

AMENDMENTS WERE INTRODUCED TO THE PREVIOUS BANK NOTES ISSUE ORDINANCE TO PROVIDE THE GOVERNMENT WITH THE STATUTORY AUTHORITY TO ISSUE CURRENCY NOTES. THIS ENSURES THAT THE LEGAL FRAMEWORK FOR THE ISSUE OF LEGAL TENDER IS CONSISTENT WITH THE SINO-BRITISH JOINT DECLARATION AND THE BASIC LAW, THUS CONTRIBUTING TO THE SMOOTH TRANSITION TO 1997.

OVERVIEW

This year saw several reforms of the legislation relating to the currency issues of Hong Kong. The Exchange Fund (Amendment) Ordinance, which was enacted on 16 February 1995, provided for a “global” Certificate of Indebtedness (CI) to be issued by the HKMA to each note-issuing bank to cover all outstanding indebtedness of the Government to the banks in respect of their note issues. It is therefore no longer necessary for the HKMA to issue or for banks to redeem CIs on each occasion when there is a change in the note issue. The opportunity was also taken to terminate the residual fiduciary issues of two of the note-issuing banks. These were very small, but their termination means that for the first time the note issue is 100% backed in its entirety by assets in the Exchange Fund.

The one cent note was demonetised and ceased to be legal tender on 1 October 1995. The note was first issued in 1941 at a time when Hong Kong experienced a severe shortage of small change. As the note had reached a stage of being of almost no practical use in daily transactions, a Consultative Panel, under the

chairmanship of the HKMA and with membership drawn from Government and commercial sectors, was set up to oversee this demonetisation exercise. The demonetisation of the note affected only transactions in cash and did not change the basis of Hong Kong’s currency. Currently, approximately \$1.27 mn in value of one cent notes are outstanding.

CHART 1: NOTES IN CIRCULATION AS AT END OF YEAR

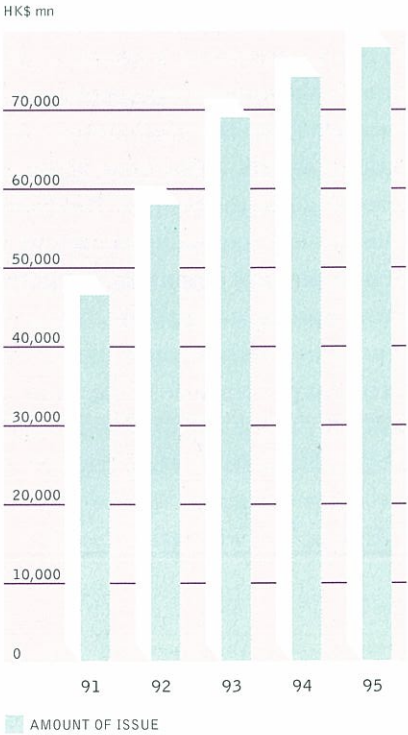
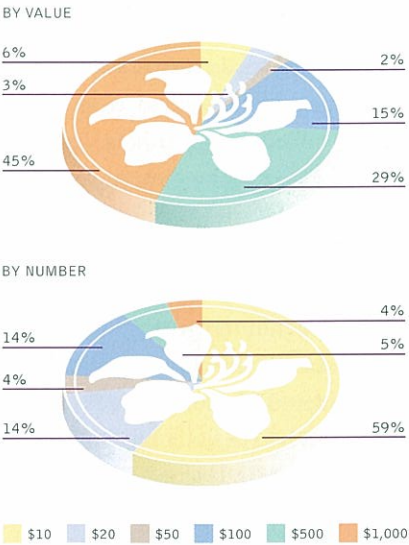


CHART 2: DISTRIBUTION OF NOTES IN CIRCULATION (as at 31 December 1995)



In order to provide a legal framework for the issue of legal tender currency notes consistent with the provisions in the Joint Declaration and the Basic Law, the Bank Notes Issue Ordinance was amended to become the Legal Tender Notes Issue Ordinance. The Ordinance provides that the Financial Secretary may, with the approval of the Governor-in-Council, issue currency notes. The Ordinance also empowers the Government to control the arrangements in relation to currency issues. The Government, however, has no intention to take







away the note issuing functions from the three commercial banks.

THE NOTE AND COIN ISSUE

At end 1995, the total value of notes in circulation was \$77,695 mn, an increase of 4.4% over the year. The rate of increase was lower than the 1994 increase of 8% (Chart 1). This can partly be explained by the growing use of electronic means of payment and a slower growth of GDP over the year compared to 1994. The peak circulation during 1995 was on 30 January, the day before Lunar New Year, when the total value of notes in circulation reached \$92,755 mn, an increase of 8.7% over the previous Lunar New Year. Chart 2 shows the distribution of notes in circulation by value and by number.

At end 1995, the proportions of notes issued by HongkongBank, Standard Chartered Bank and Bank of China were 78.8%, 15.7% and 5.5% respectively (1994 : 81.4%, 14.5% and 4.1%).

Expenses relating to the note issue in the year were \$158.2 mn, an increase of 26% over 1994's \$125.6 mn.

The total value of coins in circulation at the year end was \$3,590 mn excluding commemorative gold coins and coin sets (Chart 3) and represented about 4.4% (1994 : 4.3%) of total currency in circulation.

CHART 3: COINS IN CIRCULATION AS AT END OF YEAR



The 10 cent and \$5 coins were once again the largest circulation denominations by number and by value respectively (Chart 4). The \$1 coin achieved the highest growth rate of 11.4% in the year. It was also a remarkable year for the number of coins being handled by the HKMA in which more than 400 mn new coins were shipped to Hong Kong, and 169.9 mn Queen's Head coins were withdrawn and scrapped.

Expenses relating to the coin issue in the year were \$199.7 mn, a 2.8% increase compared to 1994.

COIN REPLACEMENT PROGRAMME

By end 1995, about 392 mn pieces of Queen's Head design coins had been returned to the UK Royal Mint since the coin replacement programme started in 1993. Shipments to date have mainly comprised the \$2 and \$5 denominations, these being the first coins to be replaced under the programme. The returned coins are melted down into scrap metal and sold on the metal exchange market. Proceeds arising from the sales amounted to \$36 mn in the year. For the \$2 and \$5 coins, the Bauhinia design now exceeds 70% of active circulation. The proportions of other Bauhinia design to Queen's Head design coins are also increasing as the programme continues.

CHART 4: DISTRIBUTION OF COINS IN CIRCULATION (as at 31 December 1995)

