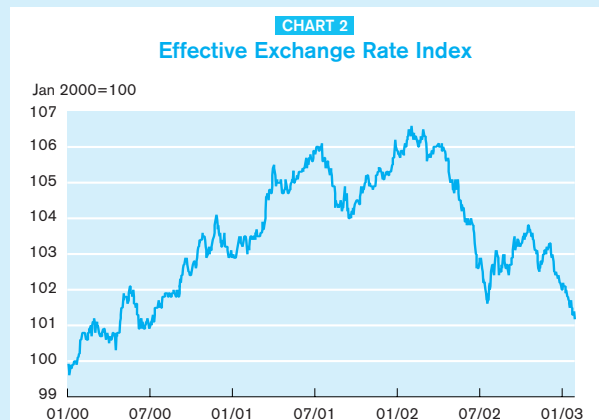
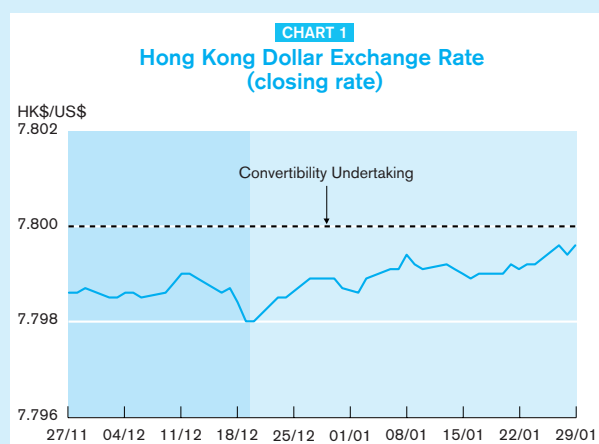


Report on Currency Board Operations (20 December 2002 – 29 January 2003)

The Hong Kong dollar and money markets were stable during the reporting period. Interbank interest rates eased and the spreads against their US dollar counterparts generally narrowed. Alongside a rise in the outstanding amount of Certificates of Indebtedness and government-issued currency notes owing to the seasonal demand associated with the Chinese New Year, the Monetary Base increased from HK\$243.52 billion to HK\$263.10 billion. 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

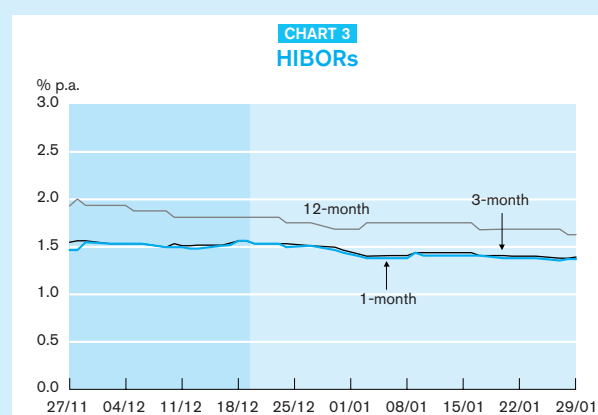
The Hong Kong dollar exchange rate remained stable throughout the reporting period. Partly reflecting softer local interbank interest rates, the exchange rate eased and closed at 7.7996 at the end of the period (Charts 1 and 2).



¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

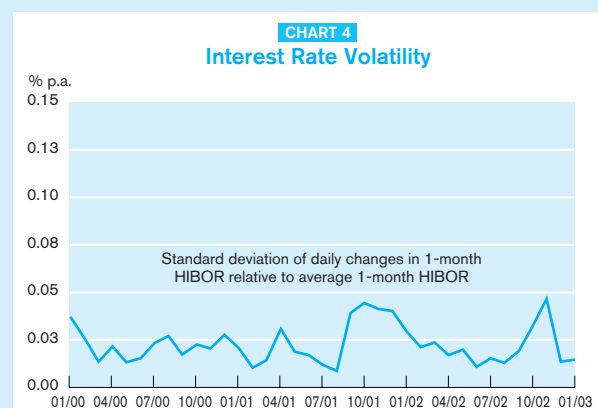
Interest Rates

Along with declines in US interest rates, **short-term Hong Kong dollar interest rates eased during the period.** The 1-month and 3-month HIBORs fell by 16 bp and 14 bp to close at 1.37% and 1.39% respectively. The 12-month HIBOR declined by 18 bp to close at 1.63% (Chart 3).

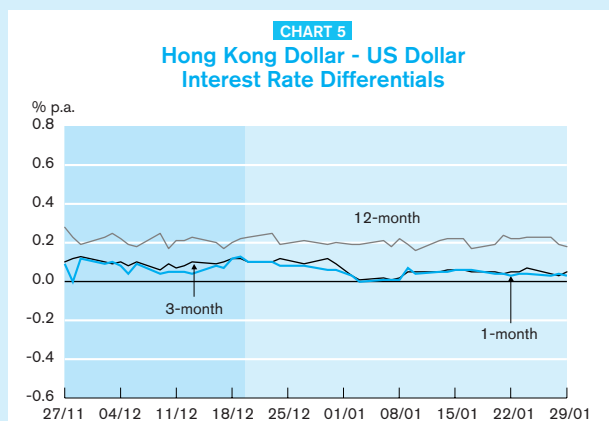


Interest rate volatility, as measured by the ratio of standard deviation of daily changes in the 1-month HIBOR to its average, **remained low** (Chart 4).¹

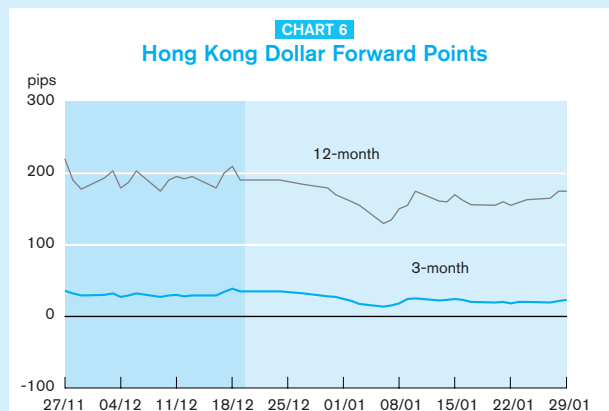
Spread of Hong Kong dollar interbank interest rates against the US dollar counterparts narrowed during the



period. One-month and three-month differentials ended at 3 bp and 5 bp respectively. The interest rate spread for the 12-month money narrowed slightly to close at 18 bp (Chart 5).



Mirroring the movements in interest rate differentials against the US dollar, the Hong Kong dollar 3-month forward premium decreased in the period and closed at 23 pips. **The 12-month forward points also eased to close at 175 pips** (Chart 6).



Yields on Exchange Fund paper declined across the term structure during the period (Chart 7), in part reflecting the movements of the US Treasury yield curve. The yield spreads of 5-year and 10-year paper over their US counterparts narrowed by 18 bp and 8 bp, to 32 bp and 46 bp respectively (Table 1).

