

REPORT ON CURRENCY BOARD OPERATIONS (22 JUNE - 31 JULY 2001)

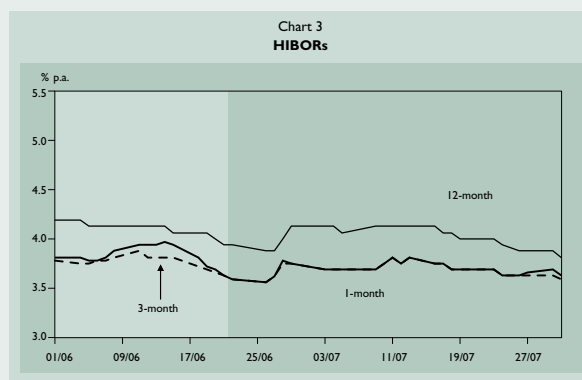
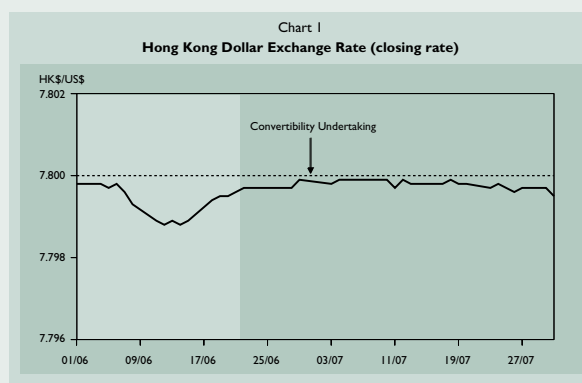
The Hong Kong dollar exchange rate remained stable despite a less favourable external environment during the reporting period. The final phase of interest rate deregulation had little impact on the Hong Kong dollar money market. Interbank interest rates remained soft. Shorter-term interest rates continued to stay below their US dollar counterparts, while longer-term rates generally stayed close to the US rates. The monetary base increased slightly from HK\$218.70 bn to HK\$220.07 bn, mainly due to an increase in the outstanding amount of Certificates of Indebtedness. In accordance with currency board principles, changes in the monetary base were fully matched by corresponding changes in foreign reserves.

Hong Kong Dollar Exchange Rate

The Hong Kong dollar exchange rate remained stable throughout the reporting period despite volatility in Argentina's financial markets as well as instability in some regional economies. Partly reflecting soft local interest rates, the exchange rate stayed close to 7.8000 during most of the period and closed at 7.7995 (Charts 1 and 2).

Interest Rates

Interbank interest rates remained largely stable during the period. Notwithstanding a 25 bp rate cut by the US Fed, 1-month HIBOR edged up slightly in late June on the back of strong funding needs by banks ahead of the month-end. It then remained stable within a narrow range of 3.63% - 3.81% for the rest of the period. The **3-month HIBOR closely tracked the movement of 1-month HIBOR and closed at 3.59%, while 12-month HIBOR eased from 3.94% to 3.81%** (Chart 3). The final phase of deregulation of Hong Kong dollar retail deposits interest rates implemented in early July had little impact on the local money market.

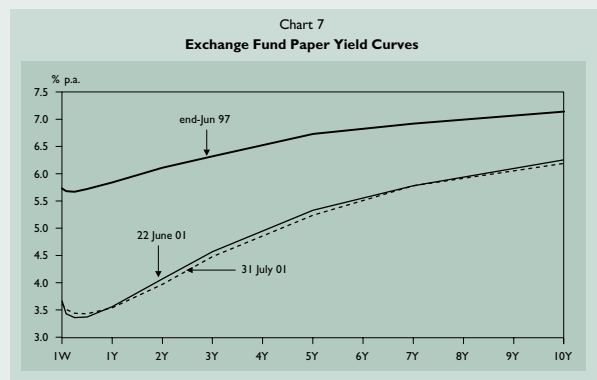
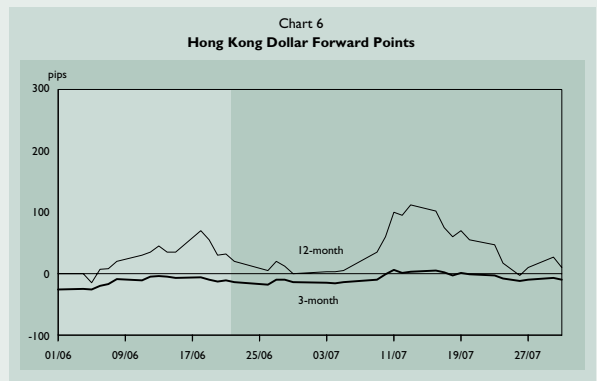
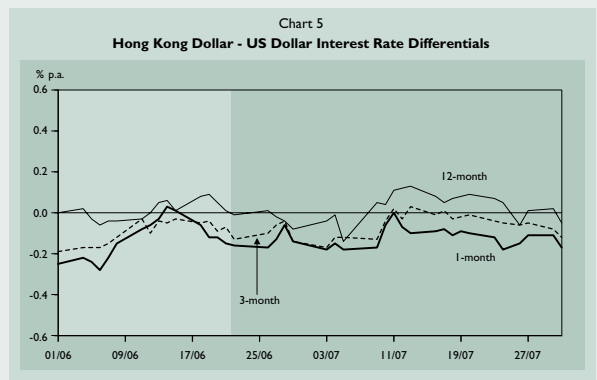
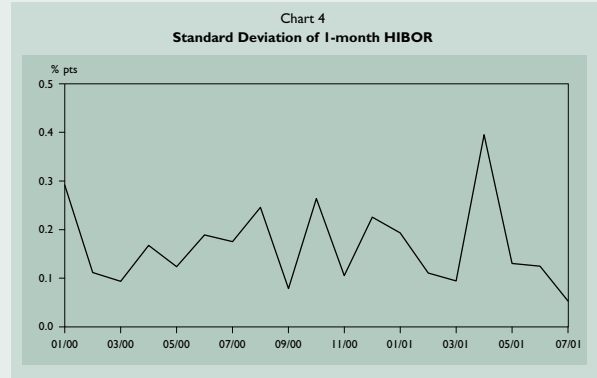


Reflecting a relatively quiet money market, **interest rate volatility** (measured by the standard deviation of 1-month HIBOR) **decreased** from 0.12 percentage point in June to 0.05 percentage point in July (Chart 4).

Hong Kong dollar interbank interest rates of 3-month and below stayed below their US dollar counterparts during most of the period. In respect of 1-month and 3-month money, the negative spreads narrowed and briefly closed in the second week of July, but then widened again to close at 17 bp and 12 bp respectively. The negative spread in terms of 12-month money turned positive and reached 13 bp around mid-July before returning to the negative territory to close at -5 bp (Chart 5).

