



## HONG KONG'S MONETARY SYSTEM AND THE 'ONE COUNTRY, TWO SYSTEMS' PRINCIPLE

Under the principle of 'one country, two systems' enshrined in the Sino-British Joint Declaration and the Basic Law (Annexes 1 & 2), Hong Kong enjoys a high degree of autonomy except in foreign affairs and defence matters. In particular, Hong Kong's monetary system remains separate from that of the Mainland of China, and the Government of the Hong Kong Special Administrative Region (HKSAR) formulates its own monetary and financial policies. The Hong Kong dollar, as the only legal tender in the HKSAR, remains freely convertible. The free flow of capital within, into and out of the HKSAR is guaranteed and no exchange control policies may be applied in Hong Kong. The Hong Kong dollar continues to circulate as a freely convertible currency, and the authority to issue Hong Kong currency is vested in the HKSAR Government. Hong Kong's foreign exchange reserves, held in the Exchange Fund, are managed and controlled by the Government of the HKSAR primarily for regulating the exchange value of the Hong Kong dollar.

### Mutually independent monetary systems

These provisions form the foundation for Hong Kong's monetary and financial arrangements between the Mainland of China and Hong Kong. The People's Bank of China (PBoC) has pledged that under the 'one country, two systems' principle, there will be 'two currencies, two monetary systems and two monetary authorities which are mutually independent'. This means that neither has precedence over the other, neither is superior to the other, and neither takes instructions from the other. The PBoC has pledged its readiness to use China's foreign reserves to support the currency stability of Hong Kong when necessary at the request of the Hong Kong Monetary Authority (HKMA). But China will not draw on or resort to Hong Kong's own reserves or other assets in any way, or for any reason.

Financial institutions from the Mainland of China are treated in the same way as any other foreign institutions in Hong Kong and do not enjoy any special privileges. Like any other organisations with a presence in Hong Kong, these Mainland financial institutions are required to abide by the laws of Hong Kong and be regulated by the relevant supervisory authorities in Hong Kong.

### Co-operation between the HKMA and PBoC

Co-operation between the two central banking institutions - the PBoC and the HKMA - has been strengthened in recent years. In February 1996, the two institutions signed a repurchase agreement in respect of US dollar government securities to provide liquidity on a bilateral basis. Both sides have also agreed in principle to the linkage of their respective interbank payment systems. Co-operation between the two authorities in other areas, including the supervision of banks, is being further enhanced, in strict accordance with the principle and spirit of 'one country, two systems'.



**Monetary relations between the Mainland and Hong Kong**

1. The monetary and currency systems of the Mainland and Hong Kong are mutually independent. The Renminbi and the Hong Kong dollar circulate as legal tender in the Mainland and Hong Kong respectively and will be regarded as foreign currencies in each other's territory.
2. The HKMA and the PBoC maintain a mutually independent relationship. The HKMA is accountable only to the Government of Hong Kong.
3. The financial supervisory authorities of the Mainland and Hong Kong co-operate with each other on a number of issues.
4. The PBoC will provide support for maintaining the currency stability of Hong Kong if necessary and only at the request of the HKMA.
5. All financial claims and liabilities between the Mainland and Hong Kong are handled in accordance with internationally accepted rules and practices.
6. Mainland financial institutions operating in Hong Kong are supervised by the relevant regulatory authorities in Hong Kong.

**The Joint Declaration of  
the Government of the United Kingdom of  
Great Britain and Northern Ireland  
and the Government of  
the People's Republic of China  
on the Question of Hong Kong  
(Annex I: Part V and Part VII)  
(Signed on 19 December 1984)**

**Part V.  
FINANCE**

**Budget**

The Hong Kong Special Administrative Region shall deal on its own with financial matters, including disposing of its financial resources and drawing up its budgets and its final accounts. The Hong Kong Special Administrative Region shall report its budgets and final accounts to the Central People's Government for the record.

**Taxation and public expenditure**

The Central People's Government shall not levy taxes on the Hong Kong Special Administrative Region. The Hong Kong Special Administrative Region shall use its financial revenues exclusively for its own purposes and they shall not be handed over to the Central People's Government. The systems by which taxation and public expenditure must be approved by the legislature, and by which there is accountability to the legislature for all public expenditure, and the system for auditing public accounts shall be maintained.

