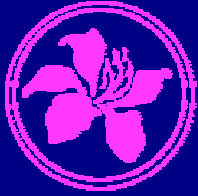


HONG KONG MONETARY AUTHORITY

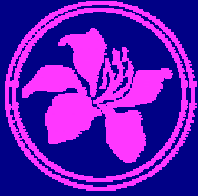
Briefing to the Legislative Council Panel on Financial Affairs

6 November 2003



PROGRESS IN KEY FUNCTIONS & RESPONSIBILITIES

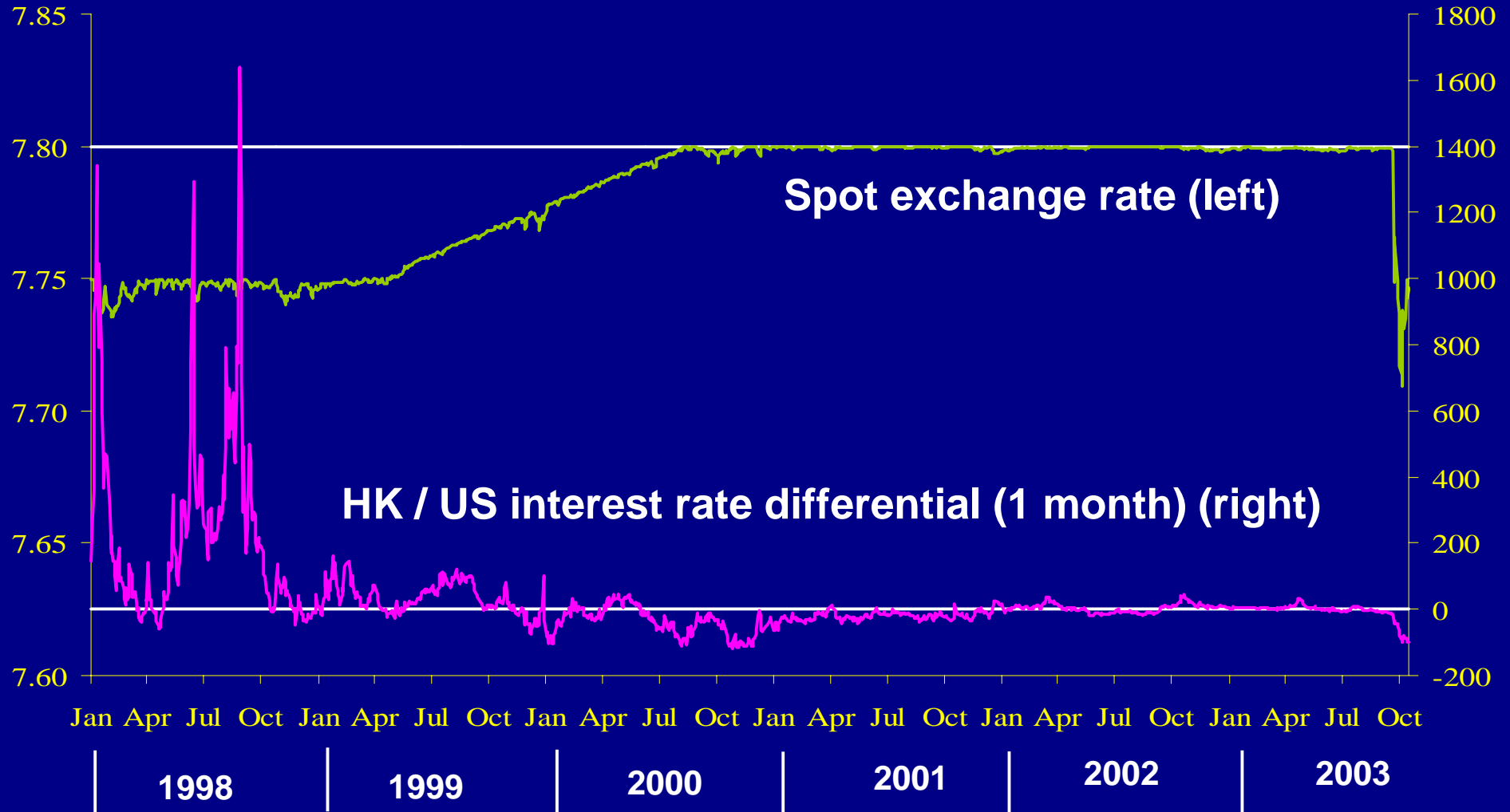
- **Currency**
- **Banking**
- **Financial infrastructure**
- **Hong Kong as an international financial centre**
- **Exchange Fund**