Reflecting the interest rate differentials between the Hong Kong dollar and US dollar, the Hong Kong dollar 3-month forward points remained at a discount during most of the period. On the other hand, amid market jitters in Argentina as well as in other regional financial markets, 12-month forward points at one time reached 112 pips in mid-July. Partly reflecting investor differentiation between markets of different fundamentals, the forward points gradually came down to close at 10 pips at the end of the period (Chart 6).

Yields on Exchange Fund paper were little changed (Chart 7). **The yield spreads between 5-year and 10-year Exchange Fund paper and US**



Treasuries widened slightly by 2 bp and 8 bp, to 63 bp and 105 bp respectively (Table 1).

Following the 25 bp cut in the US Fed Funds Target Rate on 27 June, the **Base Rate was adjusted downwards on 28 June to 5.25%** in accordance with the established formula (Chart 8). The **Best Lending Rate offered by major banks was also lowered from 7.00% to 6.75%**, effective on 3 July.

The weighted average deposit rate offered by 44 major authorized institutions for 1-month time deposits decreased from 3.62% on 15 June to 3.49% on 29 June. Meanwhile, the effective deposit rate decreased from 2.96% in May to 2.64% in June (Chart 9)¹. Following the final phase of interest rate deregulation on 3 July, interest rates on all types of deposits, including savings account deposits, are determined by market forces. The prohibition of interest on current accounts was also lifted.

Monetary Base

The monetary base, which comprises the outstanding amount of Certificates of Indebtedness (CIs), coins in circulation, the Aggregate Balance, and the outstanding amount of Exchange Fund Bills and Notes, **increased from HK\$218.70 bn to HK\$220.07 bn during the reporting period** (Table 2). Movements in individual components are discussed below.

Table 1
Yield Spreads between Exchange Fund Paper and US Treasuries (basis points)

	27-Jun-97	22-Jun-01	31-Jul-01
3-month	56	-18	-17
1-year	21	15	3
3-year	3	16	26
5-year	27	61	63
10-year	54	97	105

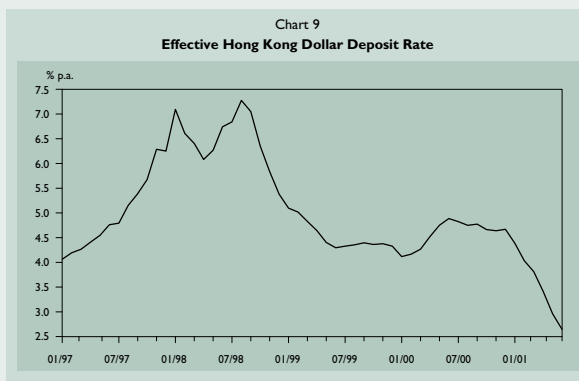
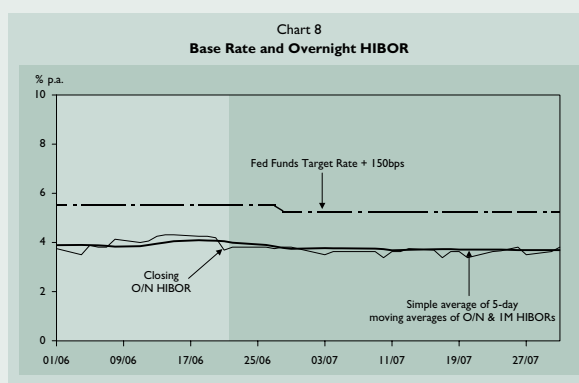


Table 2
Monetary Base

(HK\$ bn)	22-Jun-01	31-Jul-01
CIs	98.65	99.48
Coins in Circulation	6.05	6.02
Aggregate Balance	0.51	0.56
Outstanding EFBNs	113.49	114.01
Monetary Base	218.70	220.07

¹ This is the weighted average of the interest rates on demand deposits, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

Certificates of Indebtedness

During the period, the three note-issuing banks (NIBs) submitted to the HKMA a total of US\$0.11 bn in exchange for HK\$0.83 bn worth of CIs. As a result, the **outstanding amount of CIs increased** from HK\$98.65 bn to HK\$99.48 bn (Chart 10).

Coins

The total amount of **coins in circulation decreased marginally** from HK\$6.05 bn to HK\$6.02 bn during the period (Chart 11).

Aggregate Balance

In the absence of foreign exchange operations conducted for the currency board account, the **Aggregate Balance remained stable at around HK\$0.50 bn**, with small changes due to interest payments and new issues of Exchange Fund paper (Chart 12).

During the period, a total of HK\$0.46 bn of interest payments on Exchange Fund paper were made. An additional HK\$0.41 bn (in market value) of Exchange Fund paper was issued to absorb these interest payments. The remaining amount was carried forward in the Aggregate Balance.

Outstanding Exchange Fund Bills and Notes

The **market value of outstanding Exchange Fund paper increased from HK\$113.49 bn to HK\$114.01 bn**. The increase was mainly a result of additional net issues (paragraph above). All issues of Exchange Fund Bills and Notes were well received by the market (Table 4). **Holdings of Exchange Fund**

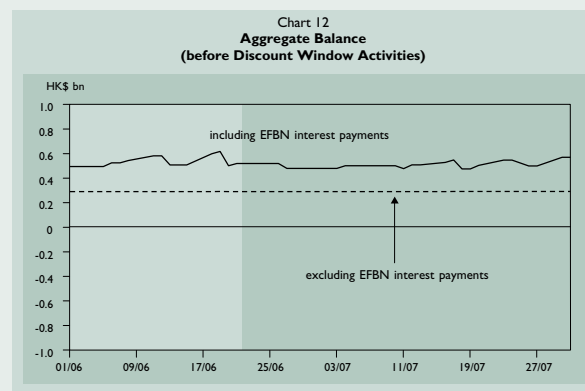
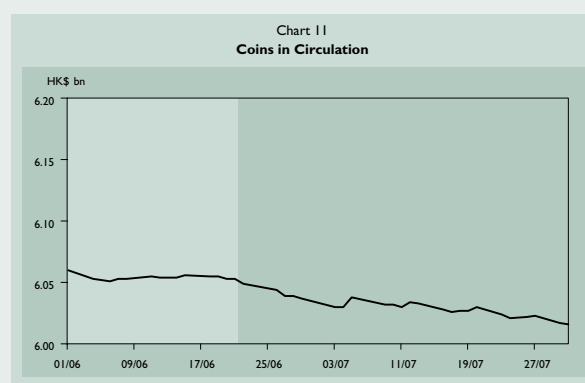
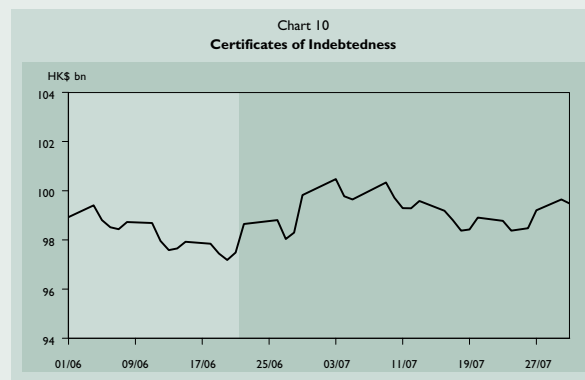


Table 4
Issuance of Exchange Fund Paper
(22 Jun – 31 Jul 01)

	No. of Issues Launched	Over-subscription Ratio
1-month EFB	2	11.77–21.15
3-month EFB	6	3.18–5.57
6-month EFB	3	2.82–3.88
12-month EFB	2	3.78–6.27
3-year EFN	1	3.15

paper by the banking sector (before Discount Window activities) slightly increased from HK\$103.85 bn (or 91.5% of total) to HK\$107.07 bn (or 93.9% of total) during the period (Chart 13).

