



Hong Kong cyclists take part in the 9th All China Games, held in Guangzhou. Cyclists from Hong Kong have made a name for themselves in both national and international competitions. In this race Hong Kong takes the gold medal.

INTERNATIONAL FINANCIAL CENTRE

The HKMA continued to play a leading role in promoting regional co-operation in 2003, particularly in the development of the Asian bond market. The HKMA's participation in financial and central banking forums contributed to a better understanding by the international financial community of Hong Kong's financial and economic development and its position as an international financial centre.

OVERVIEW

Despite the uncertainties presented by geopolitical conflicts, terrorism and the sharp weakening of the US dollar, the global financial system remained largely stable in 2003 under a benign inflation environment and low interest rates. In Asia, however, the outbreak of SARS in the second quarter of 2003 and strong capital inflows in the latter part of the year, presented substantial challenges to central banks in the region. Against this background, the HKMA strengthened its co-operation with international and regional financial organisations with the aim of improving financial stability and promoting bond market development in the region, raising Hong Kong's profile among international financial institutions and investors, and enhancing Hong Kong's position as an international financial centre.

As chairman of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Working Group on Financial Markets, the HKMA contributed significantly to the design and launch of the Asian Bond Fund (ABF). The HKMA led the Asia-Pacific Economic Co-operation (APEC) Initiative on Development of Securitisation and Credit Guarantee Markets, along with Thailand and Korea as co-chairs. The HKMA also worked closely with the People's Bank of China (PBoC) and State Administration of Foreign Exchange in the launch of personal renminbi banking business in Hong Kong.

REVIEW OF 2003

Regional monetary co-operation and participation in multilateral institutions

The HKMA contributed significantly to policy dialogues in international and regional forums and played a significant role in regional monetary co-operation in 2003. The HKMA participated actively in the meetings of the APEC forum, the Financial Stability Forum (FSF)¹ and the Bank for International Settlements (BIS), and in regional central banking co-operation, including chairing the EMEAP Working Group on Financial Markets and the EMEAP Forum on Foreign Exchange Markets.² HKMA Chief Executive, Mr Joseph Yam, was elected as the Chairman of the BIS Asian Consultative Council (ACC) in March for a term of two years. The ACC comprises the Governors of

¹ The FSF was established in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, to promote international financial stability. Members of the FSF include national financial authorities from G7, Australia, Hong Kong, the Netherlands and Singapore; the European Central Bank; international financial institutions; international regulatory and supervisory groupings; and committees of central bank experts.

² The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Group comprises 11 central banks and monetary authorities in the East Asia and Pacific region. These are central banks of Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

BIS member central banks in the Asia-Pacific region.³ It was established in 2001 to provide a vehicle for communication between these central banks and the BIS Board and Management on matters of interest and concern to the Asian central banking community.

With the aim of furthering regional monetary co-operation, the HKMA continued to maintain close contacts with the regional central banks. During the year, the HKMA held bilateral meetings with the Monetary Authority of Singapore and the Bank of Thailand.

Compliance with international codes and standards

The HKMA acted as the co-ordinator for Hong Kong's participation in the Financial Sector Assessment Programme (FSAP), a joint IMF-World Bank initiative designed to promote financial stability. An FSAP Mission, comprising experts from the IMF, the World Bank and collaborating institutions (such as the UK Financial Services Authority and Banque de France), conducted assessments of Hong Kong's compliance with eight key international standards, covering the banking, securities, insurance and other financial sectors in the second half of 2002 and the first quarter of 2003. The findings and recommendations of the Mission were published in the Financial System Stability Assessment (FSSA) report in June 2003. The Mission confirmed that Hong Kong complies with key international standards, its financial system is fundamentally sound, and its market infrastructure is robust and efficient.

