



## Notes and Coins

*The final two of the series of seven Bauhinia coins were launched in 1994, completing the introduction of the new design coins. The year also marked the addition of a third note-issuing bank, and the enactment of a Hong Kong Coinage Ordinance to replace the UK legislative provisions.*

### Overview

The year 1994 marked the successful completion of the programme to introduce the seven new design Bauhinia coins, with the final two denominations, the 10 cent and 10 dollar coins, being launched into circulation in May and November respectively. In order to minimise inconvenience to members of the public, the new coins have the same physical dimensions as the Queen's Head design coins. The new coins do not bear references which would become inappropriate to the status of Hong Kong as a Special Administrative Region of China from 1 July 1997.

To cater for the demand for high value coins for general transaction use and to extend the life span of the most widely circulated denomination, a new \$10 bi-metal coin was introduced to replace gradually the \$10 note currently issued by HSBC and Standard Chartered Bank. This was the final coin in the new Bauhinia series, the issuance of which commenced in January 1993.

Problems were encountered with the acceptance of the nickel-plated steel

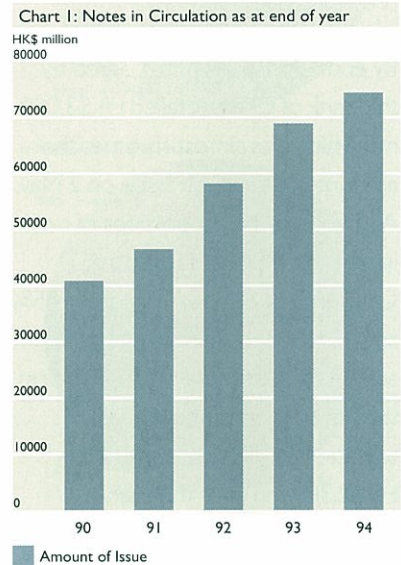
Bauhinia \$1 coin by vending machines and this denomination was replaced by a cupro-nickel version in November 1994.

On 1 May, the Bank of China became the third note-issuing bank in Hong Kong. At end-1994, notes issued by the bank accounted for 4% of total currency notes in circulation. The bank intends only to build up its share of the note issue gradually, perhaps eventually reflecting its relative position in the Hong Kong banking system.

A commemorative \$10 gold coin was issued in January 1994 to mark the introduction of \$10 coins. During the year, 19,583 pieces were sold locally and overseas, raising net proceeds of HK\$30 mn which have been or will be used to fund selected projects for the benefit of the local community.

### The note and coin issue

Apart from a very small fiduciary issue by HSBC and Standard Chartered Bank, which is backed by eligible securities, note-issuing banks may only issue currency notes against holdings of Certificates of Indebtedness issued by the Monetary



Authority. These non-interest-bearing Certificates are issued or redeemed as the amount of notes in circulation rises or falls at the linked rate of HK\$7.80 to US\$1.

At end-1994, the total value of notes in circulation was HK\$74,395 mn, an increase of 8% over the year (Chart 1). The rate of increase was much lower than the 1993 increase of 18.3%. This can partly be explained by the lower use of cash as interest rates rose during the year, China's reiteration of its policy concerning the circulation of foreign currencies in

China and a slower growth of GDP in money terms over the year. The peak circulation during 1994 was on 9 February, the day before Lunar New Year, when the total value of notes in circulation reached HK\$85,295 mn, an increase of 19.3% over the previous Lunar New Year.

By end-1994, bank notes issued by the Bank of China totalled HK\$3,080 mn which was almost six times the amount of its first day issue on 2 May. Accordingly, the proportions of notes issued by HSBC and Standard Chartered Bank have fallen from 85% and 15% at end-April 1994 to 81.4% and 14.5% respectively. Nevertheless the note issue of the two banks together still increased overall by HK\$2,389 mn over the year.

Of all the denominations, the growth in the \$500 note was the most significant. The circulation of this note grew by HK\$3,400 mn, representing an increase of 19% over the year. The increase can partly be explained by the fact that more ATMs can now dispense \$500 notes, and partly by the growing demand for higher value notes to meet transactional use (Chart 2). Other denominations showed only modest growth.

Expenses relating to the note issue were HK\$125.6 mn, a reduction of 8.3% over 1993.