Discount Window Activities

For the period as a whole, **20 banks in total borrowed HK\$7.93 bn from the Discount Window**, compared with HK\$1.57 bn in the preceding period. All except one of the borrowings used Exchange Fund paper as collateral (Chart 14). Most banks used the Discount Window facility only infrequently (Table 5).

Backing Portfolio

Alongside the increase in outstanding CIs during the period, backing assets increased accordingly. Nevertheless, the value of backing assets expanded more than the increase in the monetary base, partly due to positive net interest income. As a result, the backing ratio increased **from 111.19% on 22 June to 111.35% on 31 July** (Chart 15). Under the linked exchange rate system, while specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate. 🌀

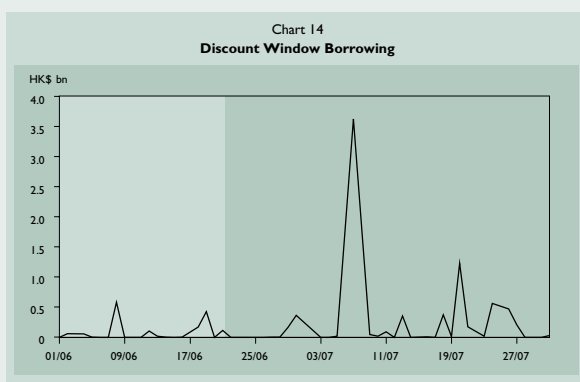
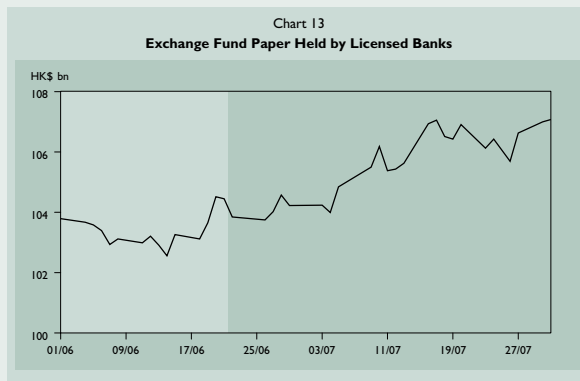
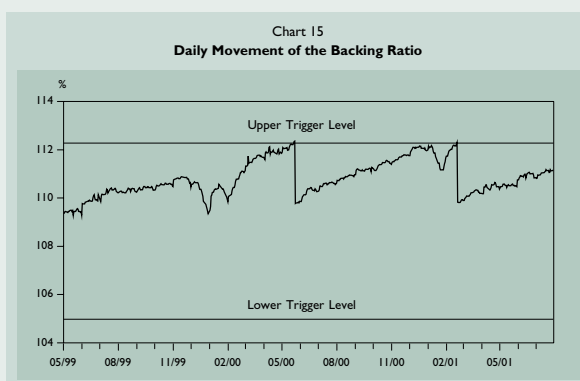


Table 5
Frequency of Individual Bank's
Access to the Discount Window
(22 Jun – 31 Jul 01)

Frequency of Using Discount Window	No. of Banks
1	11
2	4
3	1
4	2
>4	2
Total	20



RECORD OF DISCUSSION OF THE EXCHANGE FUND ADVISORY COMMITTEE SUB-COMMITTEE ON CURRENCY BOARD OPERATIONS ON 12 SEPTEMBER 2001

(Approved for Issue by the Exchange Fund Advisory Committee on 27 September 2001)

Currency Board Operations for the Period 1 August - 24 August 2001

The Sub-Committee noted that the Hong Kong dollar exchange rate and money market had remained stable during the period under review, despite corrections in local stock prices and volatility in the external environment. Interbank interest rates had eased, partly reflecting a 25 bp rate cut in the US Fed Funds Target Rate on 21 August as well as market expectations of a further rate cut. The Hong Kong dollar interest rates across all maturities had stayed below their US dollar counterparts.

The Sub-Committee noted that, in accordance with Currency Board principles, changes in the monetary base during the period under review had been fully matched by corresponding changes in foreign reserves.

The report on Currency Board operations for the period under review is at [Annex A](#).

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted the regular information paper on external and internal risks facing Hong Kong. The discussion focused on the implications of the devastating events in the US on 11 September. Members noted that the incident had triggered sharp declines in equity prices around the world. Nevertheless, central banks in industrial economies had vowed to provide liquidity to maintain stability in the money markets, if needed. Investors expected further interest rate easing in the US to mitigate the adverse impact of the events. In the currency market, the incident had created uncertainties regarding the direction of the US dollar exchange rate.

Members considered that the macroeconomic impact of the incident would depend on how the events unfolded. In the near to medium term, there was a risk that weakened consumer and investor confidence would exacerbate the slowdown of the US economy. Coupled with the prevailing demand weaknesses in Japan and the euro zone, the outlook for the global economy appeared worrisome. Asia would not be immune, and the export-dependent economies would be particularly hard-hit. In South America, Argentina, with persistent problems in its public finances, remained a concern.


Members noted that, notwithstanding the closure of financial markets in the US immediately after the incident, money and exchange markets in Hong Kong had remained stable. The Hong Kong Monetary Authority had assured banks of adequate liquidity provision in the interbank market and the smooth functioning of the clearing and settlement systems. Nevertheless, as in most other bourses, local stock prices had declined significantly. Growth prospects were likely to be affected by the unfavourable developments in the external environment, although a possible weakening of the US dollar and further interest rate easing might cushion the slowdown.

Management of Fiscal Transfers and its Implications

The Sub-Committee considered a paper discussing the various ways through which the impact of fiscal transfers on interbank liquidity was neutralised, and their implications on the exchange rate, interest rate and money supply. Members noted three main recycling routes: (a) placements to or drawdowns from the banking system, (b) repayment of loans or borrowings from the banking system, and (c) the purchase or sale of US dollars against Hong Kong dollars. The effects of these various channels on money and exchange markets were not likely to be significant in view of the depth of the markets.

Members noted that the current practice of excluding short-term Exchange Fund placements from the money supply statistics, adopted since 1979, introduced some minor statistical distortions to the monetary aggregates. They agreed that the definition of monetary aggregates should be reviewed.

Monitoring Market Sentiment Regarding the Currency Board using Hong Kong Dollar Option Prices: A Preliminary Report

The Sub-Committee noted an information paper on extracting information from Hong Kong dollar option prices to monitor market sentiment regarding the Hong Kong dollar. 

