribute to its implementation. Achievements in 2007 included the new measures introduced in Supplement IV to the Closer Economic Partnership Arrangement, making it easier for Hong Kong banks to establish and expand their presence on the Mainland, expansion of the Qualified Domestic Institutional Investors schemes, and the announcement by the State Administration of Foreign Exchange of a pilot scheme for Mainland residents to invest in overseas markets. These developments will all help Hong Kong to serve as a platform for the orderly outflow of funds from the Mainland and play a greater role in Mainland’s financial intermediation.

STRENGTHENING RESEARCH INTO MAINLAND ECONOMIC AND FINANCIAL ISSUES

China Economic Issues, a dedicated research series introduced by the HKMA in 2006, continued to be a useful reference for monitoring and analysing Mainland economic and financial market issues with a significant bearing on Hong Kong. Research projects conducted in 2007 included the impact of the renminbi exchange rate on Asian currencies, the high volatility of the A-share market, the price convergence between A and H-shares, rural developments on the Mainland and the profitability of Mainland urban commercial banks. The HKMA organised a conference on the internationalisation of the renminbi in October, providing a platform for participants to share views on the effects of the increasing use of the renminbi outside Mainland China on other international currencies and the renminbi’s potential as an international currency.

Exchange Fund Performance in 2007

The Exchange Fund recorded an investment return of 11.8% in 2007, 126 basis points above its investment benchmark. The Exchange Fund earned a gross investment income of \$142.2 billion, comprising

- \$61 billion from bond investments
- \$55.8 billion from Hong Kong equities
- \$6.7 billion from foreign equities
- a foreign exchange revaluation gain of \$18.7 billion.

A Strategic Portfolio was established in 2007 to hold shares in Hong Kong Exchanges & Clearing Limited acquired by the Government for the account of the Exchange Fund for strategic purposes. The Portfolio is not included in the assessment of the investment performance of the Exchange Fund. The valuation gain and dividend income of the Portfolio in 2007 amounted to \$4.7 billion.

Table 1. 2007 market returns

Currencies	
Appreciation (+)/depreciation (-) against US dollar	
Euro	+10.9%
Yen	+6.7%
Bond markets	
Relevant US Government Bond (1-3 years) Index	+7.4%
Equity markets	
Standard & Poor's 500 Index	+3.5%
Hang Seng Index	+39.3%

Table 2. Gross investment return of the Exchange Fund in Hong Kong dollar terms¹

	Return on total assets	Return on investment benchmark ²	Alpha	CPI (A) ³
2007	11.8%	10.6%	+1.3%	+2.8%
2006	9.5%	8.9%	+0.6%	+1.9%
1999 – 2007				
annualised	6.8%	5.6%	+1.2%	-0.5%
1994 – 2007				
annualised	7.0%	N/A	N/A	+1.5%

¹ For the Annual Reports from 2001 to 2003, the return on total assets and return on investment benchmark are in US 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 2004/2005 base new series.

Table 3. Currency mix of the Exchange Fund's assets on 31 December 2007 – including forward transactions

	HK\$ billion	%
US dollar bloc		
US dollar ¹	1,032.6	73.0
Hong Kong dollar	215.5	15.2
Non-US dollar bloc	166.3	11.8
Total	1,414.4	100.0

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

Since 1994, the Exchange Fund has generated a compounded annual return of 7.0%, which compares favourably with the compounded annual inflation rate of 1.5% over the period. The investment return of the Exchange Fund has

exceeded the benchmark return in every year in the past nine years, except in 2004, when the actual investment return was the same as the benchmark return.

Chart 1. Investment return of the Exchange Fund (1994-2007)