There was significant growth in the coin issue in 1994. At end-1994, the total value of coins in circulation was HK\$3,372 mn (excluding

commemorative gold coins and coin sets), an increase of 30% over end-1993 and representing about 4.3% (c.f. 3.6% in 1993) of total currency in circulation. The growth mainly reflected the introduction of the \$10 coins in November. Moreover, it is believed that there is continuing growth in the circulation of HK dollar coins in China (Chart 3).

The 10 cent and \$5 coins were once again the largest circulation denominations by number and by value respectively. But, excluding the \$10 coin, the \$1 coin achieved the highest growth rate of the year. It was also a remarkable year for the number of coins being handled by the Monetary Authority. More than 680 mn pieces of new coins were shipped to Hong Kong, which was 80% more than 1993, and over 2.6 times greater than the 1992 coin order (Chart 4).

Following the introduction of the \$10 coins in November, there was a marked increase in the issue of \$20 and \$50 notes. It is expected that \$10 notes will be replaced by \$10 coins and \$20 and \$50 notes in roughly equal proportions. Despite the replacement programme, the \$10 note will remain legal tender.

Coin issue expenses in the year were HK\$194.2 mn, an 8.2% decrease compared to 1993.

### Coins replacement programme

By end-1994, about 220 mn pieces of Queen's Head design coins had been

Chart 2: Notes in Circulation at end-1994

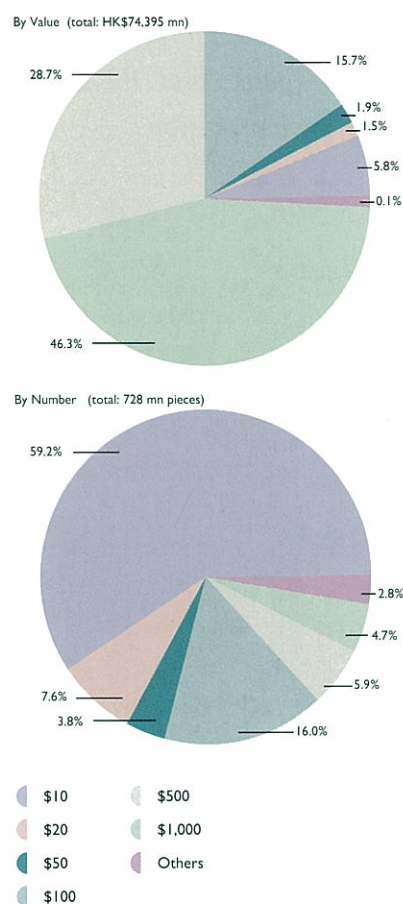
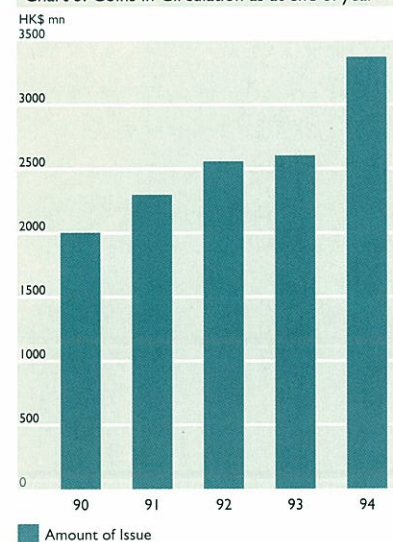


Chart 3: Coins in Circulation as at end of year



returned to the UK Royal Mint since the coin replacement programme started in mid-1993. The returned coins were melted down and sold as scrap on the London Metal Exchange market. The proceeds arising from the sales amounted to HK\$23 mn in the year. At end-1994, about 50% of the active circulation of \$2 and \$5 coins were Bauhinia design. The proportions of other Bauhinia design to Queen's Head design coins are some way below this level but are increasing as more new coins are issued into circulation.

### Local Coinage Ordinance

The UK's Hong Kong (Coinage) Orders 1936 to 1978 were revoked on 30 December 1994 and Hong Kong's Coinage Ordinance (No. 81 of 1994) came into operation on the same day. This enables the Governor-in-Council to authorise the issue of coins in Hong Kong, and the Financial Secretary may appoint any person to mint Hong Kong coins. The Coinage Ordinance also provides for matters relating to the demonetisation of the one cent currency note.

Chart 4: Coins in Circulation at end-1994