REPORT ON CURRENCY BOARD OPERATIONS (1 - 24 AUGUST 2001)

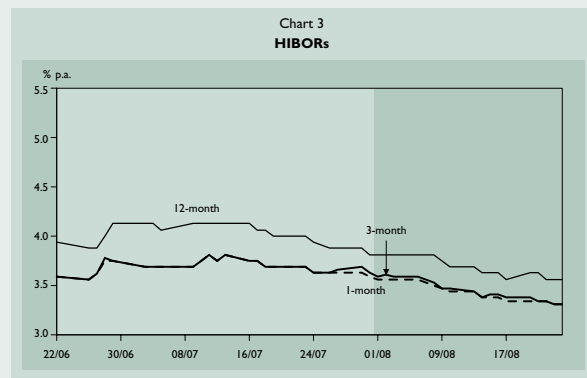
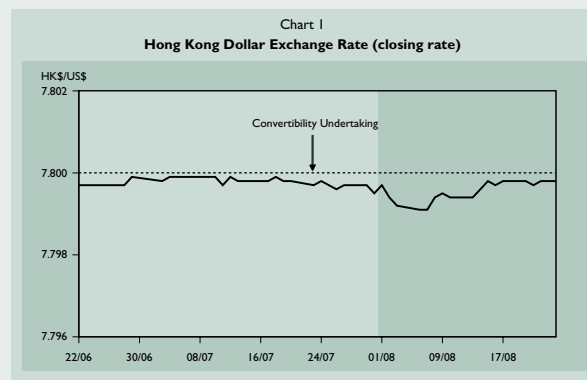
The Hong Kong dollar exchange rate and money market remained stable despite corrections in local stock prices and volatility in the external environment. Partly reflecting the easing bias in the US Fed Funds Target Rate, interbank interest rates remained soft. The Hong Kong dollar interest rates across all maturities stayed below their US dollar counterparts. The monetary base increased slightly from HK\$220.30 bn to HK\$220.43 bn. In accordance with currency board principles, changes in the monetary base were fully matched by corresponding changes in foreign reserves.

Hong Kong Dollar Exchange Rate

Although the external environment deteriorated and the local stock prices underwent a correction, **the Hong Kong dollar exchange rate remained stable throughout the reporting period.** The exchange rate briefly firmed in early August alongside a strengthening in some regional currencies. Thereafter, partly reflecting soft local interbank interest rates, and partly corrections in local stock prices, the exchange rate eased in the second week of August, and stayed close to the linked rate at 7.8000 during the rest of the reporting period (Charts 1 and 2).

Interest Rates

Interbank interest rates eased during the reporting period. Reflecting in part a 25 bp rate cut in the US Fed Funds Target Rate on 21 August as well as market expectations of a further rate cut, 1-month HIBOR eased from 3.59% at the beginning of August to 3.31% at the end of the period. **3-month and 12-month HIBOR followed similar movements,** closing at 3.31% and 3.56% respectively at the end of the period (Chart 3).

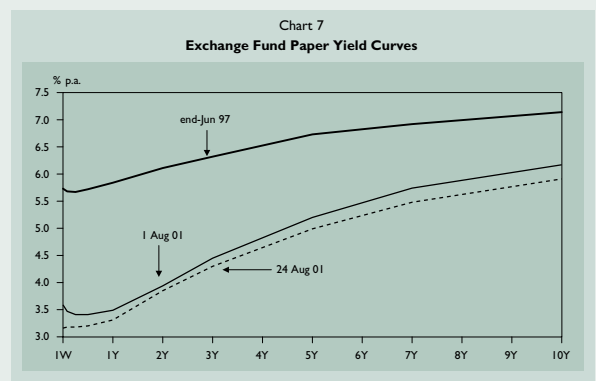
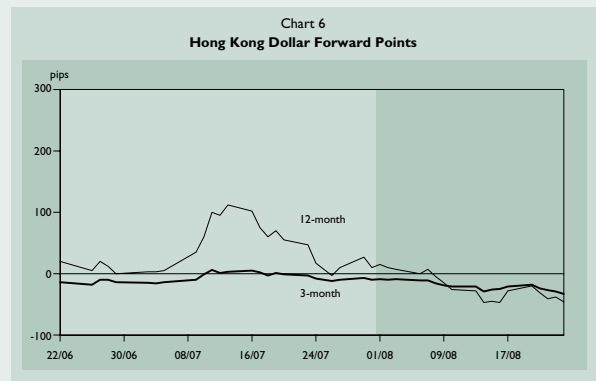
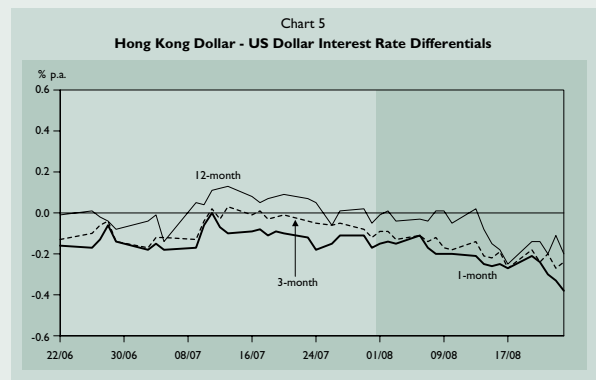
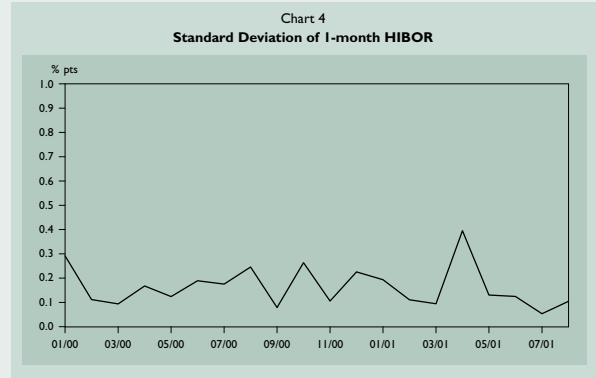


The standard deviation of 1-month HIBOR increased slightly from 0.05 percentage points in July to 0.10 percentage points in August (up to 24 August), due partly to the easing trend of interest rates (Chart 4).

The local stock market correction did not seem to have impacted on the interest rate differentials. Hong Kong dollar interbank interest rates in terms of 1-month and 3-month rates stayed below their US dollar counterparts throughout the period, with their spreads closing at -38 bp and -24 bp respectively. The 12-month interest rate initially stayed close to their US dollar counterpart. From mid-August onwards, it eased to display negative spreads, which closed at -20 bp at the end of the period (Chart 5).

Reflecting the interest rate differentials between the Hong Kong dollar and the US dollar, Hong Kong dollar 3-month forward points remained at a discount throughout the periods. 12-month forward points, which was at a premium of 15 pips at the beginning of the period, eased from the second week of August onwards, and closed at -46 pips at the end of the period (Chart 6).

