



## HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

Hong Kong is one of the world's major financial centres. It has achieved this position through its strategic geographical location, a liberal economic policy, the free flow of capital and information, a diligent workforce, a sound legal system, a low tax rate (Chart 1), and an efficient physical infrastructure.

Banking is the linchpin of financial activities in Hong Kong. About 440 authorised institutions (including licensed banks, restricted licence banks and deposit-taking companies) and representative offices of banks from 42 countries operate in Hong Kong (Chart 2). Of the world's top 100 banks, 76 have established business in Hong Kong; 71 of these operate with a full banking licence. Around 60% of banking business is denominated in foreign currencies (Chart 3).

Hong Kong is the seventh largest foreign exchange trading centre in the world (Chart 4). The average daily turnover (as at April 1998) is around US\$79 billion. The absence of exchange controls and the 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 1998 was HK\$156 billion (US\$20.1 billion).

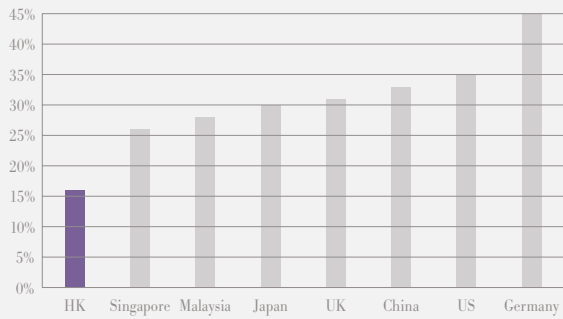
Hong Kong is among the world's largest gold bullion markets. Its stock market is Asia's second largest after Tokyo, with capitalisation of about US\$344 billion at December 1998 (Chart 5). The stock market not only serves Hong Kong, but also acts as an important source of funding for companies in the Asian region, particularly in Mainland China. At present, there are 41 Mainland Chinese companies listed on the Stock Exchange of Hong Kong (known as H-shares). These companies have raised about HK\$61 billion (US\$7.9 billion) for enterprises operating in China.

The debt market has grown rapidly in recent years. The size of the debt market (as at end-June 1999), as measured by the outstanding amount of Hong Kong dollar debt securities, is HK\$407.1 billion (US\$51.6 billion). Of this, Exchange Fund Bills and Notes amount to HK\$98.8 billion (US\$12.7 billion) (Chart 6).

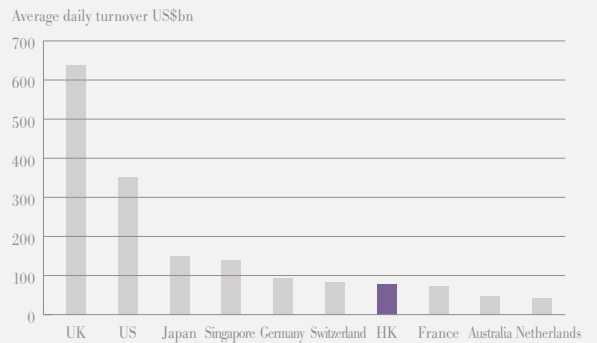


# Fact Sheet 10

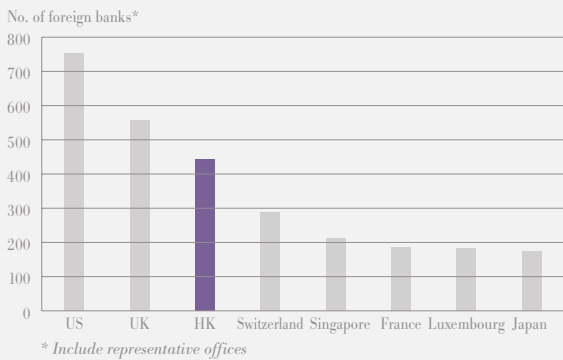
**Chart 1: Lowest Corporate Tax Rate (April 1999)**



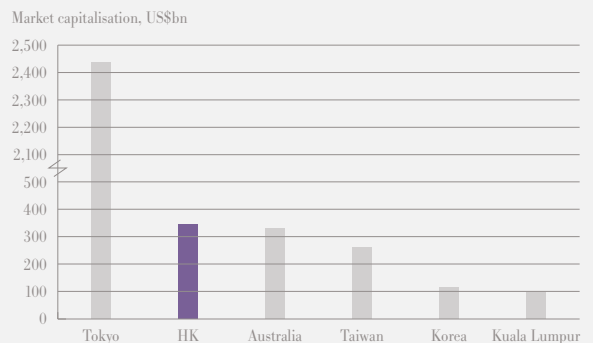
**Chart 4: 7th Largest Foreign Exchange Market Turnover (April 1998)**