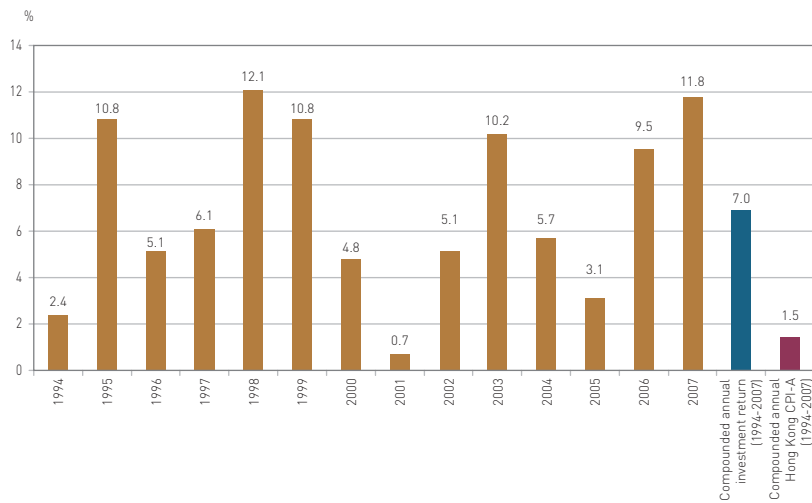
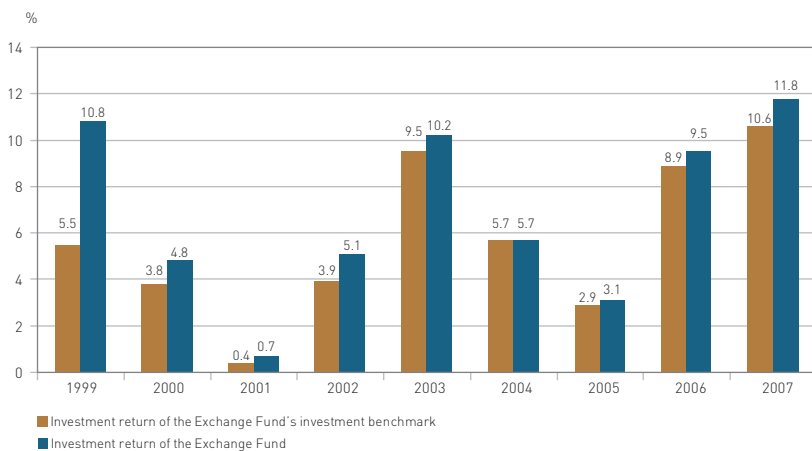


Chart 2. Investment return of the Exchange Fund and the Exchange Fund's investment benchmark (1999-2007)



The Exchange Fund

The full set of audited financial statements of the Exchange Fund for 2007 may be found in the HKMA Annual Report 2007.

EXCHANGE FUND - INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2007

	Group		Fund	
	2007	2006	2007	2006
(Expressed in millions of Hong Kong dollars)				
INCOME				
Interest income	47,567	43,483	45,222	41,184
Dividend income	7,036	6,162	7,266	6,429
Net realised and revaluation gains	75,833	38,799	75,717	38,806
Net exchange gains	18,729	17,360	18,713	17,338
Investment income	149,165	105,804	146,918	103,757
Bank licence fees	132	132	132	132
Other income	295	277	75	64
TOTAL INCOME	149,592	106,213	147,125	103,953
EXPENDITURE				
Interest expense	(37,058)	(38,996)	(35,370)	(37,421)
Operating expenses	(2,445)	(1,986)	(2,260)	(1,810)
Note and coin expenses	(223)	(160)	(223)	(160)
Write back of impairment losses on loans	5	8	-	-
TOTAL EXPENDITURE	(39,721)	(41,134)	(37,853)	(39,391)
SURPLUS BEFORE SHARE OF PROFIT OF ASSOCIATE	109,871	65,079	109,272	64,562
Share of profit of associate, net of tax	8	8	-	-
SURPLUS BEFORE TAXATION	109,879	65,087	109,272	64,562
Income tax	(86)	(86)	-	-
SURPLUS FOR THE YEAR	109,793	65,001	109,272	64,562
ATTRIBUTABLE TO:				
Owner of the Fund	109,779	64,987	109,272	64,562
Minority interests	14	14	-	-
	109,793	65,001	109,272	64,562

EXCHANGE FUND - BALANCE SHEET

as at 31 December 2007

(Expressed in millions of Hong Kong dollars)	Group		Fund	
	2007	2006	2007	2006
ASSETS				
Cash and money at call	21,310	19,726	21,222	19,661
Placements with banks and other financial institutions	114,343	44,670	111,695	42,766
Derivative financial instruments	3,786	1,490	3,129	1,227
Financial assets designated at fair value through profit or loss	1,253,442	1,088,192	1,253,442	1,088,192
Available-for-sale securities	4,531	5,107	493	493
Held-to-maturity securities	5,607	4,753	-	-
Loan portfolio	34,460	32,376	-	-
Gold	436	330	436	330
Other assets	19,664	18,944	18,329	17,949
Investments in subsidiaries	-	-	2,145	2,145
Interest in associate	43	35	-	-
Property, plant and equipment	816	853	595	611
Operating land lease prepayment	2,923	2,997	2,923	2,997
Intangible assets	13	22	13	22
TOTAL ASSETS	1,461,374	1,219,495	1,414,422	1,176,393
LIABILITIES AND EQUITY				
Certificates of Indebtedness	163,381	156,926	163,381	156,926
Government-issued currency notes and coins in circulation	7,545	6,842	7,545	6,842
Balance of the banking system	10,639	2,035	10,639	2,035
Derivative financial instruments	733	735	610	572
Trading liabilities	-	2,096	-	2,096
Placements by banks and other financial institutions	-	7,572	-	7,572
Placements by other Hong Kong Special Administrative Region government funds	464,585	324,530	464,585	324,530
Placements by Hong Kong statutory bodies	30	26	30	26
Exchange Fund Bills and Notes issued	141,767	129,139	141,767	129,139
Other debt securities issued	33,291	28,910	-	-
Mortgage-backed securities issued	4,229	5,341	-	-
Other liabilities	14,277	44,231	8,885	38,947
Total liabilities	840,477	708,383	797,442	668,685
Accumulated surplus	620,592	510,813	616,980	507,708
Revaluation reserve	126	125	-	-
Total equity attributable to owner of the Fund	620,718	510,938	616,980	507,708
Minority interests	179	174	-	-
Total equity	620,897	511,112	616,980	507,708
TOTAL LIABILITIES AND EQUITY	1,461,374	1,219,495	1,414,422	1,176,393

