

International Financial Centre

Amid the global financial crisis, the HKMA stepped up regional surveillance and co-operation; participated in international discussions on reform of the global financial system; and strengthened research into and monitoring of developments in Mainland China. In December the State Council agreed to expand the scope of renminbi business, allowing eligible enterprises to use renminbi to settle trade transactions in Hong Kong. Hong Kong's credit rating was raised to AA+ by Standard and Poor's.

OVERVIEW

Global financial markets experienced a challenging year in the face of the global financial crisis. Problems in the financial markets affected the real economy and Asian economies felt the impact of the recession in major industrialised countries. By contrast, despite slower growth, economic and financial developments in Mainland China were more favourable, and inflation, which hit new highs in mid-year on rising energy and food prices, receded as the year progressed.

These developments highlighted the importance of promoting financial stability in the region and in Hong Kong. The HKMA increased its efforts in regional surveillance by co-ordinating the input of surveillance data and preparing macro-monitoring reports for the Monetary and Financial Stability Committee (MFSC) established under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP).¹ The HKMA was involved in meetings and forums of various multilateral organisations in 2008, in particular, the Financial Stability Forum (FSF)², which has come to the fore since the global financial crisis. The HKMA has followed closely the proposals for reforms to the global financial system by the FSF and listed in the Group of Twenty (G20) Action Plan. Research into and monitoring of developments in Mainland China were also strengthened. In financial co-operation initiatives with the Mainland, the HKMA played a key role in the implementation of the Action Agenda on "China's 11th Five-Year Plan and the Development of Hong Kong". Collaboration with Mainland authorities resulted in significant progress, including the additional issuance of more renminbi bonds in Hong Kong; further expansion of renminbi business in

Hong Kong whereby eligible enterprises can use renminbi to settle trade transactions here; and the addition of a new measure for the banking sector under the Closer Economic Partnership Arrangement (CEPA).

REVIEW OF 2008

Regional co-operation and participation in multilateral institutions

The HKMA continued to organise and participate in regional initiatives and discussions on a wide range of issues as part of closer economic and financial integration in Asia. This included hosting a number of international and regional meetings and seminars to bring together monetary and financial experts from many economies.

The HKMA attended meetings of the Asia-Pacific Economic Co-operation (APEC) organisation, the FSF and the Bank for International Settlements. These forums provide useful channels for the exchange of views with the international community and promote a better understanding of monetary and financial issues in Asia and Hong Kong.

Representing the HKSAR Government, the HKMA took part in negotiations on the Ninth Replenishment of the Asian Development Fund, a concessionary lending facility of the Asian Development Bank for the poorest economies in the region. The Finance Committee of the Legislative Council approved Hong Kong's contribution proposal in early 2009.

Financial market surveillance has become a matter of prime importance since the onset of the global financial crisis. In November members of the G20 set out five principles and an Action Plan that laid the foundation for reforming the international financial system. This is being taken forward by international financial institutions and forums such as the FSF. As an active member of the FSF, the HKMA regularly participates in its meetings to exchange views and information on the latest developments in international financial markets and systems with other member institutions, and is involved in setting and implementing market reform recommendations. In December 2008 the FSF plenary and regional meetings were held in Hong Kong, where members discussed the implementation of the G20 Action Plan. A number of the immediate and medium-term

¹ EMEAP is a co-operative forum of 11 central banks and monetary authorities in the East Asia and Pacific region comprising the Reserve Bank of Australia, the People's Bank of China, the Hong Kong Monetary Authority, Bank Indonesia, the Bank of Japan, the Bank of Korea, Bank Negara Malaysia, the Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, the Monetary Authority of Singapore and the Bank of Thailand.

² The FSF was established in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, to promote international financial stability. Members of the FSF include national financial authorities from G7, Australia, Hong Kong, the Netherlands, Singapore and Switzerland; the European Central Bank; international financial institutions; international regulatory and supervisory groupings; and committees of central bank experts.

International Financial Centre

actions recommended by the G20 have already been implemented in Hong Kong, and the HKMA will remain involved in the reform of the global financial system.

Promoting monetary and financial stability in Asia

Since the establishment of the Monetary and Financial Stability Committee in 2007, the HKMA has co-ordinated the input of surveillance data and prepared macro-monitoring reports for the twice-yearly EMEAP MFSC Meetings and ad hoc MFSC teleconferences. A joint statement was issued by the MFSC on 30 October 2008 reiterating its commitment to improving co-operation and collaboration. Phase II of the Committee's Chart Pack, a comprehensive set of economic and financial indicators consolidated by the HKMA, was launched to strengthen MFSC's regional surveillance function. The HKMA also developed a multi-region dynamic stochastic general equilibrium model to further enhance the Committee's macro surveillance framework. The model, well received by MFSC members, will be further developed to study policy issues and links among economies in the Asia-Pacific region. The HKMA also contributed to a study of how to improve regional financial arrangements to promote financial stability.

Upgrading Hong Kong's sovereign credit ratings

The HKMA works closely with the Government to present a balanced assessment of Hong Kong's economic and financial strengths to international credit rating agencies (CRAs). A better sovereign credit rating helps lower funding costs for Hong Kong debt issuers and increase market confidence in the Linked Exchange Rate system and monetary stability.