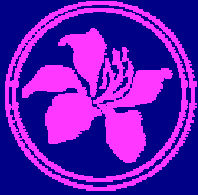


CURRENCY STABILITY (1)

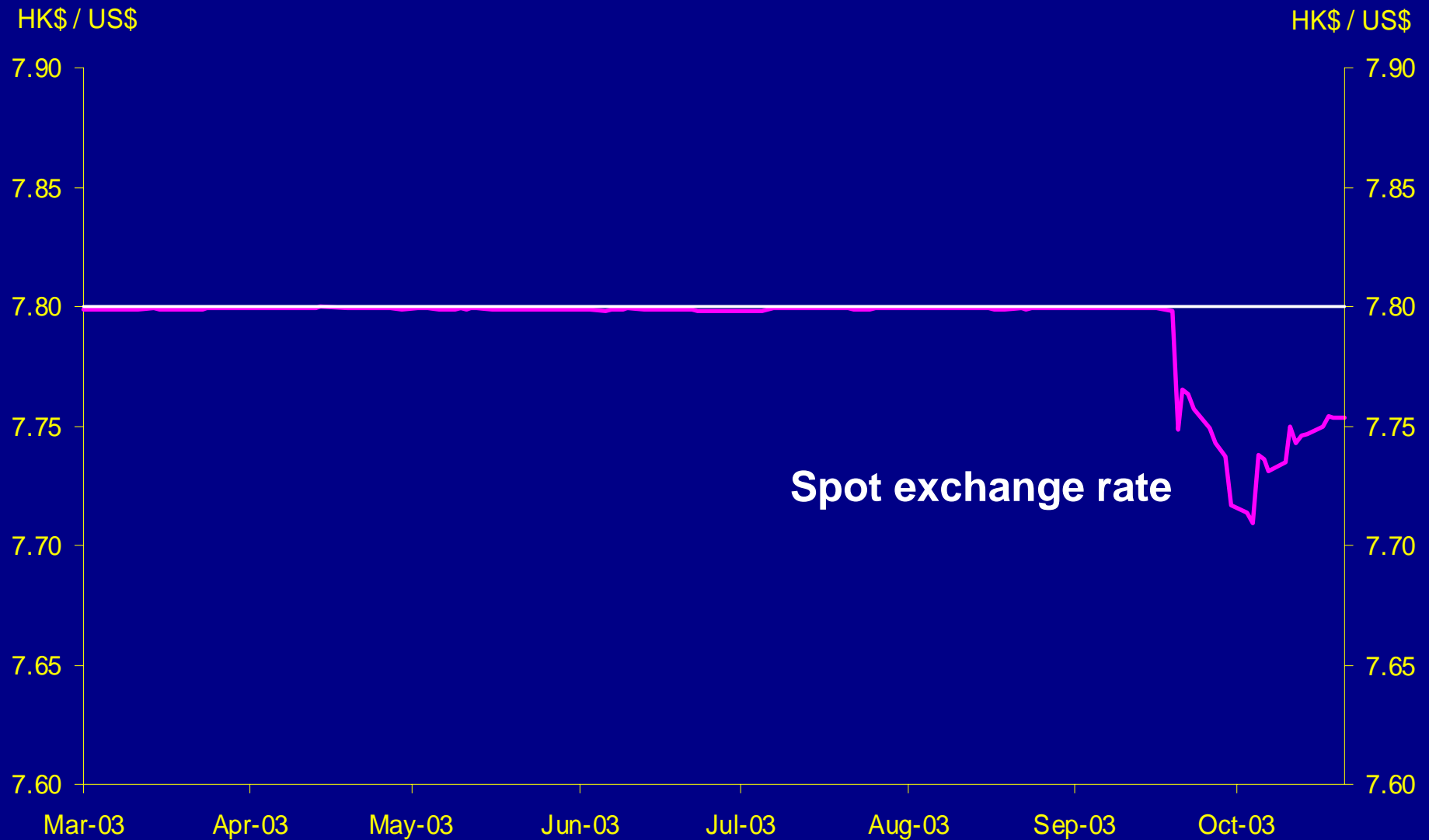
HK\$ / US\$

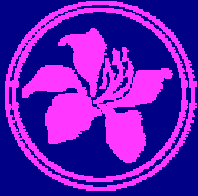
b.p.