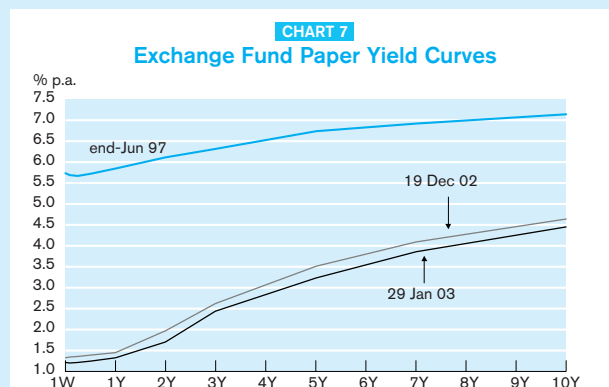
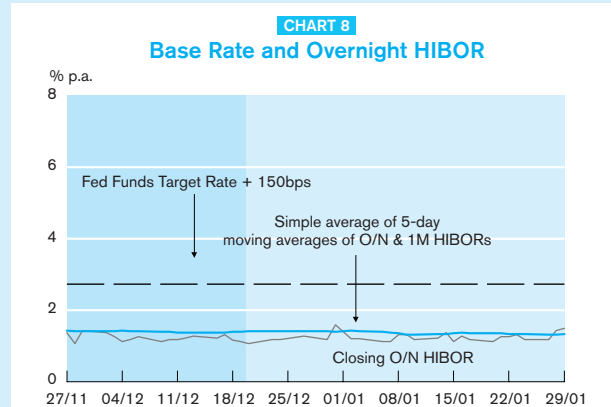


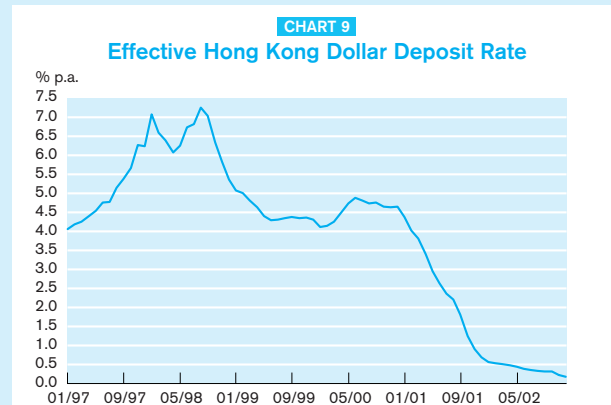
TABLE 1
Yield Spreads of Exchange Fund Paper over US Treasuries (basis points)

	27 Jun 97	19 Dec 02	29 Jan 03
3-month	56	13	9
1-year	21	14	15
3-year	3	38	39
5-year	27	50	32
10-year	54	54	46

The HKMA Base Rate remained unchanged at 2.75% (Chart 8). **The Best Lending Rate offered by major banks was also unchanged at 5%.**



The average rate offered by major authorized institutions for 1-month time deposits fell from 0.13% to 0.09% during the period.² Meanwhile, the effective deposit rate decreased modestly in December 2002 (Chart 9).³



² The figures refer to the average of interest rates offered by the major authorized institutions for one-month time deposits of less than HK\$100,000.

³ This is the average of the interest rates on demand, 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.

Monetary Base

The **Monetary Base**, which comprises Certificates of Indebtedness (CIs), government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, **increased from HK\$243.52 billion to HK\$263.10 billion during the reporting period** (Table 2). Movements in individual components are discussed below.

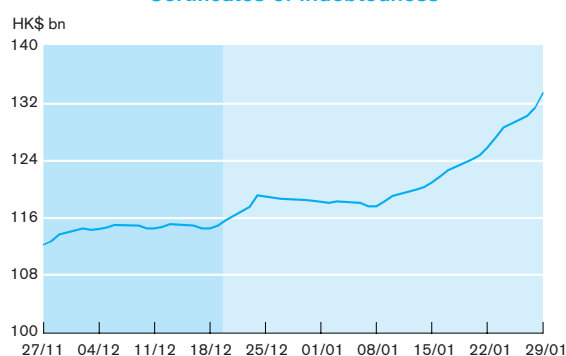
TABLE 2
Monetary Base

(HK\$ bn)	20 Dec 02	29 Jan 03
CIs	115.76	133.72
Government-issued Currency Notes and Coins in Circulation	6.13	7.32
Aggregate Balance	0.68	0.59
Outstanding EFBNs	120.97	121.47
Monetary Base	243.52	263.10

Certificates of Indebtedness

Owing to increased demand for banknotes before the Chinese New Year holidays, the three note-issuing banks submitted to the HKMA a total of US\$2.30 billion in exchange for HK\$17.96 billion worth of Certificates of Indebtedness. As a result, the **outstanding amount of CIs increased considerably from HK\$115.76 billion to HK\$133.72 billion** (Chart 10).

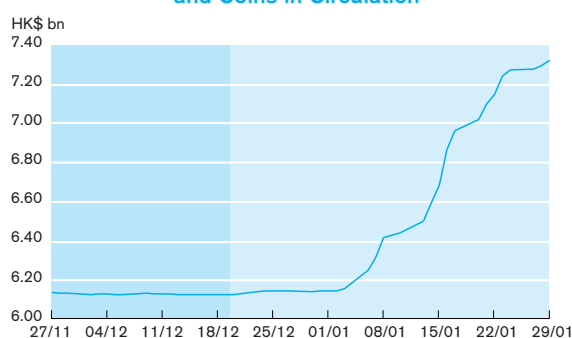
CHART 10
Certificates of Indebtedness



Government-issued currency notes and coins in circulation

Similarly, demand for the new ten-dollar notes rose before the Chinese New Year. The total amount of **Government-issued currency notes and coins in circulation increased** from HK\$6.13 billion to HK\$7.32 billion during the period (Chart 11).

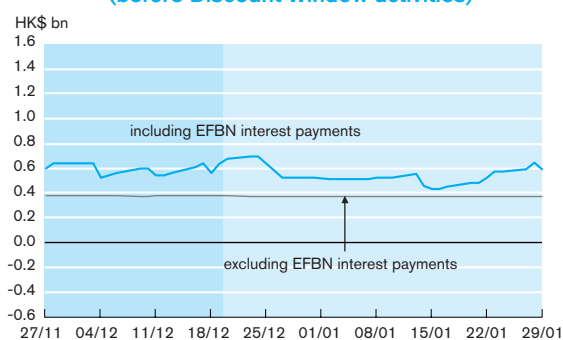
CHART 11
Government-issued Currency Notes and Coins in Circulation



Aggregate Balance

The **Aggregate Balance remained stable** at around HK\$0.55 billion during the period, with small fluctuations reflecting interest payments on Exchange Fund paper (Chart 12).