In line with the softening of interbank interest rates, **yields on Exchange Fund paper declined** (Chart 7). The yield spreads between 5-year and 10-year Exchange Fund paper and US Treasuries narrowed by 14 bp and 7 bp, to 47 bp and 96 bp respectively (Table 1).



Following the 25 bp cut in the US Fed Funds Target Rate on 21 August, the **Base Rate was adjusted downwards on 22 August to 5.00%** in accordance with the established formula (Chart 8). The **Best Lending Rate offered by major banks was also lowered from 6.75% to 6.50%**.

The weighted average deposit rate offered by 43 major authorized institutions for 1-month time deposits decreased from 3.49% on 29 June to 3.46% on 27 July. Meanwhile, the effective deposit rate decreased from 2.64% in June to 2.37% in July (Chart 9)¹.

Monetary Base

The **monetary base**, which comprises the outstanding amount of Certificates of Indebtedness (CIs), coins in circulation, the Aggregate Balance, and the outstanding amount of Exchange Fund Bills and Notes, **increased from HK\$220.30 bn to HK\$220.43 bn during the reporting period** (Table 2). Movements in individual components are discussed below.

Table 1
Yield Spreads between Exchange Fund Paper and US Treasuries (basis points)

	27-Jun-97	1-Aug-01	24-Aug-01
3-month	56	-16	-37
1-year	21	2	-9
3-year	3	31	17
5-year	27	61	47
10-year	54	103	96

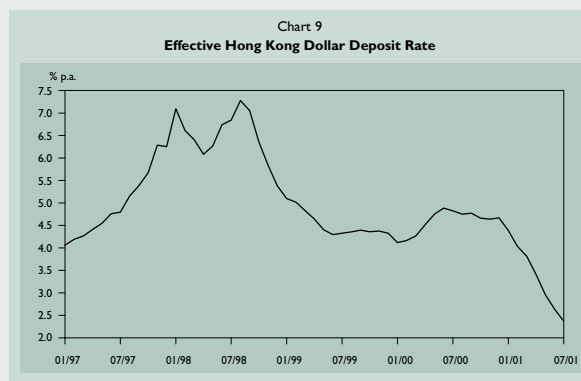
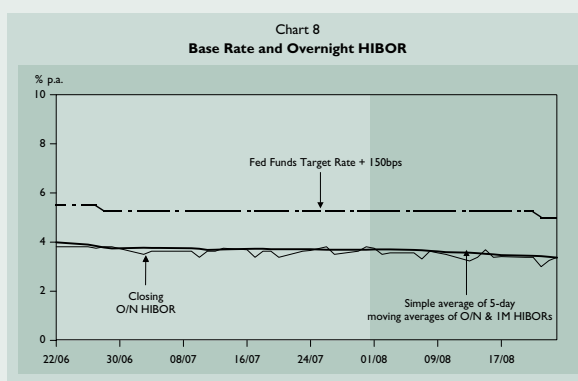


Table 2
Monetary Base

(HK\$ bn)	1-Aug-01	24-Aug-01
CIs	99.67	99.31
Coins in Circulation	6.01	6.00
Aggregate Balance	0.50	0.50
Outstanding EFBNs	114.12	114.62
Monetary Base	220.30	220.43

¹ This is the weighted average of the interest rates on demand deposits, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

Certificates of Indebtedness

During the period, the three note-issuing banks (NIBs) redeemed a total of HK\$0.36 bn worth of Certificates of Indebtedness (CIs). As a result, the **outstanding amount of CIs decreased** from HK\$99.67 bn to HK\$99.31 bn (Chart 10).

Coins

The total amount of **coins in circulation decreased marginally** from HK\$6.01 bn to HK\$6.00 bn during the period (Chart 11).

Aggregate Balance

In the absence of foreign exchange operations conducted for the currency board account, the **Aggregate Balance remained stable at around HK\$0.50 bn**, with small fluctuations due to interest payments and new issues of Exchange Fund paper (Chart 12).

During the period, **a total of HK\$0.31 bn of interest payments on Exchange Fund paper were made**. Taking into account the interest payments carried forward from the last reporting period, **an additional HK\$0.37 bn (in market value) of Exchange Fund paper was issued to absorb these interest payments**.

Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund paper increased from HK\$114.12 bn to HK\$114.62 bn. The increase was mainly a result of additional net issues (paragraph above). All issues of Exchange Fund Bills and Notes were well received by the market (Table 4). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activities) decreased marginally** from HK\$107.82 bn (or 94.5% of total) to HK\$107.81 bn (or 94.1% of total) during the period (Chart 13).

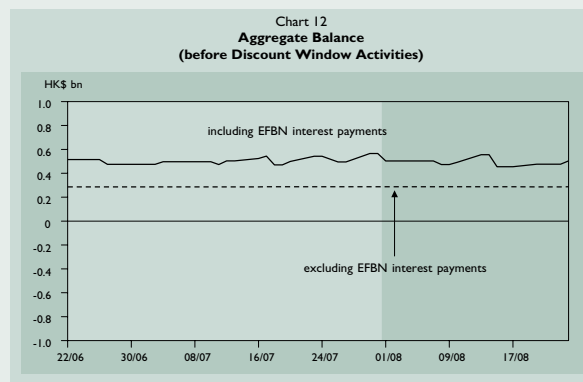
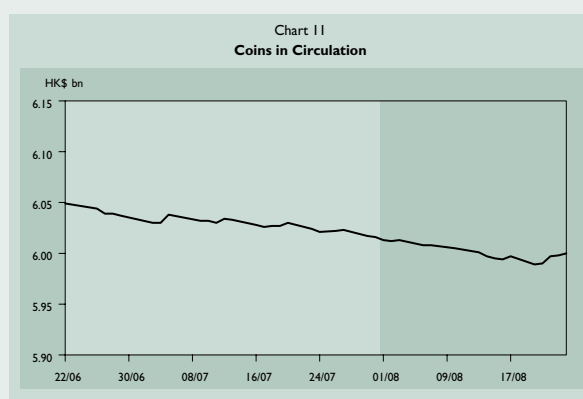
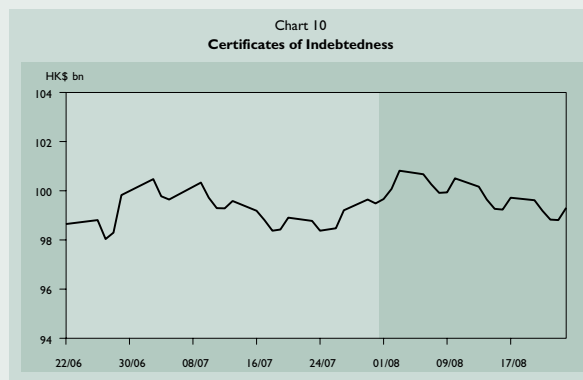



Table 4
Issuance of Exchange Fund Paper
(1 – 24 Aug 01)

	No. of Issues Launched	Over-subscription Ratio
3-month EFB	3	3.82–5.89
6-month EFB	2	4.56–9.85
2-year EFN	1	3.86

Discount Window Activities

Reflecting stable liquidity conditions, Discount Window activity fell during the period. For the period as a whole, **10 banks in total borrowed HK\$0.44 bn from the Discount Window**, compared with HK\$7.93 bn in the preceding period. All except one of the borrowings used Exchange Fund paper as collateral (Chart 14). The banks used the Discount Window facility only infrequently (Table 5).