Major Events 1993-2007

1993

April 1993

The HKMA 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 those using the new bauhinia design.

July 1993

The Government announces the sale of Overseas Trust Bank for \$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.

1994

May 1994

The Bank of China issues its first Hong Kong banknotes.

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

May 1995

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

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. 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.

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 in real time.

1997

March 1997

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

July 1997

The assets of the Land Fund are handed over to Hong Kong SAR Government with a net value of \$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.

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 \$118 billion from 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.

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 Organization.

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. 1,755 people in Hong Kong are infected and 299 people die.

April 2003

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

June 2003

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

June 2003

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

December 2003

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

2004

February 2004

Over 30 banks in Hong Kong introduce renminbi deposit, exchange, remittance, and debit and credit card services.

May 2004

The Deposit Protection Scheme Ordinance is enacted.

July 2004

The Clearing and Settlement Systems Ordinance is enacted.

October 2004

The three note-issuing banks issue new \$20, \$50 and \$1000 notes with additional security features.

November 2004

The Commercial Credit Reference Agency is launched.

2005

May 2005

The HKMA announces three refinements to the operation of the Linked Exchange Rate system.

July 2005

The Banking (Amendment) Ordinance 2005 is passed to provide a legislative framework for the implementation of Basel II in Hong Kong.

July 2005

The People's Bank of China announces reform of the renminbi exchange rate regime.

December 2005

The Sixth Ministerial Conference of the World Trade Organization takes place in Hong Kong.

2006

March 2006

The Renminbi Settlement System is launched. The system provides a safe and efficient clearing and settlement platform to support the further expansion of renminbi business in Hong Kong.

September 2006

The Hong Kong banking industry implements a five-day clearing week.

September 2006

The Deposit Protection Scheme commences operation. The Scheme provides a measure of protection to depositors and contributes to the stability of the financial system.

2007

July 2007

The new ten-dollar polymer note is put into circulation.

July 2007

The first issue of renminbi bonds in Hong Kong is launched.

Abbreviations

AI	-	Authorized institution
AML	-	Anti-money-laundering
CFT	-	Counter-terrorist-financing
CHATS	-	Clearing House Automated Transfer System
CMU	-	Central Moneymarkets Unit
CPI	-	Consumer Price Index
DTC	-	Deposit-taking companies
EFAC	-	Exchange Fund Advisory Committee
EMEAP	-	Executives' Meeting of East Asia-Pacific Central Banks
GDP	-	Gross Domestic Product (in real terms unless otherwise stated)
HIBOR	-	Hong Kong Interbank Offer Rate
HK	-	Hong Kong
IMF	-	International Monetary Fund
IRB approach	-	Internal Ratings-based approach
LIBOR	-	London Interbank Offer Rate
PvP	-	Payment-versus-Payment
QDII scheme	-	Qualified Domestic Institutional Investors scheme
RMB	-	Renminbi
RTGS	-	Real Time Gross Settlement
SAR	-	Special Administrative Region
US	-	United States of America

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 (on-line publication)

(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 (Third Edition)

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

(Second Edition)

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

HKMA Background Brief No. 3 – Mandate and Governance of the Hong Kong Monetary Authority

HKMA Background Brief No. 4 – Financial Infrastructure in Hong Kong

HKMA Background Brief No. 5 – Reserves Management in Hong Kong

Money and Banking in Hong Kong: A Historical Timeline

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.

 > [HKMA Information Centre](#)

Most HKMA publications are also available for downloading 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.

 > [Publications](#)

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

 > [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 reports, and features on topical issues.

Design and production : Equity Financial Press Limited
Printing : Asia One Printing Limited

This booklet is printed on environmental paper
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