CHART 12
Aggregate Balance (before Discount Window activities)



Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund paper **increased slightly from HK\$120.97 billion to HK\$121.47 billion**. The increase was mainly a result of additional net issues. During the period, **a total of HK\$0.27 billion of interest payment on Exchange Fund paper was made**. Taking into account interest payments carried forward from the last reporting period, **an additional HK\$0.32 billion (in market value) of Exchange Fund**

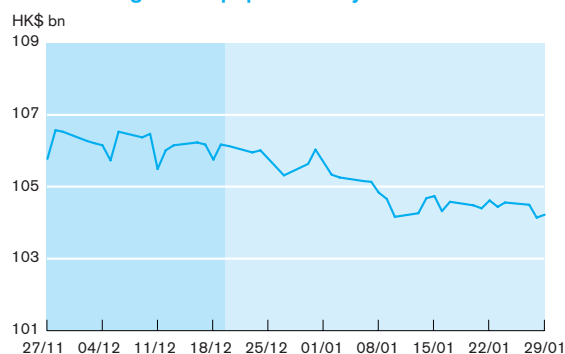
paper was issued to absorb these interest payments.

All issues of Exchange Fund Bills and Notes were well received by the market (Table 3). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activity) decreased slightly** from HK\$106.11 billion (87.72% of total) to HK\$104.22 billion (85.80% of total) during the period (Chart 13).

TABLE 3
Issuance of Exchange Fund Bills and Notes
(20 December 02 – 29 January 03)

	No. of issues launched	Over-subscription ratio
3-month EFB	6	3.03-8.54
6-month EFB	3	3.46-9.38
1-year EFB	1	6.22
3-year EFN	1	6.95

CHART 13
Exchange Fund paper held by Licensed Banks



Discount Window Activity

For the period as a whole, **14 banks borrowed a total of HK\$1.89 billion from the Discount Window**, compared with HK\$2.04 billion in the preceding period (Chart 14). All of them used Exchange Fund paper as collateral (Table 4).

CHART 14
Discount Window Borrowing

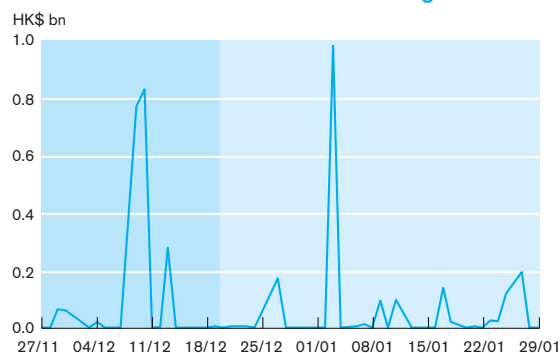


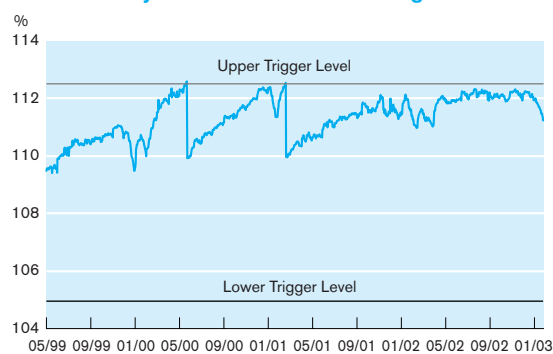
TABLE 4
Frequency of Individual Bank
Access to the Discount Window
(20 December 02 – 29 January 03)

Frequency of using Discount Window	No. of banks
1	11
2	1
3	1
5	1
Total	14

Backing Portfolio

Backing assets increased during the period mainly due to rises in the outstanding amount of CIs and Government-issued currency notes. Nevertheless, as the Monetary Base rose proportionately more than the backing assets, **the backing ratio decreased slightly from 112.21% on 20 December 2002 to 111.24% on 29 January 2003** (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.

CHART 15
Daily Movement of the Backing Ratio



Record of Discussion of the Exchange Fund Advisory Committee Sub-Committee on Currency Board Operations on 7 March 2003

(Approved for Issue by the Exchange Fund Advisory Committee on 27 March 2003)

Currency Board Operations for the Period 30 January — 21 February 2003

The Sub-Committee noted that monetary conditions continued to be stable during the period under review. The Monetary Base contracted by around HK\$13 billion, largely as a result of the reduced public demand for cash after the Chinese New Year. Interest rates continued to be low and close to their US dollar counterparts. The 12-month forward points for the Hong Kong dollar remained generally stable, at below 200 pips.

The Sub-Committee noted that, in accordance with Currency Board principles, changes in the Monetary Base during the reporting period had been fully matched by changes in foreign reserves.

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

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that global growth had moderated and that the near-term outlook was clouded by international tensions. Further signs of weakness had emerged in Japan and Europe, where the European Central Bank had revised downwards its growth forecast for 2003 and had cut its refinancing rate from 2.75% to 2.5%, the lowest level in four years. Members noted an analysis that suggested that the risk of deflation in the US was low, particularly in view of the weakening US dollar and the rise in oil prices.

The Sub-Committee noted that, domestically, Hong Kong's exports had continued to grow strongly, and there were signs of improvement in domestic demand. This momentum was expected to continue, with domestic demand being helped by continued strong growth in export earnings, which would benefit from external trade growth in Mainland China and the weakening of the US dollar. The outlook was, however, subject to a number of uncertainties, including the impact on the global economy of the current international tensions.

The Sub-Committee noted a preliminary assessment of the macro-economic impact of the Government budget. Members noted that the budget implied a continued expansionary stance in fiscal policy for the financial year 2003-04, with the fiscal impulse estimated to raise real GDP growth by 0.7 of a percentage point. Members also noted that, over the medium term, the specification of a number of concrete measures on both the revenue and expenditure side should help increase the credibility of the Government's medium-term consolidation strategy. The Sub-Committee noted that the response of the market to the budget had been generally calm, with 1-year forward points for the Hong Kong dollar remaining stable at below 200 pips.

The Impact of the Hong Kong Dollar Risk Premium on the Performance of the Banking Sector

The Sub-Committee noted a paper assessing the effects of a rise in the Hong Kong dollar risk premium on the banking sector's performance, based on the experience of the last decade and using the aggregated profit position of retail banks as a measure of performance. The findings of the paper suggested that an increase in the risk premium (as measured by the spread of the Hong Kong dollar interest rate over the US dollar rate) by 125 bps tended to reduce the net interest margin of banks by 6 bps in the same quarter and by a cumulative 16 bps in the long run. In contrast, a similar increase resulting from a change in the US dollar interest rate had no material impact on profitability. The paper also found that an increase in the risk premium would impact on banks' profitability through a negative effect on the asset quality. Members observed that performance would vary from bank to bank depending, for example, on whether a bank was a net lender or a net borrower in the interbank market.