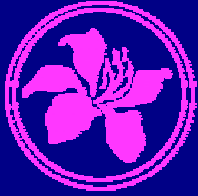
CURRENCY STABILITY (2)



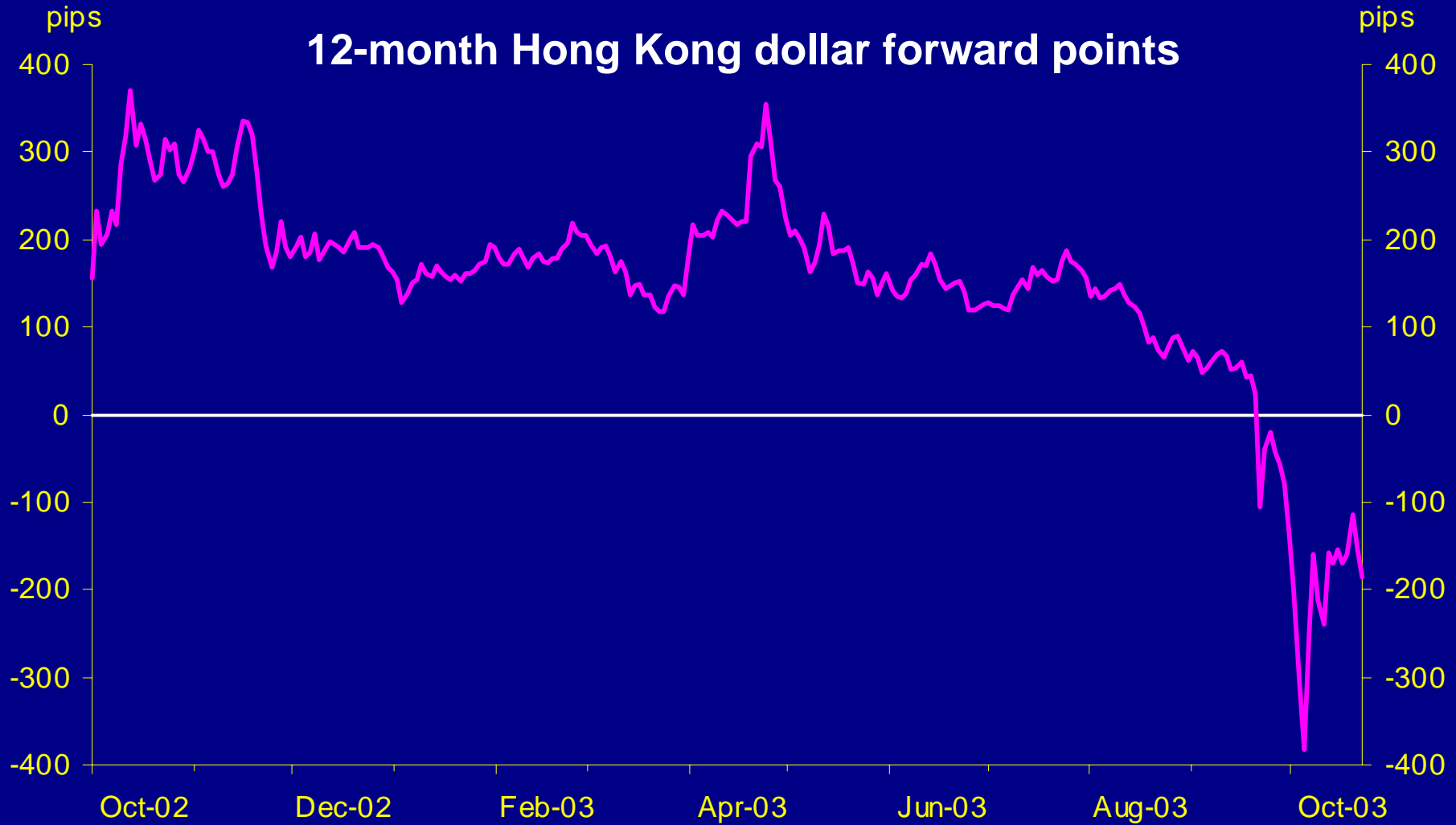


CURRENCY - MARKET EXPECTATIONS (1)