Backing Portfolio

During the period, backing assets increased at a faster pace than that of the monetary base, partly due to positive net interest income. As a result, **the backing ratio increased from 111.37% to 111.47% between 1 - 24 August** (Chart 15). Under the linked exchange rate system, while specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate. 

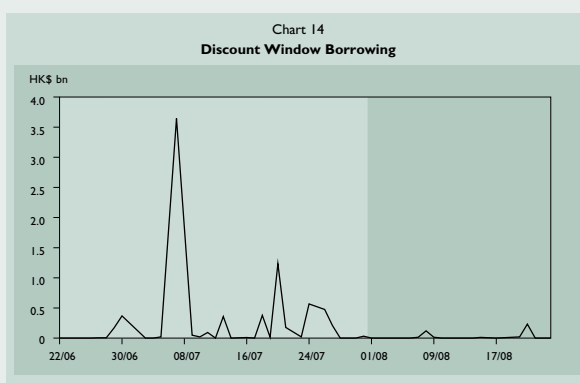
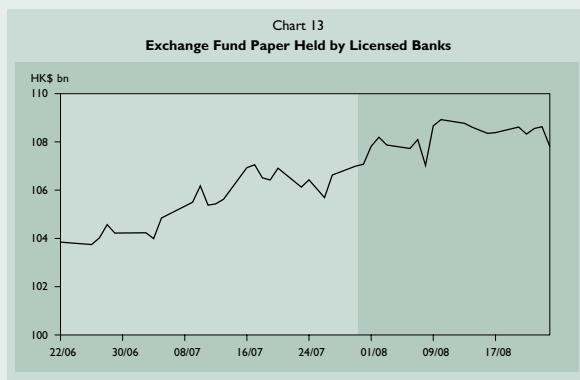
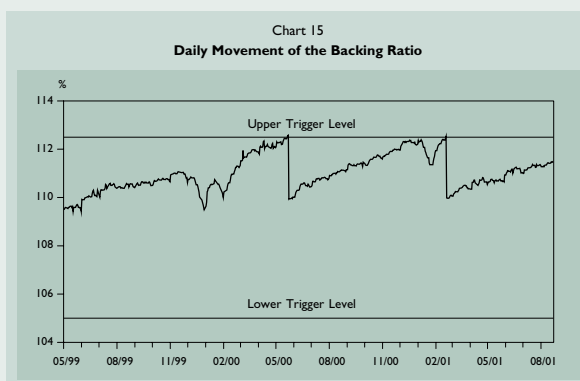


Table 5
Frequency of Individual Bank's
Access to the Discount Window
(1 - 24 Aug 01)

Frequency of Using Discount Window	No. of Banks
1	9
2	0
3	1
Total	10



REPORT ON CURRENCY BOARD OPERATIONS (25 AUGUST - 26 SEPTEMBER 2001)

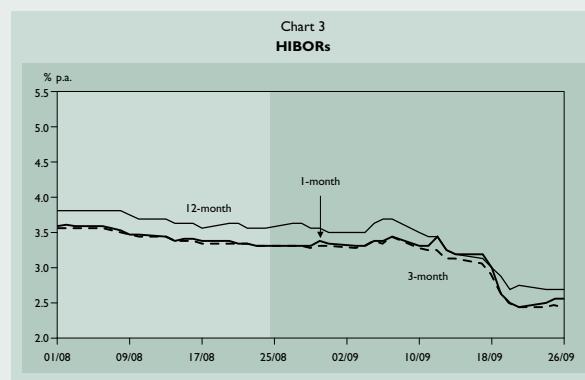
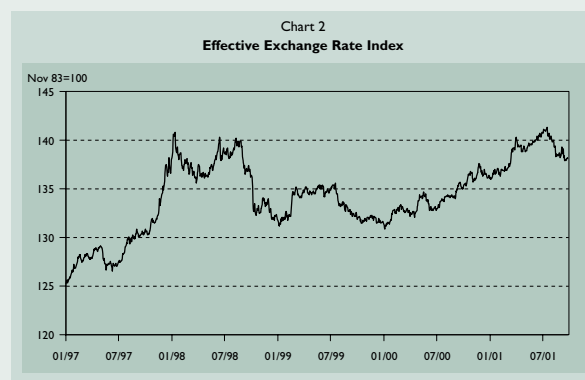
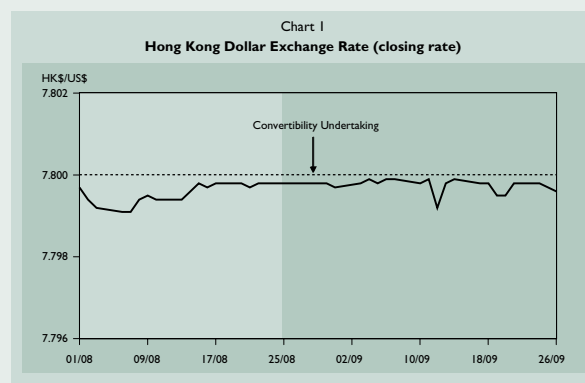
The Hong Kong dollar exchange and money markets remained stable during the reporting period, although the risks in the global financial environment sharply increased after the terrorist attacks in the US on 11 September. Following the 50 bp cut in the US Fed Funds Target Rate on 17 September, local interbank interest rates eased across the board. Longer-term interest rate generally stayed close to the US rate, apart from a brief strengthening in mid-September, while shorter-term rates continued to stay below their US counterparts. The monetary base increased from HK\$220.46 bn to HK\$222.58 bn. In accordance with currency board principles, changes in the monetary base were fully matched by corresponding changes in foreign reserves.

Hong Kong Dollar Exchange Rate

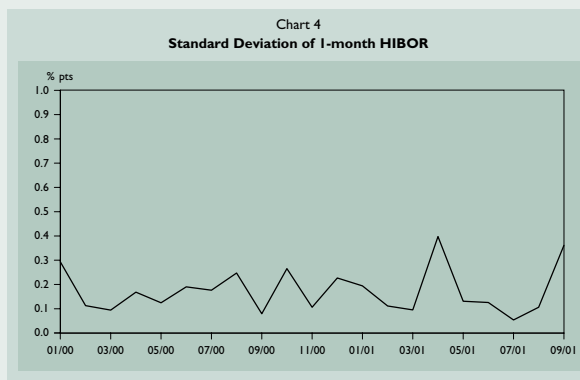
The Hong Kong dollar exchange rate remained stable throughout the reporting period despite increased volatility in the global financial environment in the wake of the terrorist attacks in the US on 11 September. The exchange rate briefly strengthened after the attacks amid market concerns about possible liquidity tightening in the money market. It eased as soon as the HKMA provided reassurances on adequate liquidity provision in the interbank market and the smooth functioning of the payment system. Thereafter, partly reflecting soft local interbank interest rates, and partly corrections in the local stock market, the exchange rate stayed close to the link rate at 7.8000 for the rest of the period (Charts 1 and 2).