Comparing Inflation Dynamics of Hong Kong and Singapore

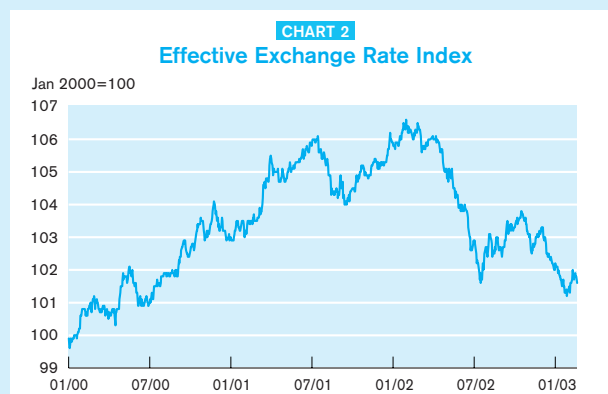
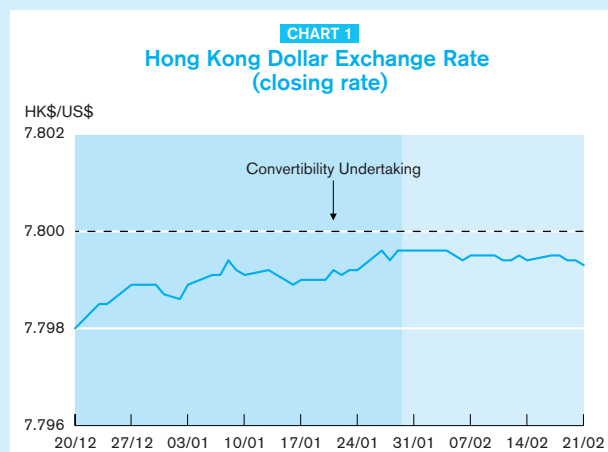
The Sub-Committee considered a paper comparing inflation dynamics in Hong Kong and Singapore, both of which were small and open economies but with key differences in their monetary policies. In Hong Kong, under the Linked Exchange Rate system, any adjustment in the real effective exchange rate would fall entirely on domestic prices. In Singapore, where the Singapore dollar floated against a basket of currencies within an undisclosed band that was subject to regular review and adjustment with a view to promoting price stability and sustainable growth, both the nominal exchange rate and domestic prices could adjust in the face of a shock. The empirical analysis related CPI inflation to cost factors including import prices, unit labour cost and property rentals. The results suggested that the CPI adjusted more quickly to shocks in cost variables in Hong Kong than in Singapore. This appeared to support the hypothesis that the rational response of firms under a macroeconomic policy centred on price instead of exchange rate stability tended to perceive any changes in costs as transitory and likely to be offset by exchange rate movements, and therefore generally to refrain from immediately passing increases or decreases in them on to consumers. Nevertheless, the estimates suggested complete import price passthrough to retail prices of imported consumer goods in the long run in both economies.

Annex Report on Currency Board Operations (30 January – 21 February 2003)

The Hong Kong dollar and money markets were stable during the reporting period. Interbank interest rates remained soft, and the spreads against US dollar rates narrowed slightly. The Monetary Base fell from HK\$265.66 billion to HK\$252.71 billion, mainly as a result of a decrease in the outstanding amount of Certificates of Indebtedness alongside the reduced public demand for cash after the Chinese New Year. In accordance with Currency Board principles, changes in the Monetary Base were fully matched by changes in foreign reserves.

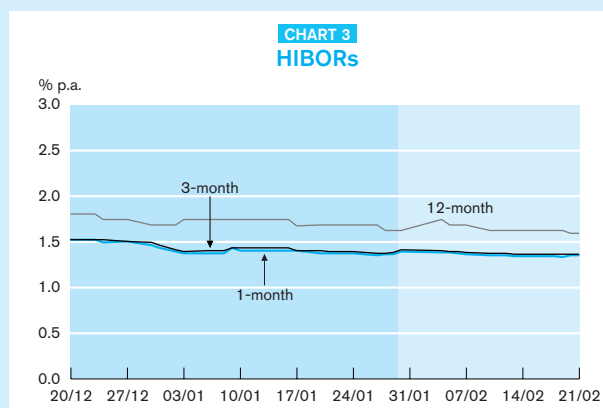
Hong Kong Dollar Exchange Rate

The Hong Kong dollar exchange rate stayed within a narrow range between 7.7993 and 7.7996 throughout the reporting period (Charts 1 and 2).

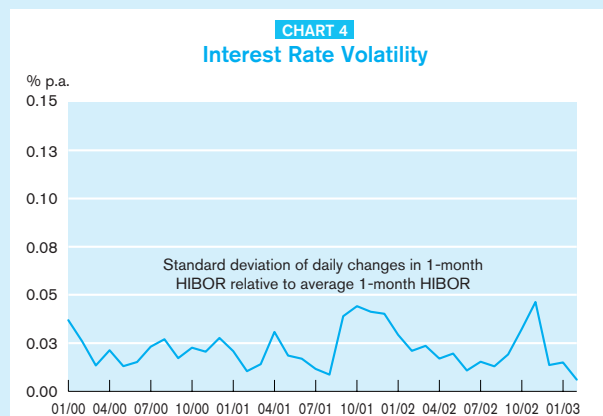


Interest Rates

Hong Kong dollar interest rates were little changed during the period. The 1-month and 3-month HIBORs closed at 1.36% and 1.37% respectively. The 12-month HIBOR eased by 3bp to 1.60% (Chart 3).

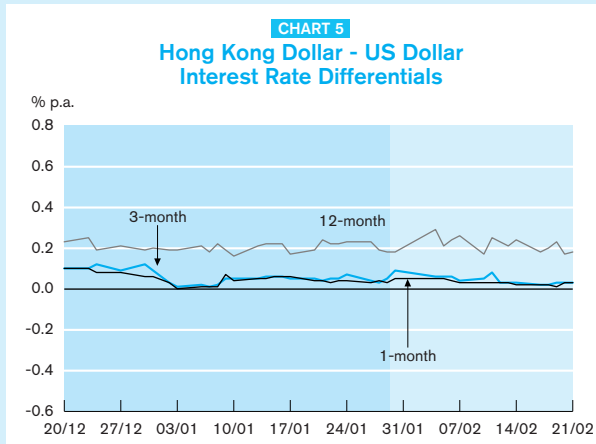


Interest rate volatility, as measured by the ratio of standard deviation of daily changes in the 1-month HIBOR to its average, decreased moderately (Chart 4).¹

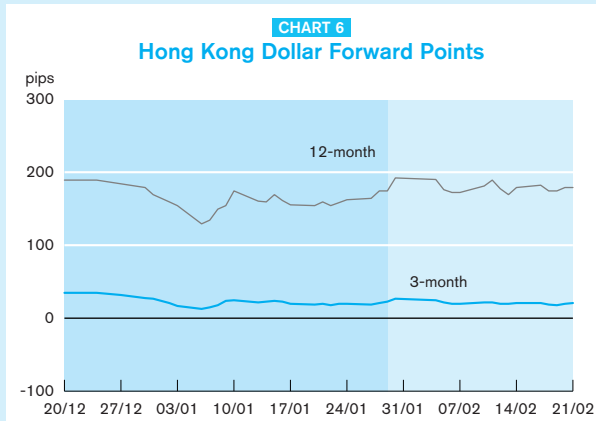


¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

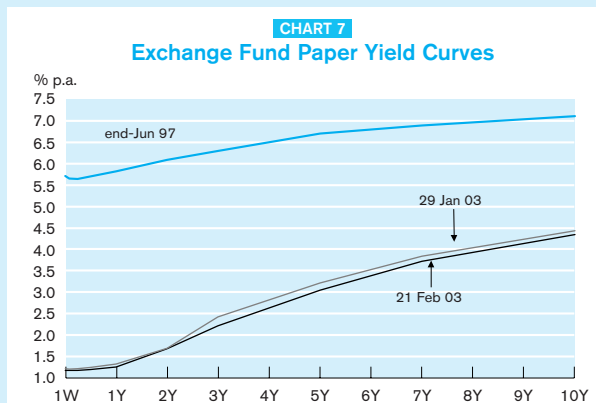
The **spreads of Hong Kong dollar one- and three-month interbank interest rates over their US dollar counterparts narrowed during the period**, and both ended at 3bp. The interest rate spread for the 12-month money was generally stable and closed at 18bp (Chart 5).



