

The Monetary Authority maintains a keen interest in the development of a sound and robust market infrastructure commensurate with Hong Kong's status as a leading international financial centre. In 1993, the Monetary Authority pursued several major initiatives to improve the risk management

and efficiency of the market infrastructure. These initiatives included measures to develop the HK dollar debt market and a review of the interbank payment and settlement system.

DEVELOPMENT OF DEBT MARKET

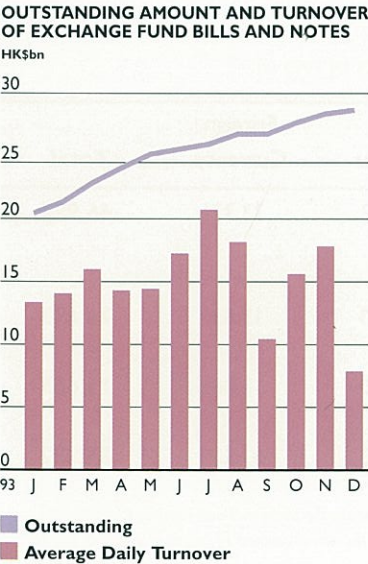
The Hong Kong debt market comprises two components: the HK dollar debt market and the market for foreign currency debt issued in Hong Kong. Both developed rapidly in 1993. The HK dollar debt market has historically been slow to evolve because the Government has not needed to issue debt due to its sustained fiscal surplus. However, the Monetary Authority has taken steps to promote the debt market through the issue of Exchange Fund Bills and Notes and by setting up an efficient central clearing system to facilitate secondary market transactions.

The primary justification for the Exchange Fund Bills programme, which was introduced in March 1990, is the provision of a money market instrument to facilitate monetary management in Hong Kong. It has also helped to increase the supply of HK dollar debt paper and provide a reliable benchmark yield curve for HK dollar debt. The proceeds of the Bills and Notes issues are invested prudently by the Exchange Fund and are not used to fund Government spending. The Chinese authorities have agreed that the Exchange Fund Bills and Notes

programmes can be run on a continuing basis even though the money borrowed, for the account of the Exchange Fund, is for repayment after 1 July 1997.

Two-year Exchange Fund Notes were introduced in May 1993, gradually replacing Government bonds as they mature. The benchmark yield curve was further extended in October 1993 when three-year Exchange Fund Notes were issued. Two weeks after this, the World Bank priced and successfully issued a three-year HK dollar bond on a narrow spread above the yield of three-year Exchange Fund Notes, demonstrating that a reliable and continuous benchmark yield curve for HK dollar debt has greatly facilitated debt pricing and issuance.

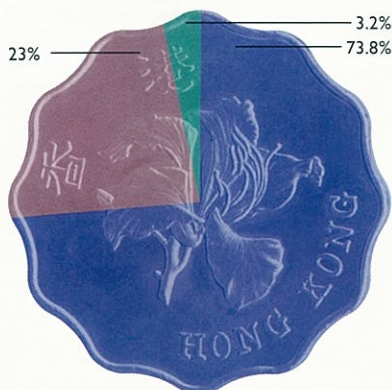
In 1993, the total amount of Exchange Fund Bills and Notes outstanding increased by HK\$8bn to HK\$29bn. Trading in these instruments is highly active, with daily average turnover of HK\$15.5bn, about 60% of the average amount issued. The Monetary Authority will continue to issue Bills and Notes to meet market demand. Currently, the maximum amount that can be issued under the Notes and Bills programme, determined by the Financial Secretary, is HK\$56.3bn (including an amount held in reserve by the Monetary Authority for secondary market trading). Depending on market conditions, the Monetary Authority will consider issuing longer maturity Exchange Fund Notes to extend the benchmark yield curve.



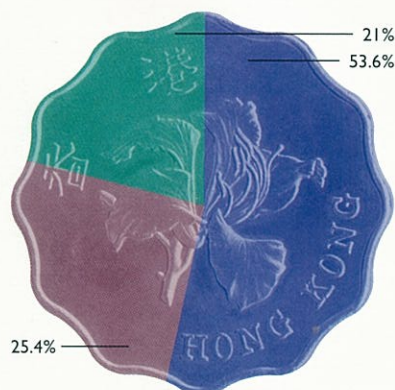


# HONG KONG DEBT MARKET IN 1993

## HK DOLLAR



## FOREIGN CURRENCY



- Commercial Paper
- Bonds and Notes
- Negotiable Certificates of Deposit

About HK\$23.1bn of HK dollar debt paper, other than Exchange Fund paper, was issued in 1993, compared with HK\$15.8bn in 1992. The amount of foreign currency debt paper issued in Hong Kong totalled HK\$62.2bn in 1993, compared with HK\$9.2bn in the previous year. In addition, debt securities amounting to HK\$162bn, which were mostly for global issue, were newly listed on the Stock Exchange. This represented a very significant increase from HK\$4.7bn in the previous year.