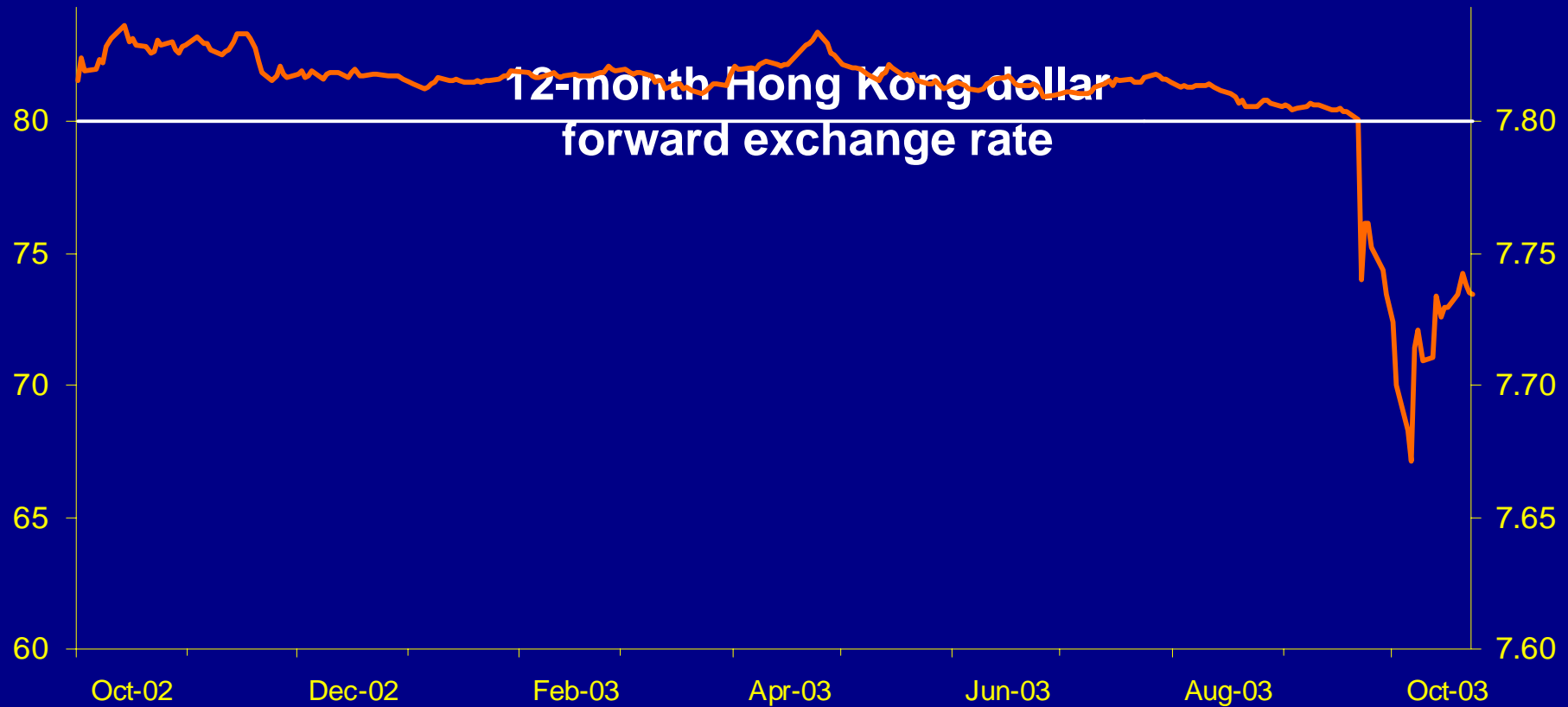




CURRENCY - MARKET EXPECTATIONS (2)



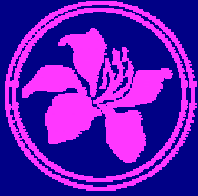
CURRENCY - MARKET EXPECTATIONS (3)



CURRENCY - RISKS & VULNERABILITIES

External factors

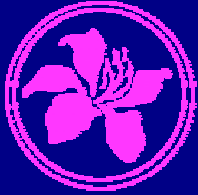
- **Global economic outlook: improving**
- **Exchange rates among G3 currencies: volatile**
- **Political pressure on renminbi exchange rate policy: revaluation / greater flexibility**