In parallel with the movements in interest rate differentials against the US dollar, the Hong Kong dollar 3-month forward premium declined in the period and closed at 21 pips. **The 12-month forward points closed at 180 pips** (Chart 6).



Yields on Exchange Fund paper decreased slightly during the period (Chart 7). This was partly due to the movements of the US Treasury yield curve, and partly a narrowing of yield spreads. The yield differentials against US

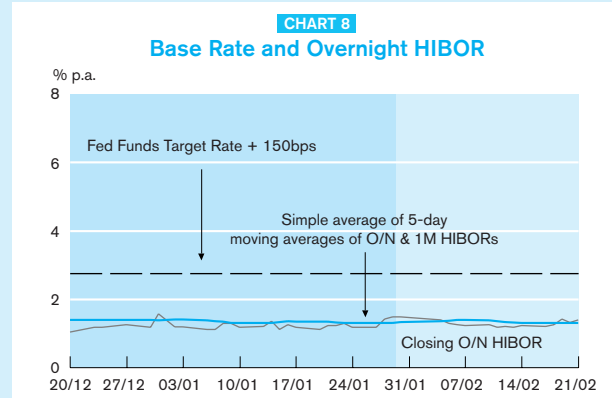


Treasuries in general declined except for the 10-year paper (Table 1).

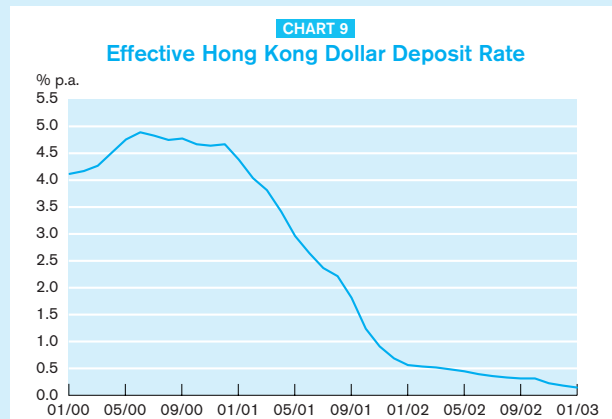
TABLE 1
Yield Spreads of Exchange Fund Paper over US Treasuries (basis points)

	27 Jun 97	29 Jan 03	21 Feb 03
3-month	56	9	1
1-year	21	15	8
3-year	3	39	22
5-year	27	32	25
10-year	54	46	49

The HKMA Base Rate stayed at 2.75% (Chart 8). The Best Lending Rate offered by major banks was also unchanged at 5%.



The average rate offered by major authorized institutions for 1-month time deposits edged down from 0.09% to 0.08% during the period.² Meanwhile, the effective deposit rate decreased modestly in January 2003 (Chart 9).³



² The figures refer to the average of interest rates offered by the major authorized institutions for one-month time deposits of less than HK\$100,000.

³ This is the average of the interest rates on demand, 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.

Monetary Base

The **Monetary Base**, which comprises Certificates of Indebtedness (CIs), government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, **decreased from HK\$265.66 billion to HK\$252.71 billion during the reporting period** (Table 2). Movements in individual components are discussed below.

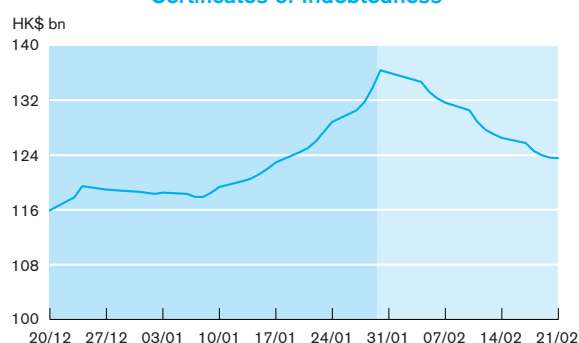
TABLE 2
Monetary Base

(HK\$ bn)	30 Jan 03	21 Feb 03
CIs	136.35	123.43
Government-issued Currency Notes and Coins in Circulation	7.34	6.92
Aggregate Balance	0.59	0.55
Outstanding EFBNs	121.39	121.82
Monetary Base	265.66	252.71

Certificates of Indebtedness

Owing to a decline in public demand for cash after the Chinese New Year holidays, the three note-issuing banks redeemed from the HKMA a total of HK\$12.92 billion of CIs in exchange for US\$1.66 billion during the period. As a result, the **outstanding amount of CIs decreased from HK\$136.35 billion to HK\$123.43 billion** (Chart 10).

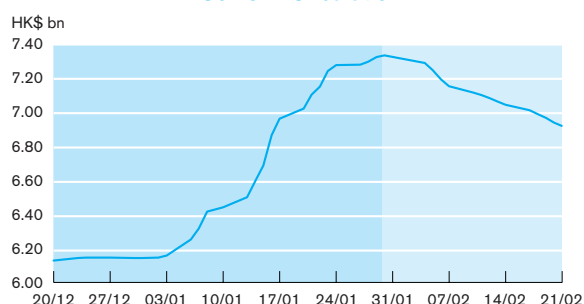
CHART 10
Certificates of Indebtedness



Government-issued currency notes and coins in circulation

Similarly, demand for the new ten-dollar note declined after the Chinese New Year. The total amount of **Government-issued currency notes and coins in circulation decreased** from HK\$7.34 billion to HK\$6.92 billion during the period (Chart 11).

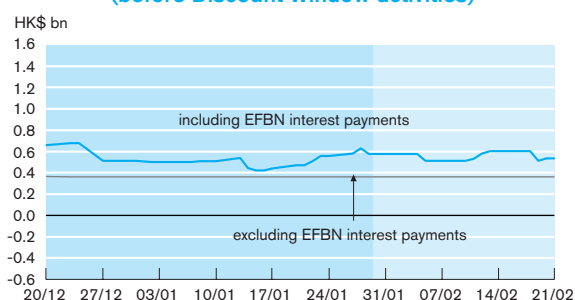
CHART 11
Government-issued Currency Notes and Coins in Circulation



Aggregate Balance

The **Aggregate Balance remained stable** at around HK\$0.57 billion during the period, with small fluctuations reflecting interest payments on Exchange Fund paper (Chart 12).