The Monetary Authority has also been encouraging supra-nationals to tap the Hong Kong market at the longer end. So far, there have been five issues by the World Bank, four by the International Finance Corporation, two by the ADB and one by the Nordic Investment Bank, all in HK dollars, ranging in maturity from three to eight years. Out of these, six were issued in 1993. In addition, there were three issues of foreign currency bonds by

multilateral agencies in 1993.

A major reason for the rapid development and high liquidity of Exchange Fund Bills and Notes is the efficient clearing service offered by the Monetary Authority. In December 1993, the Monetary Authority extended this service to other HK dollar debt paper by launching its CMU service. This service, which was designed in close consultation with HKCMA, offers an efficient, safe and convenient clearing and custodian system for HK dollar debt instruments. The CMU service handles debt instruments which are either immobilised or dematerialised, and transfer of title is effected in computer book entry form. The clearing operation of the CMU service commenced on 31 January 1994. By early April 1994, 123 financial institutions had joined as CMU members and 20 issues of HK dollar debt instruments, amounting to HK\$3.5bn, had been lodged with the CMU service.

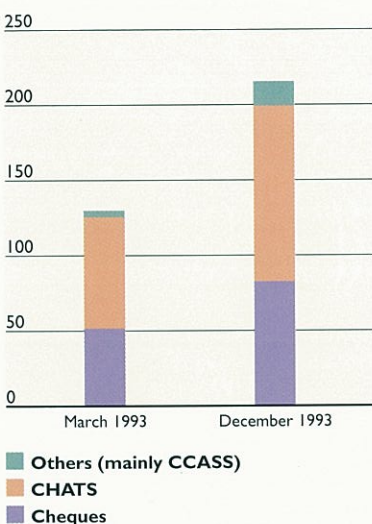
FUNDS RAISED IN THE HONG KONG DEBT MARKET IN 1993 (a)

HK\$mn	HK dollar	Foreign Currency	Total
Negotiable certificates of deposit	13,663	33,331	46,994
Bonds and notes	8,800	15,833	24,633
Commercial paper (b)	600	13,065	13,665
Total (c)	23,063	62,229	85,292

- (a) The table is compiled largely based on debt securities reported to the Securities and Futures Commission.  
 (b) The figures refer to the amount of issuance facility, and not the actual amount of commercial paper issued.  
 (c) These figures do not include Exchange Fund Bills and Notes.

#### MAJOR COMPONENTS OF INTERBANK PAYMENTS

HK\$bn



#### PAYMENT AND SETTLEMENT SYSTEM

Hong Kong's payment and settlement system is operated by the Clearing House of HKAB, which is managed under an agreement between HKAB and The Hongkong and Shanghai Banking Corporation Limited. The Clearing House has coped very effectively with the rise in cheque clearing and interbank payments, the value of which rose from a daily average of HK\$130bn in March 1993 to HK\$216bn in December 1993. However, with this rapid increase in turnover and having regard to recent recommendations made by the BIS in this area, and after consultation with other central banks, a working party was set up in March 1993 to review Hong Kong's payment system and to recommend possible improvements. The working party, which includes representatives of the three Continuing Members of HKAB, completed its initial study in December 1993 and passed its main findings and recommendations to HKAB and other major users of the payment system for

comment in January 1994. The working party recommended that :

- Hong Kong should move towards a real time gross settlement system, which is the best system to eliminate settlement risk and provides the building block for real time delivery versus payment, and payment versus payment, as soon as possible;
- Further study should be undertaken to assess the costs and other practical issues concerning the implementation of real time gross settlement in Hong Kong; and
- A number of interim measures should be implemented as soon as practicable to achieve same day settlement and to reduce the value of cheque payments.

The Monetary Authority will continue to work with the banking industry closely to ensure that Hong Kong has an efficient and robust payment system which enables Hong Kong to remain competitive as an international financial centre.