

International Financial Centre

After nearly two years of financial crisis, 1999 was a year of economic recovery and consolidation for the Asian region and for Hong Kong. Internationally, the HKMA played an active role in the efforts made towards reforming the international financial architecture and enhancing the transparency of international financial systems.

Overview

Hong Kong is one of the world's major financial centres. It owes its success to a strategic geographical location, a sound legal system, liberal economic policies, an advanced business infrastructure, and an efficient workforce. A fair and transparent supervisory framework, which meets the highest international standards, also ensures that financial institutions are able to thrive in a stable yet competitive environment.

Banking is the linchpin of financial activities in Hong Kong. About 285 authorised institutions and representative offices of banks from 41 countries operate in Hong Kong. Of the world's top 100 banks, 78 have established business in Hong Kong. Around 60% of banking business is denominated in foreign currencies.

Hong Kong is the seventh largest foreign exchange trading centre in the world. The average daily turnover (April 1998) is around US\$79 billion. The absence of exchange controls and a favourable time zone location have helped to stimulate the development of the foreign exchange market in Hong Kong. Hong Kong also has a well-developed interbank



money market, where wholesale Hong Kong dollars are traded among banking institutions. The average daily turnover in the Hong Kong dollar interbank market in 1999 was \$160.7 billion (US\$20.7 billion).

Hong Kong is among the world's largest gold bullion markets. Its stock market is Asia's second largest after Tokyo, with capitalisation of about US\$259 billion in 1999. The stock market not only serves Hong Kong, but also acts as an important source of funding for companies in the Asian region, particularly in Mainland China. The debt market has grown rapidly in recent years. The size of the debt market (end-December 1999), as measured by the outstanding amount of Hong Kong dollar debt securities, is \$420.3 billion (US\$53.9 billion).

Under the 'one country, two systems' formula, through which China resumed the exercise of sovereignty over Hong Kong on 1 July 1997, Hong Kong's financial and monetary systems remain entirely separate from those of Mainland China. The Basic Law, which sets out Hong Kong's system of government, states that the Hong Kong dollar shall continue to be a separate and freely convertible currency: it also prohibits the imposition of exchange controls and requires the Government of the Hong Kong Special Administrative Region to provide an economic and legal environment appropriate for the maintenance of Hong Kong's status as an international financial centre.

Hong Kong maintains close and active co-operation with the international financial community and with

multilateral and regional forums. These contacts are crucial to Hong Kong's ability to maintain its competitiveness and to its role as an international financial centre. The establishment of the HKMA has enabled Hong Kong to strengthen its contacts with other central banks and multilateral financial organisations and to promote Hong Kong's standing as an international financial centre. Such contacts enable the HKMA:

- to promote international understanding of, and support for, monetary and banking policies in Hong Kong;
- to share information with other central banks about financial developments so as to facilitate the proper oversight of financial markets and the prudential supervision of financial institutions;
- to improve understanding of international economic and financial trends so as to facilitate more effective policy formulation in the HKMA, particularly in monetary management and reserves management;
- to improve the HKMA's access to the technical expertise available in major central banks and multilateral institutions; and
- to help other central banks and institutions to obtain a better understanding of monetary and general economic developments in Hong Kong and the region.

With signs of financial stability and economic recovery returning to Asia, a key focus of the international community in 1999 was to ensure a sustainable recovery. The HKMA contributed to this



process by helping to preserve the momentum for reforming the international financial architecture and ensuring the proper implementation of reform measures. We also worked on the promotion of bond market development in the region, with the aim of improving the financial intermediation of both domestic and foreign savings to fund economic development and recovery.

We kept up regular dialogue with regional central banking forums and international financial institutions to enhance technical co-operation and transparency and surveillance of financial systems. Good progress was made in discussions with the International Monetary Fund (IMF) and the World Bank Group aimed at stepping up their presence in Hong Kong.

As in the past, the HKMA held bilateral meetings with other central banks in the region during the year in order to reinforce co-operation.

Achievements

Reforming the international financial architecture

In the wake of the Asian financial crisis, the international financial community launched a number of initiatives on reforming the international financial architecture. The HKMA took part in two G-33 seminars for senior officials of central banks and finance ministries from industrialised and emerging market economies to consider follow-up action on

work done by the G-22 in 1998 and exchange views on issues relating to exchange rate regimes, capital flows and other financial issues.

In April 1999, the international community set up a new forum to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance. This Financial Stability Forum brings together regulatory authorities in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The HKMA was invited to join this forum and its Working Group on Highly Leveraged Institutions (HLIs), which reviews the systemic risks arising from the activities of HLIs.

The HKMA participated in two working groups formed by the G-10 Committee on the Global Financial System (CGFS) to examine how the availability of information could strengthen risk management practices and allow more informed investment decisions to be made by private market participants, thus promoting the functioning and stability of financial markets. The two working groups were the Working Group on Enhanced Disclosure by Individual Institutions and the Working Group on Enhancing the Transparency of Aggregate Information. In addition, the HKMA also participated in the CGFS Working Group on Financial Market Events in the Autumn of 1998 to examine the events



surrounding the market stresses in many international financial markets during the period.