CHART 12
Aggregate Balance (before Discount Window activities)



Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund paper **increased slightly from HK\$121.39 billion to HK\$121.82 billion**. The increase was mainly a result of additional net issues. All issues of Exchange Fund Bills and

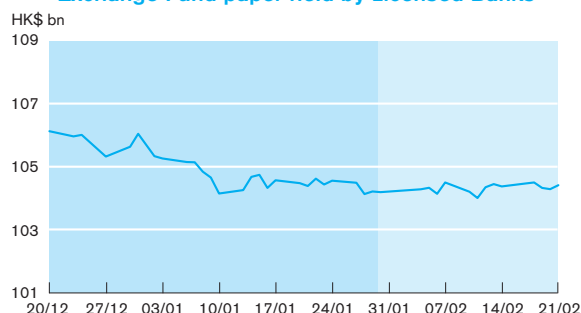
Notes were well received by the market (Table 3). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activity) increased marginally** from HK\$104.19 billion (85.83% of total) to HK\$104.41 billion (85.71% of total) during the period (Chart 13).

During the period, **interest payments of HK\$0.16 billion were made on Exchange Fund paper**. Taking into account interest payments carried forward from the last reporting period, **an additional HK\$0.21 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments**.

TABLE 3
Issuance of Exchange Fund Bills and Notes
(30 January – 21 February 03)

	No. of issues launched	Over-subscription ratio
3-month EFB	3	4.95-6.59
6-month EFB	2	7.14-9.08
1-year EFB	1	6.67
2-year EFN	1	7.36

CHART 13
Exchange Fund paper held by Licensed Banks



Discount Window Activity

For the period as a whole, **8 banks borrowed a total of HK\$0.54 billion from the Discount Window**, compared with HK\$1.89 billion in the preceding period (Chart 14). All of them used Exchange Fund paper as collateral (Table 4).

CHART 14
Discount Window Borrowing

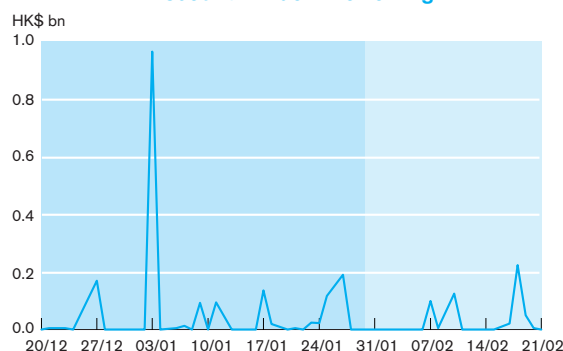


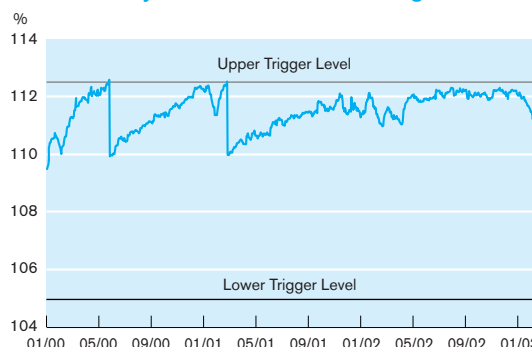
TABLE 4
Frequency of Individual Bank
Access to the Discount Window
(30 January – 21 February 03)

Frequency of using Discount Window	No. of banks
1	6
2	2
Total	8

Backing Portfolio

Backing assets decreased during the period mainly due to the decline in the outstanding amount of CIs. Nevertheless, as the Monetary Base fell proportionately more than the backing assets, **the backing ratio increased from 111.20% on 30 January to 111.90% on 21 February 2003** (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.

CHART 15
Daily Movement of the Backing Ratio

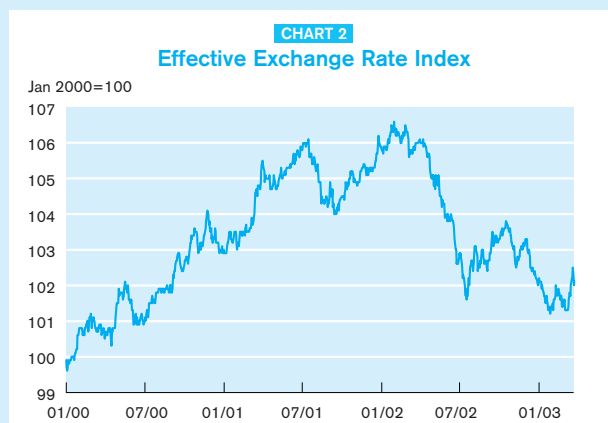
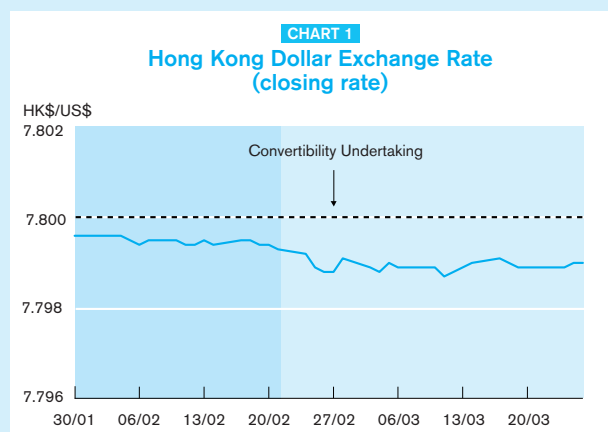


Report on Currency Board Operations (22 February – 26 March 2003)

The Hong Kong dollar and money markets remained stable during the reporting period despite the outbreak of war in Iraq. Interbank interest rates were soft, and the spreads against their US dollar counterparts narrowed slightly. The Monetary Base fell from HK\$252.28 billion to HK\$249.56 billion, attributable to a decrease in the outstanding amount of Certificates of Indebtedness. In accordance with Currency Board principles, changes in the Monetary Base were fully matched by changes in foreign reserves.

Hong Kong Dollar Exchange Rate

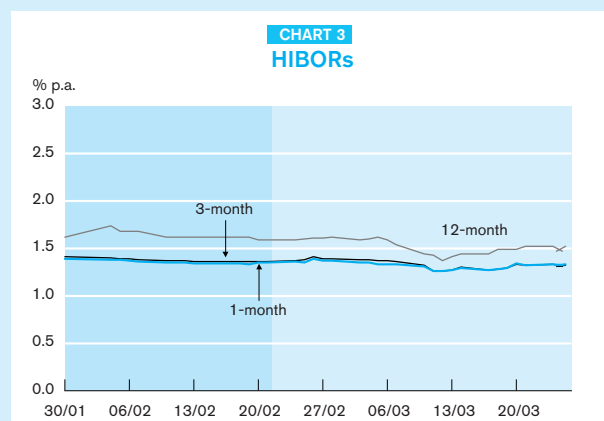
Notwithstanding the commencement of military action in Iraq, **the Hong Kong dollar exchange rate remained stable and stayed within a narrow range** of 7.7987 to 7.7992 throughout the reporting period. (Charts 1 and 2).