Interest Rates

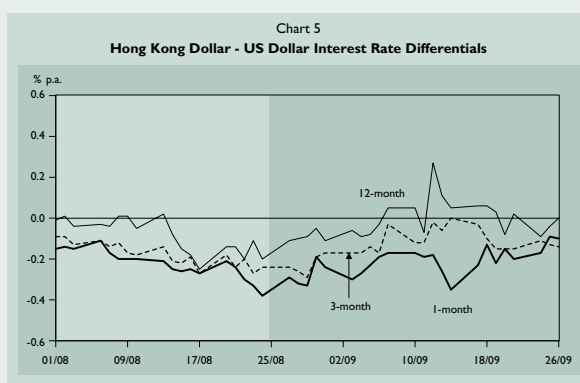
The terrorist attacks in the US seemed to have little impact on the Hong Kong dollar money market. Reflecting in part the 50 bp “inter-FOMC meeting” US rate-cut on 17 September [the US Fed Funds Target Rate was lowered by another 50 bp on 2 October], **interbank interest rates eased across the board**. 1-month HIBOR eased from 3.31% at the beginning of the period to close at 2.56% on 26 September. **3-month and 12-month HIBORs followed similar movements**, closing at 2.44% and 2.69% respectively at the end of the period (Chart 3).



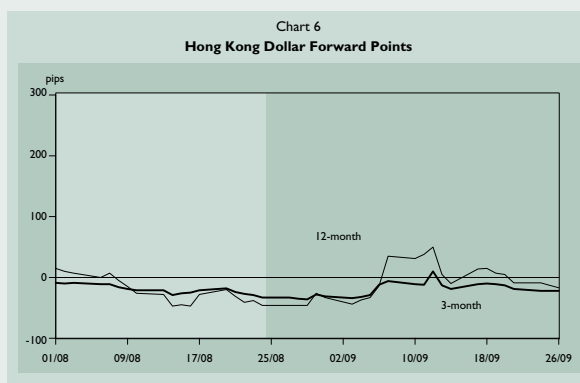
Reflecting partly the easing trend in interest rates, the **standard deviation of 1-month HIBOR increased slightly** from 0.11 percentage points in August to 0.36 percentage points in September (up to 26 September) (Chart 4).



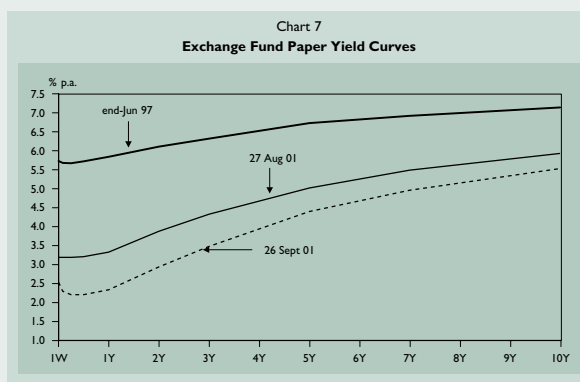
Hong Kong dollar interbank interest rates in terms of 1-month and 3-month rates continued to stay below their US dollar counterparts throughout the period, with their spreads closing at -10 bp and -14 bp respectively. The differential in terms of 12-month money reversed to a positive spread of 27 bp in mid-September. It then eased to close at par at the end of the reporting period (Chart 5).



Reflecting the interest rate differentials between the Hong Kong dollar and the US dollar, Hong Kong dollar 3-month forward points remained at a discount, closing at -22 pips at the end of the period. 12-month forward points, which was at a discount of -46 pips in the beginning of the period, moved up to reach 50 pips in mid-September. It then eased to close at -17 pips at the end of the period (Chart 6).



Reflecting the movement of the US Treasuries yield curve, **yields on Exchange Fund paper declined significantly** (Chart 7). The yield spread between 5-year Exchange Fund paper and US Treasuries widened



by 12 bp to 56 bp, while the yield spread in the 10-year area narrowed by 13 bp to 78 bp (Table 1).

Following the 50 bp “inter-FOMC meeting” rate cut in the US Fed Funds Target Rate on 17 September, the **Base Rate was adjusted downwards on 18 September to 4.50%** in accordance with the established formula (Chart 8) [reflecting a further 50 bp rate cut in the US Fed Funds Target Rate on 2 October, the Base Rate was further lowered to 4.00% on 3 October]. The **Best Lending Rate offered by major banks was also lowered from 6.50% to 6.00%**.

The weighted average deposit rate offered by 43 major authorized institutions for 1-month time deposits decreased from 3.46% on 27 July to 3.06% on 31 August. Meanwhile, the effective deposit rate decreased from 2.37% in July to 2.22% in August (Chart 9)¹.

Monetary Base

The **monetary base**, which comprises the outstanding amount of Certificates of Indebtedness (CIs), coins in circulation, the Aggregate Balance, and the outstanding amount of Exchange Fund Bills and Notes, **increased from HK\$220.46 bn to HK\$222.58 bn during the reporting period** (Table 2). Movements in individual components are discussed below.

Table 1

Yield Spreads between Exchange Fund Paper and US Treasuries (basis points)

	27-Jun-97	27-Aug-01	26-Sept-01
3-month	56	-37	-20
1-year	21	-11	-17
3-year	3	13	12
5-year	27	44	56
10-year	54	91	78

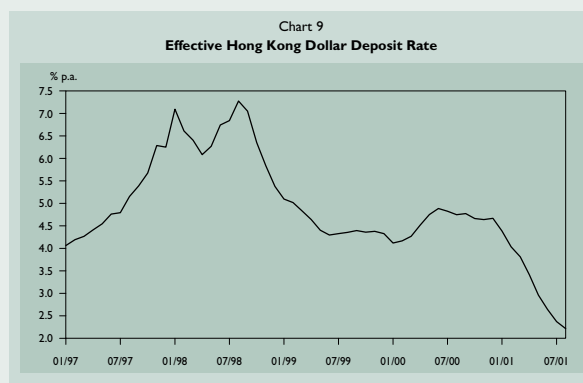
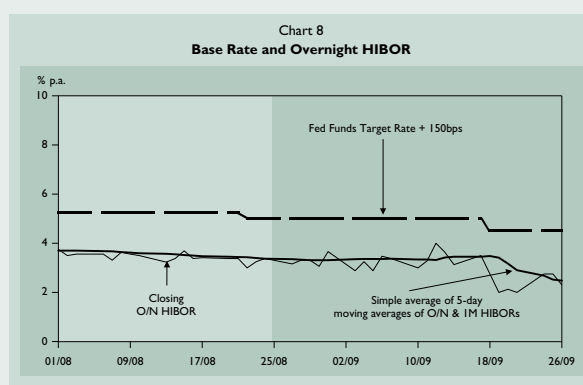