**Part VII.  
MONETARY SYSTEM**

**Previous monetary and financial systems**

The Hong Kong Special Administrative Region shall retain the status of an international financial centre. The monetary and financial systems previously practised in Hong Kong, including the systems of regulation and supervision of deposit taking institutions and financial markets, shall be maintained.

**Monetary and financial policies**

The Hong Kong Special Administrative Region Government may decide its monetary and financial policies on its own. It shall safeguard the free operation of financial business and the free flow of capital within, into and out of the Hong Kong Special Administrative Region. No exchange control policy shall be applied in the Hong Kong Special Administrative Region. Markets for foreign exchange, gold, securities and futures shall continue.

**Hong Kong dollar**

The Hong Kong dollar, as the local legal tender, shall continue to circulate and remain freely convertible. The authority to issue Hong Kong currency shall be vested in the Hong Kong Special Administrative Region Government. The Hong Kong Special Administrative Region Government may authorise designated banks to issue or continue to issue Hong Kong currency under statutory authority, after satisfying itself that any issue of currency will be soundly based and that the arrangements for such issue are consistent with the object of maintaining the stability of the currency. Hong Kong currency bearing references inappropriate to the status of Hong Kong as a Special Administrative Region of the People's Republic of China shall be progressively replaced and withdrawn from circulation.

**Exchange Fund**

The Exchange Fund shall be managed and controlled by the Hong Kong Special Administrative Region Government, primarily for regulating the exchange value of the Hong Kong dollar.

**Basic Law of the  
Hong Kong Special Administrative Region of the  
People's Republic of China**

*(Article 106 and Articles 109 to 116)*

*(promulgated on 4 April 1990)*

**Article 106**

The Hong Kong Special Administrative Region shall have independent finances.

The Hong Kong Special Administrative Region shall use its financial revenues exclusively for its own purposes, and they shall not be handed over to the Central People's Government.

The Central People's Government shall not levy taxes in the Hong Kong Special Administrative Region.

**Article 109**

The Government of the Hong Kong Special Administrative Region shall provide an appropriate economic and legal environment for the maintenance of the status of Hong Kong as an international financial centre.

**Article 110**

The monetary and financial systems of the Hong Kong Special Administrative Region shall be prescribed by law.

The Government of the Hong Kong Special Administrative Region shall, on its own, formulate monetary and financial policies, safeguard the free operation of financial business and financial markets, and regulate and supervise them in accordance with law.

**Article 111**

The Hong Kong dollar, as the legal tender in the Hong Kong Special Administrative Region, shall continue to circulate.

The authority to issue Hong Kong currency shall be vested in the Government of the Hong Kong Special Administrative Region.

The issue of Hong Kong currency must be backed by a 100 per cent reserve fund. The system regarding the issue of Hong Kong currency and the reserve fund system shall be prescribed by law.

The Government of the Hong Kong Special Administrative Region may authorize designated banks to issue or continue to issue Hong Kong currency under statutory authority, after satisfying itself that any issue of currency will be soundly based and that the arrangements for such issue are consistent with the object of maintaining the stability of the currency.

**Article 112**

No foreign exchange control policies shall be applied in the Hong Kong Special Administrative Region. The Hong Kong dollar shall be freely convertible. Markets for foreign exchange, gold, securities, futures and the like shall continue.

The Government of the Hong Kong Special Administrative Region shall safeguard the free flow of capital within, into and out of the Region.

**Article 113**

The Exchange Fund of the Hong Kong Special Administrative Region shall be managed and controlled by the government of the Region, primarily for regulating the exchange value of the Hong Kong dollar.

**Article 114**

The Hong Kong Special Administrative Region shall maintain the status of a free port and shall not impose any tariff unless otherwise prescribed by law.

**Article 115**

The Hong Kong Special Administrative Region shall pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital.

**Article 116**

The Hong Kong Special Administrative Region shall be a separate customs territory.

The Hong Kong Special Administrative Region may, using the name "Hong Kong, China", participate in relevant international organisations and international trade agreements (including preferential trade arrangements), such as the General Agreement on Tariffs and Trade and arrangements regarding international trade in textiles.

Export quotas, tariff preferences and other similar arrangements, which are obtained or made by the Hong Kong Special Administrative Region or which were obtained or made and remain valid, shall be enjoyed exclusively by the Region.