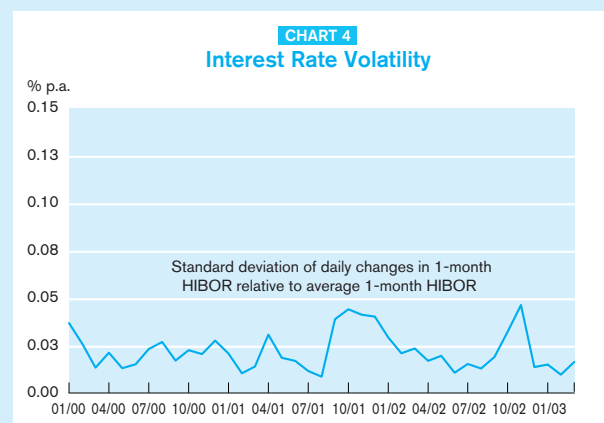
¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

Interest Rates

Hong Kong dollar interest rates declined slightly during the period. The 1-month and 3-month HIBORs edged down by 3bp and 5bp to close at 1.34% and 1.33% respectively. Likewise, the 12-month HIBOR eased by 7bp to 1.53% (Chart 3).

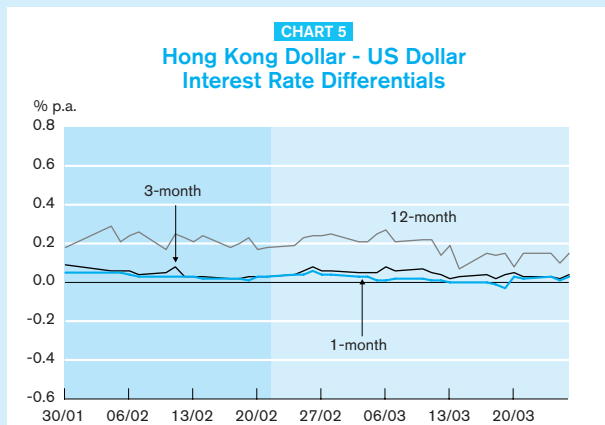


Interest rate volatility, as measured by the ratio of standard deviation of daily changes in the 1-month HIBOR to its average, **remained low** (Chart 4).¹

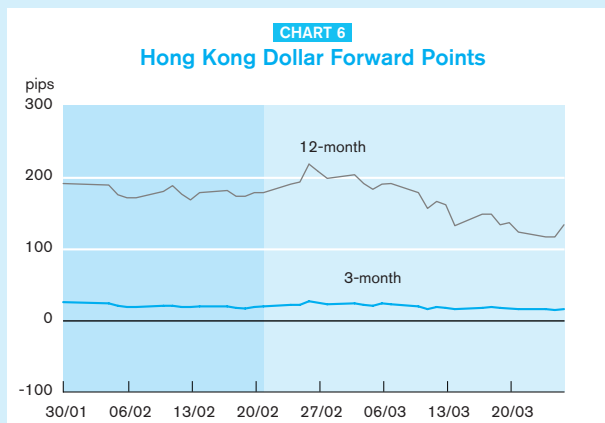


Spreads of Hong Kong dollar interbank interest rates against US dollar rates narrowed during the period.

One-month and three-month differentials ended at 3bp and 4bp respectively. The 12-month interest rate spread declined to close at 15bp (Chart 5).



Reflecting the movements in interest rate differentials against the US dollar, the Hong Kong dollar 3-month forward premium eased in the period and closed at 17 pips. In addition, as concerns over the widening fiscal deficits eased upon the announcement of the FY2003/04 Budget, which proposed to introduce a series of revenue-raising and expenditure-controlling measures, **the 12-month forward points decreased to close at 135 pips** (Chart 6).



The yield curve of Exchange Fund paper steepened during the period (Chart 7), in part reflecting the movements of the US Treasury yield curve. While yields on short term papers fell below those of US Treasuries, the yield differentials of 5-year and 10-year papers against their US counterparts widened slightly to 32bp and 54bp respectively (Table 1).

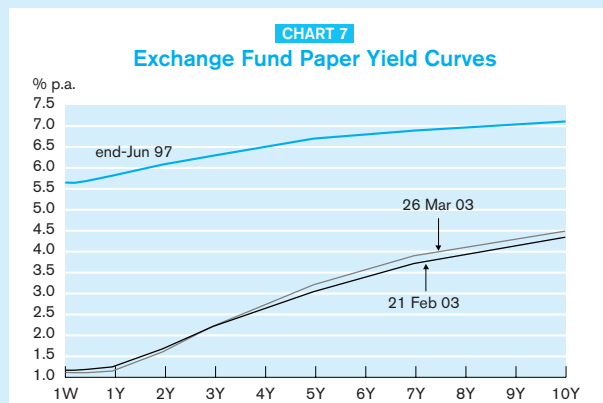
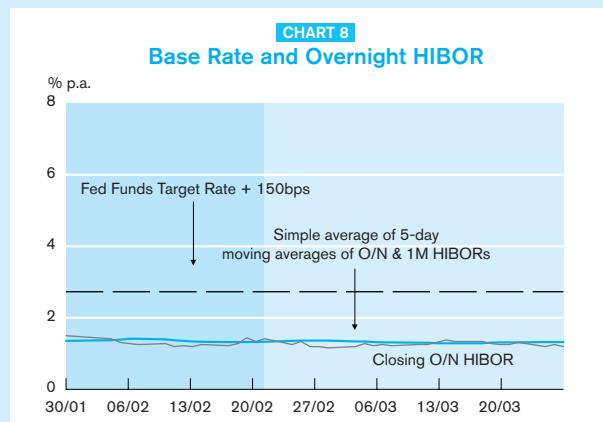


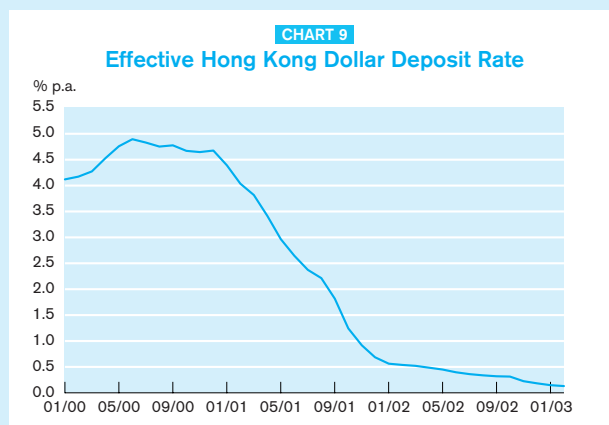
TABLE 1
Yield Spreads of Exchange Fund Paper over US Treasuries (basis points)

	27 Jun 97	21 Feb 03	26 Mar 03
3-month	56	1	-6
1-year	21	8	-6
3-year	3	22	15
5-year	27	25	32
10-year	54	49	54

The HKMA Base Rate stayed at 2.75% (Chart 8). The Best Lending Rate offered by major banks was also unchanged at 5%.