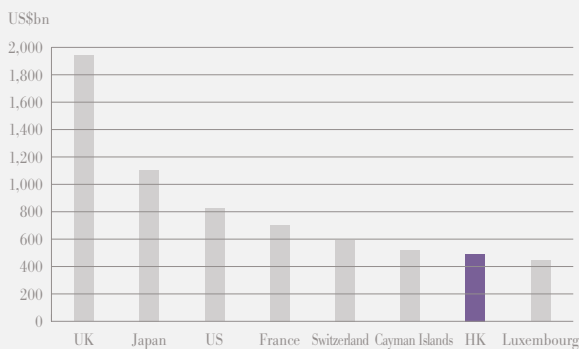
**Chart 2: 3rd Largest International Banking Centre (1998)**



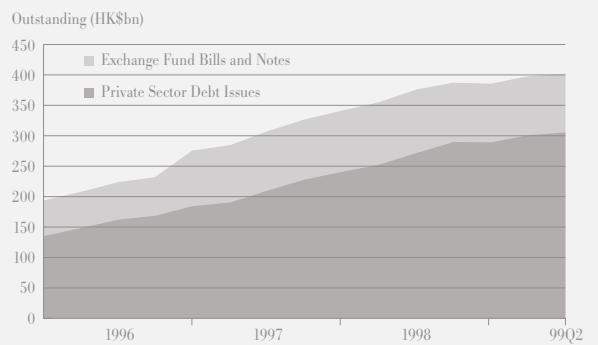
**Chart 5: 2nd Largest Asian Stock Market (end-1998)**



**Chart 3: 7th in Banking Sector Foreign Assets (1998)**



**Chart 6: Growing Hong Kong Debt Market**



**Hong Kong's  
external relations  
and the HKMA**

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 Hong Kong Monetary Authority (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 matters in Hong Kong;
- to share information with other central banks about financial developments so as to facilitate the proper regulation 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, which helps keep Hong Kong in the forefront of financial innovation and institutional development; 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.

The HKMA pursues these aims through the following activities:

**(a) Active and autonomous participation in central banking forums**

Hong Kong is a member of the Asian Development Bank, the Bank for International Settlements, the South East Asia, New Zealand and Australia Group of Central Banks and Monetary Authorities (SEANZA) and the Executives' Meeting of East Asian-Pacific Central Banks (EMEAP). It also actively participates in the activities of the World Bank, the International Monetary Fund (IMF), South East Asian Central Banks (SEACEN), and other central banking forums. In 1997, the HKMA became one of the 25 participants in the New Arrangements to Borrow, a standby credit facility extended to the IMF for use in stabilising the global monetary system.

**(b) Strengthening of the international financial architecture**

As a leading international financial centre, Hong Kong participates in a number of international and regional initiatives to reform the international financial architecture. The focus has been on enhancing the transparency and accountability of the public sector, the private sector and international financial institutions to make the global economy more resilient to volatile capital flows. Throughout 1998, the HKMA was engaged in the G22 process and its working groups: it co-chaired the Working Group on Transparency and Accountability and participated in the Working Group on International Financial Crises. The HKMA is also a member of the Working Group on Enhanced Disclosure by Individual Institutions and the Working Group on Enhanced Transparency Regarding Aggregate Positions, which are sub-groups of the Basle-based Committee on the Global Financial System (formerly known as Euro-currency Standing Committee). In summer 1999, Hong Kong, along with Singapore, Australia and the Netherlands were invited to participate in the G7 Financial Stability Forum. The HKMA is also a member of the Working Group on Highly Leveraged Institutions (HLIs) formed by the Forum. The Group is mandated to study the activities of HLIs and will produce a final report around the spring of 2000.

Hong Kong has actively contributed to promoting the development of bond markets in the region. Under the auspices of Asia-Pacific Economic Co-operation (APEC), Hong Kong, China co-ordinates the Collaborative Initiative on Development of Domestic Bond Markets. The Collaborative Initiative has recently published a Report on the Compendium of Sound Practices, which provides guidelines to facilitate the development of domestic bond markets in APEC member economies. A total of 36 essential elements under five inter-related areas of Government Policies, Regulatory Framework, Market Infrastructure, Liquidity and Risk Management have been identified in the Compendium. They are intended to encourage relevant authorities to adopt policies conducive to the development of domestic bond markets. Hong Kong will continue to participate in other initiatives aimed at fostering the development of bond markets.

#### **(c) Regional monetary co-operation and participation in multilateral agencies**

The HKMA continues to pursue relationships with regional central banks and multilateral agencies through organising various meetings, seminars, workshops and by participating in regional and international forums.

#### **(d) Transparency and information dissemination**

The HKMA is committed to transparency and public access to economic data by meeting the international standards expected of a leading international financial centre. Accordingly, Hong Kong subscribed to the IMF Special Data Dissemination Standard in November 1996 and started providing economic data in the IMF International Financial Statistics in July 1997.