³ The BIS member central banks represented in the ACC are those of Australia, China, Hong Kong SAR, India, Japan, Korea, Malaysia, Singapore and Thailand. In addition, the Governors of central banks of Indonesia, New Zealand and the Philippines have also been invited to the ACC meetings.

Hong Kong's international credit ratings

Since July 2003, the HKMA has been playing a key role in the adoption of a more pro-active approach towards Hong Kong's international credit ratings. The main purpose of this approach is to ensure a balanced view on Hong Kong through more effective communication between the international credit rating agencies and the relevant authorities in Hong Kong. In October 2003, Moody's decoupled Hong Kong's sovereign rating from that of China's by upgrading Hong Kong's foreign currency rating by two notches to A1.

Financial market integration with the Mainland

Extensive interaction between the HKMA and Mainland authorities improved mutual understanding and brought positive results in 2003. The Chief Executive of the Hong Kong Special Administrative Region announced on 18 November that, following approval from the State Council, the PBoC had agreed to provide clearing arrangements for personal renminbi business in Hong Kong. The scope of such renminbi business includes deposit-taking, exchange, remittances and debit and credit cards. This arrangement signifies an important step forward for the development of the banking sector in Hong Kong. It opens a new channel for the flow of renminbi funds between Hong Kong and the Mainland through the banking system. On 19 November, the HKMA and PBoC signed a Memorandum of Cooperation in Beijing to facilitate enhanced co-operation between the two institutions, including the exchange of information relating to personal renminbi business in Hong Kong.

During the year, the HKMA took steps to increase its understanding of Mainland financial issues through continued co-operation in research projects with Mainland academics and think-tanks and through inviting Mainland officials and academics to visit Hong Kong to exchange views on issues of common interest.

Training

A series of training programmes was designed for officials of PBoC, China Banking Regulatory Commission (CBRC) and other Mainland authorities, both in Hong Kong and Shenzhen, to share the HKMA's expertise in the area of banking supervision and its experience in FSAP. These included a four-week banking supervision course for PBoC supervisors; a two-week financial supervision seminar for its senior officials from different areas; a one-week FSAP seminar for officials from various Mainland authorities; and two specialised courses for CBRC's bank supervisors and Mainland commercial bankers. Overall, five courses, or 1,322 days of training, were provided to 258 Mainland officials in 2003. The HKMA will continue to organise similar seminars and courses for the staff of the Mainland authorities in 2004.

The HKMA also provided training on request to other external parties, including Mainland commercial banks and the Hong Kong Independent Commission Against Corruption. A total of 227 participants attended the seminars in 2003.



The HKMA holds its Sixth Distinguished Lecture on 18 September 2003. From left: Governor Zhou Xiaochuan of the People's Bank of China, Chief Executive Joseph Yam, and Gerald Corrigan, Managing Director of Goldman, Sachs & Co. Dr Zhou speaks on "Reform Gradualism and Evolution of Exchange Rate Regime in Mainland China".

Development of regional bond markets

During the year the HKMA took the lead in the design and launch of the ABF under the EMEAP forum. The first phase, the US dollar-denominated ABF (or ABF1), was launched in June 2003, with an issue size of about US\$1 billion. All 11 central bank members of EMEAP invested in ABF1. The aim of ABF1 is to help promote the efficiency of financial intermediation in the region and facilitate the channelling of a small portion of the sizeable official reserves held by the Asian economies back into the region. The EMEAP Working Group is now studying the feasibility of the second phase of ABF, the local currency-denominated ABF (or ABF2), in order to broaden and deepen bond markets in the region.

In addition, the HKMA is co-chairing, with Korea and Thailand, an APEC Initiative on the Development of Securitisation and Credit Guarantee Markets. The initiative, sponsored by the World Bank, is to assist APEC member economies in identifying market impediments and to devise proposals to remove them. The first panel visits to three APEC economies, i.e. China, Thailand and Mexico, took place in 2003, and the first high level policy dialogue under the APEC Initiative was held in Seoul in April 2003.

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