

It was an important year for the bank note and coin issue in Hong Kong, with the introduction of new design bank notes and "Bauhinia" coins. These will replace the current design bank notes and coins, bearing references which on 1 July 1997 will become inappropriate to the status of Hong Kong as a Special



Administrative Region. The early introduction of the new notes and coins is necessary both to ensure that the process of withdrawal and replacement provided for in the Sino-British Joint Declaration is conducted in an orderly way and also because of production and storage constraints.

The Monetary Authority issued during the year two commemorative coin sets to mark the introduction of the Bauhinia design coins. The sets were in proof and uncirculated versions. At 31 December 1993, 28,861 (out of a maximum issue of 30,000) of the proof coins and 38,783 of the uncirculated sets had been sold, raising net proceeds of HK\$7.8mn which will be used to support, in whole or in part, selected projects for the benefit of the local community.

THE NOTE AND COIN ISSUE

At end-1993, the total value of notes in circulation was HK\$68,896mn, an increase of 18.3% over the year. The peak circulation during 1993 was on 21 January, the day before Lunar New Year, when the total value of notes in circulation reached HK\$71,466mn. The value of coins in circulation at end-1993 was HK\$2,604mn, a modest 1.8% increase over the year.

The increase in the note circulation is well in excess of the increase in nominal GDP. This can partly be explained by the effect of inflation on the lowest value note: as prices increase the real value of the \$10 note, and thus of the note/coin boundary, falls, and the number of transactions for which a

note is used will increase. A second important factor is the increased circulation of HK dollar notes outside Hong Kong; this continues to represent a considerable and growing proportion of the total circulation.

The note circulation continues to show a marked preference for the \$10 note amongst the public, almost to the exclusion of the \$20 and the \$50 notes from general use. \$10 notes represent over 60% of the notes in active use by number, despite efforts by the note issuing banks to increase the popularity and usage of the other denominations. Such a predominance of the lowest value note is unusual amongst developed economies, especially given the relatively low face value of the note. Efforts to increase the usage of the \$20 and \$50 notes will continue, and will assume greater importance upon the introduction of the \$10 coin, which is expected to take place later in 1994.

In the higher denominations, the circulation of \$500 and \$1,000 notes continues to increase rapidly both in absolute terms and as a proportion of the note issue. For the first time, more than half the total note issue, by value, was represented by \$1,000 notes.

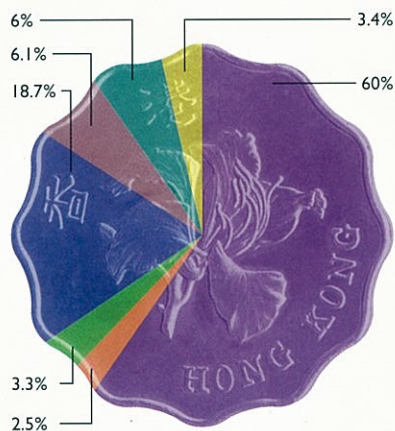
The split of the circulation between the two note issuing banks was largely unchanged in 1993, with notes issued by The Hongkong and Shanghai Banking Corporation Limited representing 85.5% of the circulation by value (1992: 87.0%), and notes issued by Standard Chartered Bank 14.5% by value (1992: 13.0%).



In contrast to the growth in the overall note issue, the coin circulation was almost unchanged. Once again the largest circulation by number was the lowest unit, the 10 cent coin; this was despite the fact that the Monetary Authority did not issue any extra 10 cent coins during the year. The circulation of most other denominations increased slightly although the \$1 coin actually fell by 0.9%.

Overall the note issue represents about HK\$11,450 per person in Hong Kong; given the circulation outside Hong Kong, this is in line with other equivalent economies. The coin circulation is about HK\$430 per person; this is on the high side for developed economies and perhaps reflects, amongst other things, the considerable demand for coins from the general public to meet general transaction needs.

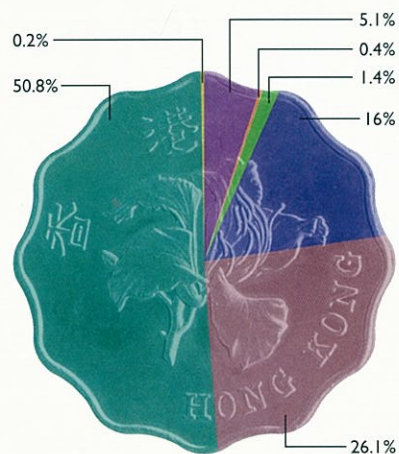
NOTES IN CIRCULATION, BY NUMBER
AT END 1993



Total in circulation 588mn pieces.



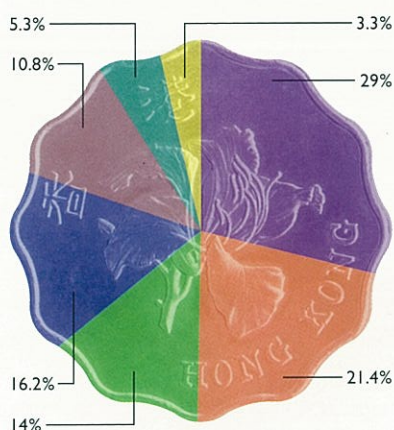
NOTES IN CIRCULATION, BY VALUE



Total in circulation HK\$68,896mn.



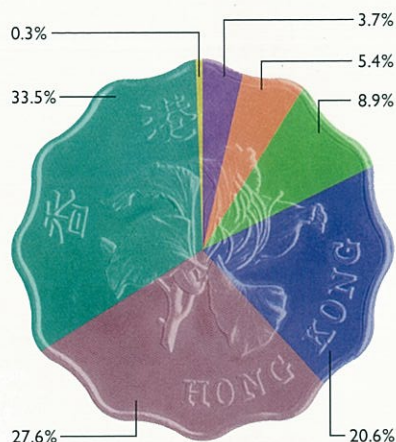
COINS IN CIRCULATION, BY NUMBER AT END 1993



Total in circulation 3,314mn pieces.



COINS IN CIRCULATION, BY VALUE



Total in circulation HK\$2,604mn.



NOTE AND COIN ISSUE EXPENSES

Expenses relating to the note issue represent the payments made by the Exchange Fund to the note issuing banks to offset most of their costs incurred in the maintenance of their note issues. In 1993, these expenses were HK\$137.1mn, a rise of 32.7% over 1992. The increase partly reflects extra costs that the two existing note issuing banks incurred in the introduction of the new design notes, and partly

reflects costs incurred by the Bank of China in its preparations for note issue which will start in May 1994.

Expenses relating to the coin issue were HK\$211.6mn, compared to HK\$118.4mn in 1992, an increase of 78.7%. The extra costs were due to the introduction of the new design "Bauhinia" coins; the total order for new coins in 1993 was 376mn pieces, nearly double 1992's order of 189mn pieces.



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