Development of bond markets in the region

Financial liberalisation and globalisation of financial markets have led to a phenomenal increase in cross-border capital flows. These flows can at times be volatile and disruptive to financial markets, as was apparent in the Asian financial crisis of 1997-1998. A key priority for the region therefore is to develop deeper and more liquid bond markets in Asia to recycle the very substantial savings within the region, which stand at more than 30% of Gross Domestic Product.

Hong Kong continued to play an active role in promoting the development of domestic bond markets in the region. We led the Asia-Pacific Economic Co-operation (APEC) Collaborative Initiative on Development of Domestic Bond Market and mobilised the active participation of APEC members and international financial institutions in this Initiative. After three workshops held in Hong Kong, the



The APEC Workshop on Development of Domestic Bond Markets held in Hong Kong on 3-4 August 1999.

Initiative completed a report on the *Compendium of Sound Practices*, which identified 36 key elements crucial to the development of domestic bond markets in APEC economies. The Compendium was endorsed by the APEC Finance Ministers and the Economic Leaders and published in September 1999 for use by APEC economies as a self-assessment tool.

In addition to the promulgation of the Compendium, the Initiative also launched a virtual resource centre in the form of the *Bond Market Initiative Website*. The Website was set up mainly with the technical assistance of the Asian Development Bank (ADB). It contains research papers and articles as well as relevant statistics of member economies for general access. The HKMA also participated in a project of the World Bank in compiling a detailed manual for the development of domestic sovereign debt markets.

Regional monetary co-operation and participation in multilateral institutions

During the year, we further cultivated our contacts and co-operation with a number of multilateral organisations and regional central banks.

We participated in the Annual Meetings of the ADB, the Bank for International Settlements (BIS) and the International Monetary Fund/World Bank Group. We also contributed to discussions under the aegis of APEC Finance Ministers to examine the causes of the Asian financial crisis and the measures to ensure sustainable economic recovery. At the invitation of the ADB, the HKMA took part in the negotiation for the



Seventh Replenishment of the Asian Development Fund. Hong Kong obtained a renewal of its observer status in the OECD Committee on Financial Markets, thereby allowing us to take part in meetings monitoring financial developments in industrialised and emerging markets.

The HKMA hosted the 4th Executives' Meeting of the East Asia and Pacific Central Banks (EMEAP) Governors' Meeting in July, in which Governors discussed various international financial issues and



emphasised the importance of involving emerging market economies in the process of reforming the international financial architecture. We hosted the EMEAP Working Group on Payment & Settlements Systems Meeting in October. The HKMA also participates in the EMEAP Working Group on Financial Markets and is the chair of the EMEAP Working Group on Banking Supervision. During the year, we continued to play an active role in the Manila Framework Group as well as in the Four Markets and Six Markets meetings.

Since becoming a member of the BIS in 1996, the HKMA has been expanding its involvement in BIS work. We have participated regularly in the enlarged meeting of the Committee on the Global Financial System as well as in the Gold and Foreign Exchange Committee. In September 1999 the Chief Executive of the HKMA was elected as the chair of the Basel-based Central Bank Governance Steering Group. This is the first time that a non-G10 official has chaired a BIS Committee.

Hong Kong took part in the IMF pilot project on the "Report on the Observance of Standards and Codes". The exercise was conducted by the IMF to review an economy's transparency practices against prevailing international standards. The HKMA co-ordinated the work with other government bureaux and agencies. This transparency report commended Hong Kong for achieving a high degree of transparency in the data dissemination, fiscal, monetary and financial policies and banking supervision areas.

We reached agreement with the IMF on the arrangement for it to establish in Hong Kong in 2000 a sub-office of its resident representative office in Beijing. The International Finance Corporation (IFC) and the World Bank are also planning to set up in Hong Kong in 2000 a joint regional office for the East Asia and Pacific. The regional office will co-ordinate all IFC investments and IBRD's private sector development activities in the region. The establishment of these offices along with the BIS Asian



Office, which opened in 1998, will help to reinforce Hong Kong's role as an important centre for the world's major organisations responsible for financial stability and financial market development.

The Third HKMA Distinguished Lecture was held in July 1999. Mr Jean-Claude Trichet, Governor of the Banque de France, delivered a keynote speech on the "Risks and Challenges of the International Financial Scene". Dr Donald Brash, Governor of the Reserve Bank of New Zealand, was the discussant of this Lecture. The Lecture received a favourable response from the local financial community and the media, with over 500 guests attending the event.

To maintain our bilateral contacts with regional central banks, we held bilateral meetings with the Reserve Bank of Australia, Bank Indonesia, the Monetary Authority of Singapore and the Bank of Thailand in 1999.



The HKMA held its Third Distinguished Lecture on 8 July 1999. From left: Mr Joseph Yam, Dr Donald Brash, Governor of the Reserve Bank of New Zealand and Mr Jean-Claude Trichet, Governor of the Banque de France.



Bilateral Meeting between Bank Indonesia and the HKMA on 26 June 1999.

Challenges

The globalisation of financial markets has brought risks as well as opportunities. At a time when the initial efforts towards strengthening the international financial architecture are beginning to take shape, it is crucial for the collaborative work to be continued to ensure that the interests of Hong Kong and other emerging market economies are not overlooked.

The HKMA will continue to monitor developments in the international financial arena and the implications on Hong Kong. We shall continue with our active participation and enhance our dialogue with central banks, multilateral organisations and international financial forums in order to maintain global and regional monetary and financial stability.