The focus of discussion with CRAs was the structural improvements in the Hong Kong economy 10 years after the Asian financial crisis. It was shown that Hong Kong's robust credit fundamentals, fiscal sustainability, diversified economy, and the diminishing risks emanating from the Mainland all support a higher rating for Hong Kong. Quantitative and comparative analyses placed Hong Kong above the median AAA-economy in credit strength, implying that Hong Kong deserves a higher standalone rating. Comparative studies also demonstrated that Hong Kong had been unfairly penalised by CRAs for political risk.

These efforts contributed to an upgrade of Hong Kong's local- and foreign-currency rating to AA+ by Standard and Poor's, the highest ever assigned to Hong Kong. The upgrade reflected the agency's recognition of Hong Kong's strong economic fundamentals, improved public finances and long-term growth prospects. Other major international CRAs affirmed Hong Kong's AA ratings.

Financial co-operation with the Mainland

Communications and co-operation with the People's Bank of China (PBoC) and other Mainland authorities were stepped up in 2008 with the unfolding of the global financial crisis and heightened volatilities in financial markets worldwide. The improved collaboration resulted in significant achievements on several fronts.

In late December the State Council agreed to a further expansion of renminbi business in Hong Kong, allowing eligible Mainland and Hong Kong enterprises to use renminbi to settle trade transactions on a trial basis. The new business will enlarge the capacity of Hong Kong's financial system to handle renminbi-denominated transactions; improve the city's status as an international financial centre; and expand the renminbi business of Hong Kong banks, opening up new business opportunities. For some traders, using renminbi to settle trade transactions will avoid currency exchange costs relating to settlement in US or Hong Kong dollars. The HKMA is working with the PBoC and other Mainland authorities to implement the related arrangements.

Renminbi business in Hong Kong continued to operate smoothly. At the end of 2008, renminbi deposits totalled RMB56.1 billion and the number of accounts reached 1.2 million. Forty banks in Hong Kong were offering renminbi banking services. The launch of the renminbi bond market in Hong Kong in 2007 created a new channel for financial intermediation between the Mainland and Hong Kong. In 2008 there were four renminbi bond issues, adding to the three the year before, and bringing the total amount of outstanding renminbi bonds in Hong Kong to RMB22 billion.

A new measure for the banking sector was added under the CEPA Supplement V signed in July 2008. The new provision allows the data centres of Mainland-incorporated banking institutions of Hong Kong banks to be located in Hong Kong, subject to the approval and prudential requirements of the Mainland authorities. This will lead to economies of scale in providing information technology support to the banks' businesses in Hong Kong, Mainland China and other areas through their regional data centres. A single-location arrangement may also help reduce operational and technology-related risks. The provision further signifies Mainland authorities' confidence in Hong Kong's legal, regulatory and technical infrastructure for the data centre operations of banks.

Strengthening research on Mainland economic and financial issues

The HKMA continued to undertake research projects to improve understanding of economic and financial developments in Mainland China and their impact on Hong Kong's economy. In 2008 new projects for *China Economic Issues*, a dedicated research series introduced in 2006, included a study of the exchange rate pass-through in Mainland China, the Mainland's monetary regime for dealing with large capital inflows, and co-operation between the bond markets in Hong Kong and on the Mainland. Continuing the international conference series initiated in 2007 dealing with the Mainland's financial sector developments, a conference was held in November 2008 to discuss capital account liberalisation in Mainland China. It attracted a group of experienced researchers and policymakers from central banks, international organisations and research institutes. The conference covered international experiences in capital account opening and reviewed the current stage of capital account liberalisation on the Mainland, including the policy options for further opening up, and the role Hong Kong can play in the process.

 [Research > China Economic Issues](#)

Training

Training programmes for officials of the PBoC and the China Bank Regulatory Commission held in Hong Kong and on the Mainland continued to expand. The courses covered monetary policy, financial stability, banking supervision, human resources management, accounting management,

macroeconomic analysis, financial risk management, and prevention of money laundering. In all, 20 courses, or 3,686 man-days of training, were provided to 1,806 Mainland officials. The HKMA also provided training on request to other external parties, including courses for Mainland commercial banks, regulators in the region and a regional course on Risk-focused Supervision and Risk Assessment under the APEC financial regulators' training initiative. Altogether, 255 participants attended the seminars in 2008.

PLANS FOR 2009 AND BEYOND

As the global financial environment is expected to remain volatile in 2009, regional co-operation will be of particular importance in improving financial stability and surveillance. At the request of the Monetary and Financial Stability Committee, the HKMA will arrange workshops to share its multi-region surveillance model with other EMEAP members and organise their efforts for further improvements. The HKMA will also host the annual EMEAP Governors' Meeting in July. Representation in central banking and international financial forums remains a priority, and the HKMA will continue its participation to ensure Hong Kong's views and concerns are heard, including discussions on improving regional financial arrangements. Measures recommended by the FSF and set out in the G20 Action Plan will continue to be actively pursued. At the same time, the HKMA will continue efforts to pursue further upgrades of Hong Kong's credit ratings.

To further improve financial co-operation between Hong Kong and the Mainland, the HKMA will be involved in discussions with Mainland authorities on proposals set out in the Action Agenda. In 2009 a major task is to work closely with Mainland authorities to ensure a timely and smooth implementation of the arrangements for the use of renminbi for settlement of trade transactions. Further improvements will be made to the monitoring of the economic, financial and monetary developments in Mainland China and their implications for Hong Kong. The HKMA will also strengthen co-operation with Mainland regulators, and organise training seminars and courses for staff of Mainland authorities and other external parties.

 [Monetary Stability > External Relations](#)

 [Press Releases > International Relations](#)