Table 2
Monetary Base

(HK\$ bn)	27-Aug-01	26-Sept-01
CIs	99.32	100.22
Coins in Circulation	5.99	5.98
Aggregate Balance	0.59	0.48
Outstanding EFBNs	114.56	115.90
Monetary Base	220.46	222.58

¹ This is the weighted average of the interest rates on demand deposits, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

Certificates of Indebtedness

During the period, the three note-issuing banks (NIBs) submitted to the HKMA a total of US\$0.12 bn in exchange for HK\$0.91 bn worth of Certificates of Indebtedness (CIs). As a result, the **outstanding amount of CIs increased** from HK\$99.32 bn to HK\$100.22 bn (Chart 10).

Coins

The total amount of **coins in circulation decreased marginally** from HK\$5.99 bn to HK\$5.98 bn during the period (Chart 11).

Aggregate Balance

In the absence of foreign exchange operations conducted for the currency board account, the **Aggregate Balance remained stable at around HK\$0.50 bn**, with small fluctuations due to interest payments and new issues of Exchange Fund paper (Chart 12).

During the period, a **total of HK\$0.44 bn of interest payments on Exchange Fund paper were made**, while an additional **HK\$0.46 bn (in market value) of Exchange Fund paper was issued to absorb these interest payments**.

Outstanding Exchange Fund Bills and Notes

The market value of **outstanding Exchange Fund paper increased from HK\$114.56 bn to HK\$115.90 bn**. The increase was mainly a result of additional net issues (paragraph above). All issues of Exchange Fund Bills and Notes were well received by the market (Table 4). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activities) increased marginally** from

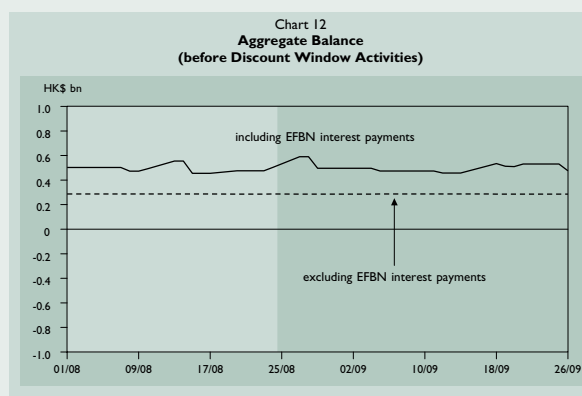
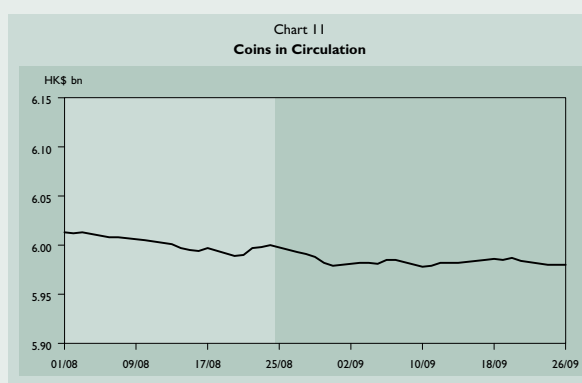
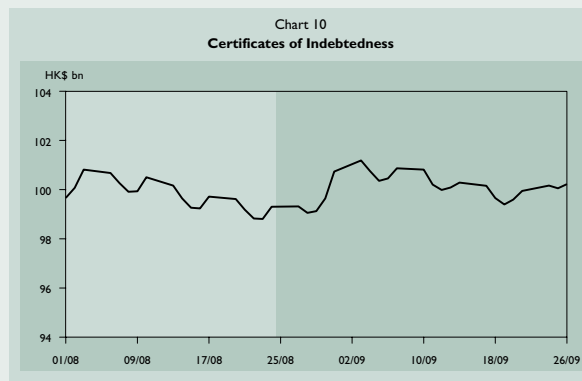


Table 4
Issuance of Exchange Fund Paper
(25 Aug – 26 Sept 01)


	No. of Issues Launched	Over-subscription Ratio
1-month EFB	2	11.38-14.15
3-month EFB	5	3.06-5.21
6-month EFB	2	5.48-9.37
12-month EFB	2	7.28-8.65
5-year EFN	1	5.18

HK\$107.81 bn (94.1% of total) to HK\$108.79 bn (93.9% of total) during the period (Chart 13).

Discount Window Activities

For the period as a whole, **15 banks in total borrowed HK\$1.47 bn from the Discount Window**, compared with HK\$0.44 bn in the preceding period. All except one of the borrowings used Exchange Fund paper as collateral (Chart 14). The banks used the Discount Window facility only infrequently (Table 5).

Backing Portfolio

During the period, backing assets increased at a faster pace than that of the monetary base, partly due to positive net interest income. As a result, **the backing ratio increased from 111.48% to 111.82% between 26 August - 26 September** (Chart 15). Under the linked exchange rate system, while specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate. 

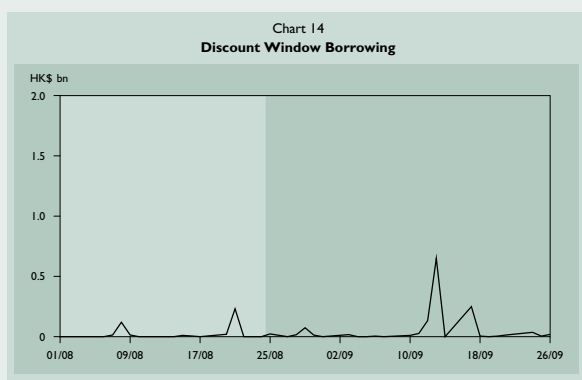
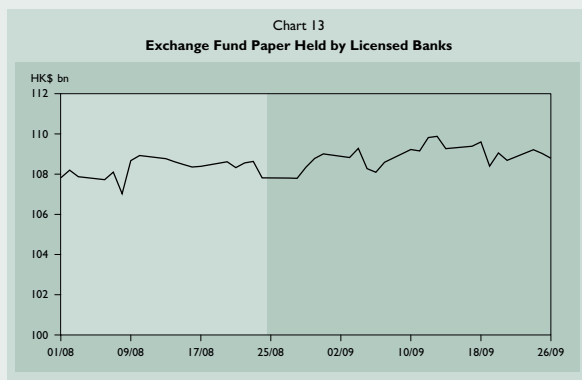


Table 5
Frequency of Individual Bank's
Access to the Discount Window
(25 Aug – 26 Sept 01)

Frequency of Using Discount Window	No. of Banks
1	10
2	4
3	1
Total	15