The average rate offered by major authorized institutions for 1-month time deposits edged up marginally from 0.08% to 0.09% during the period.² Meanwhile, the effective deposit rate declined slightly in February 2003 (Chart 9).³



Monetary Base

The **Monetary Base**, which comprises Certificates of Indebtedness (CIs), government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, **decreased from HK\$252.28 billion to HK\$249.56 billion during the reporting period** (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

(HK\$ bn)	24 Feb 03	26 Mar 03
CIs	123.04	120.45
Government-issued Currency Notes and Coins in Circulation	6.88	6.59
Aggregate Balance	0.57	0.51
Outstanding EFBNs	121.78	122.01
Monetary Base	252.28	249.56

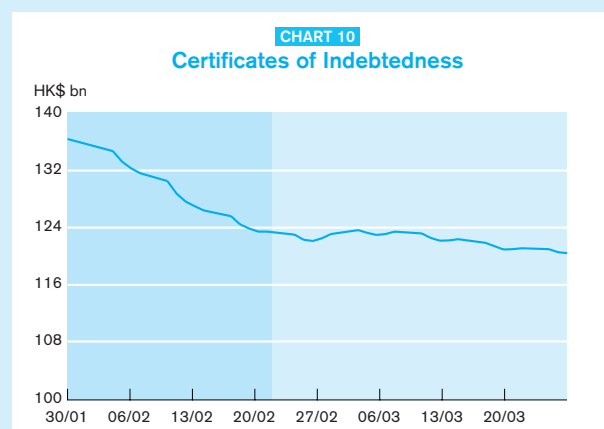
Certificates of Indebtedness

During the period, the three note-issuing banks redeemed from the HKMA a total of HK\$2.59 billion of CIs in exchange for US\$0.33 billion during the period. As a

² The figures refer to the average of interest rates offered by the major authorized institutions for one-month time deposits of less than HK\$100,000.

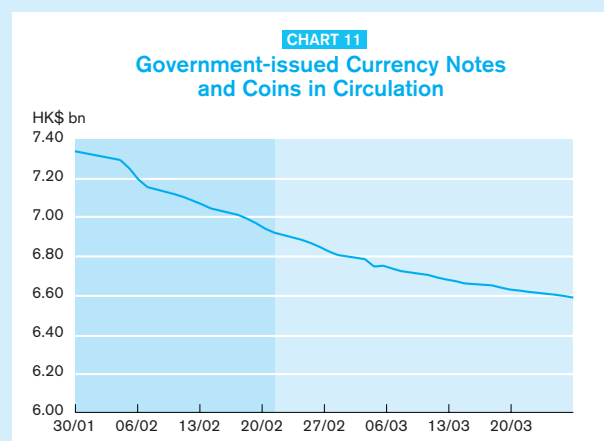
³ This is the average of the interest rates on demand, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

result, the **outstanding amount of CIs decreased from HK\$123.04 billion to HK\$120.45 billion** (Chart 10).



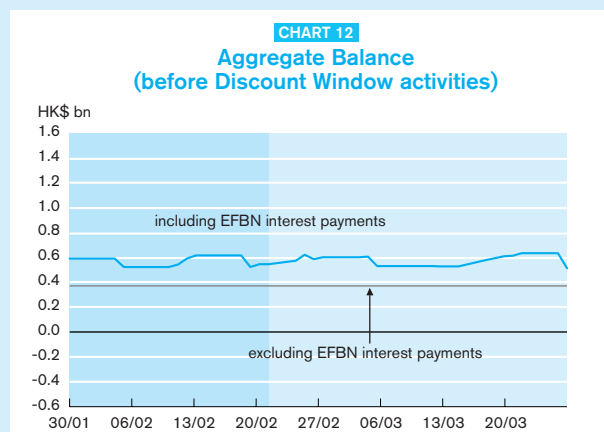
Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation declined** from HK\$6.88 billion to HK\$6.59 billion during the period (Chart 11).



Aggregate Balance

The **Aggregate Balance remained stable** at around HK\$0.58 billion during the period, with small fluctuations reflecting interest payments on Exchange Fund paper (Chart 12).



Outstanding Exchange Fund Bills and Notes

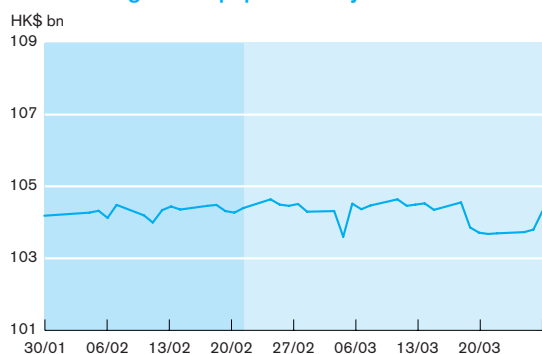
The market value of outstanding Exchange Fund paper increased slightly from HK\$121.78 billion to HK\$122.01 billion. The increase was mainly a result of additional net issues. All issues of Exchange Fund Bills and Notes were well received by the market (Table 3). Holdings of Exchange Fund paper by the banking sector (before Discount Window activity) decreased marginally from HK\$104.65 billion (85.93% of total) to HK\$104.32 billion (85.50% of total) during the period (Chart 13).

During the period, interest payments of HK\$0.33 billion were made on Exchange Fund paper. Taking into account interest payments carried forward from the last reporting period, an additional HK\$0.38 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments.

TABLE 3
Issuance of Exchange Fund Bills and Notes
(22 February – 26 March 03)

	No. of issues launched	Over-subscription ratio
1-month EFB	1	18.58
3-month EFB	5	4.06-7.33
6-month EFB	2	8.58-8.85
1-year EFB	1	8.19
5-year EFN	1	3.99
7-year EFN	1	6.88

CHART 13
Exchange Fund paper held by Licensed Banks



Discount Window Activity

For the period as a whole, 14 banks borrowed a total of HK\$1.42 billion from the Discount Window, compared

with HK\$0.54 billion in the preceding period (Chart 14). All of them used Exchange Fund paper as collateral (Table 4).

CHART 14
Discount Window Borrowing

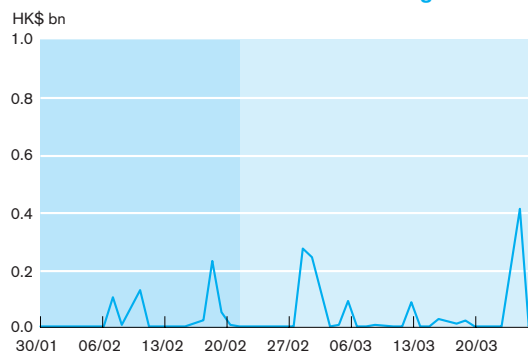


TABLE 4
Frequency of Individual Bank
Access to the Discount Window
(22 February – 26 March 03)

Frequency of using Discount Window	No. of banks
1	11
2	2
3	1
Total	14

Backing Portfolio

Backing assets decreased during the period mainly due to the decline in the outstanding amount of CIs. Nevertheless, as the Monetary Base fell proportionately more than the backing assets, the backing ratio increased slightly from 111.90% on 23 February to 111.92% on 26 March 2003 (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.

CHART 15
Daily Movement of the Backing Ratio