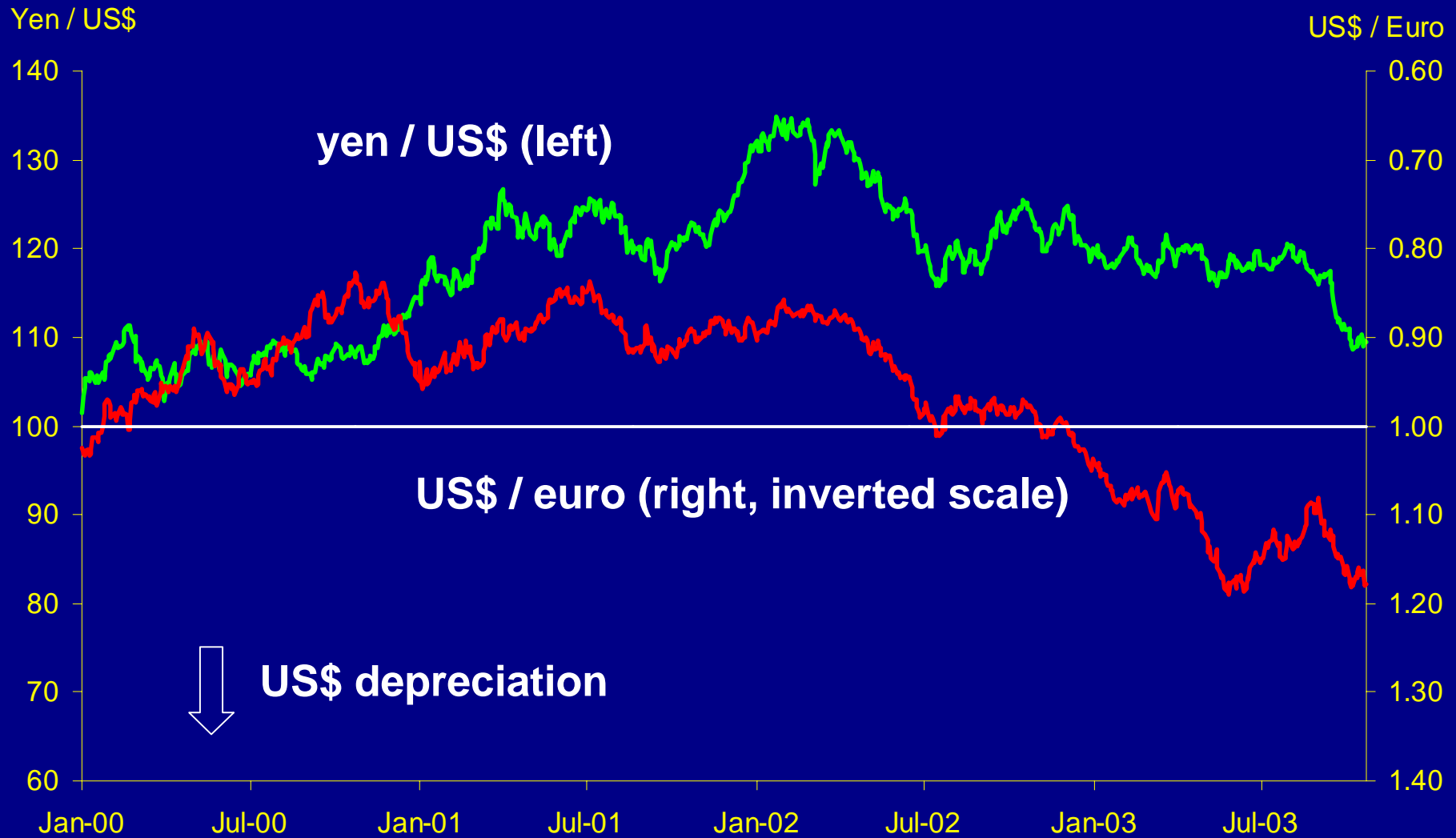
GLOBAL ECONOMIC OUTLOOK

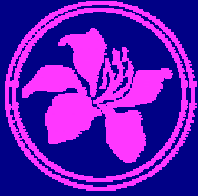
	GDP growth	GDP growth forecasts	
	2003 Q2	2003	2004
	% yoy	% yoy	% yoy
Mainland China	6.7	8.1	7.8
US	2.5	2.7	4.0
Eurozone	0.2	0.5	1.7
Japan	3.0	2.4	1.3
Hong Kong	-0.5	2.2	4.5

Source: Bloomberg, Consensus Forecasts (October 2003)

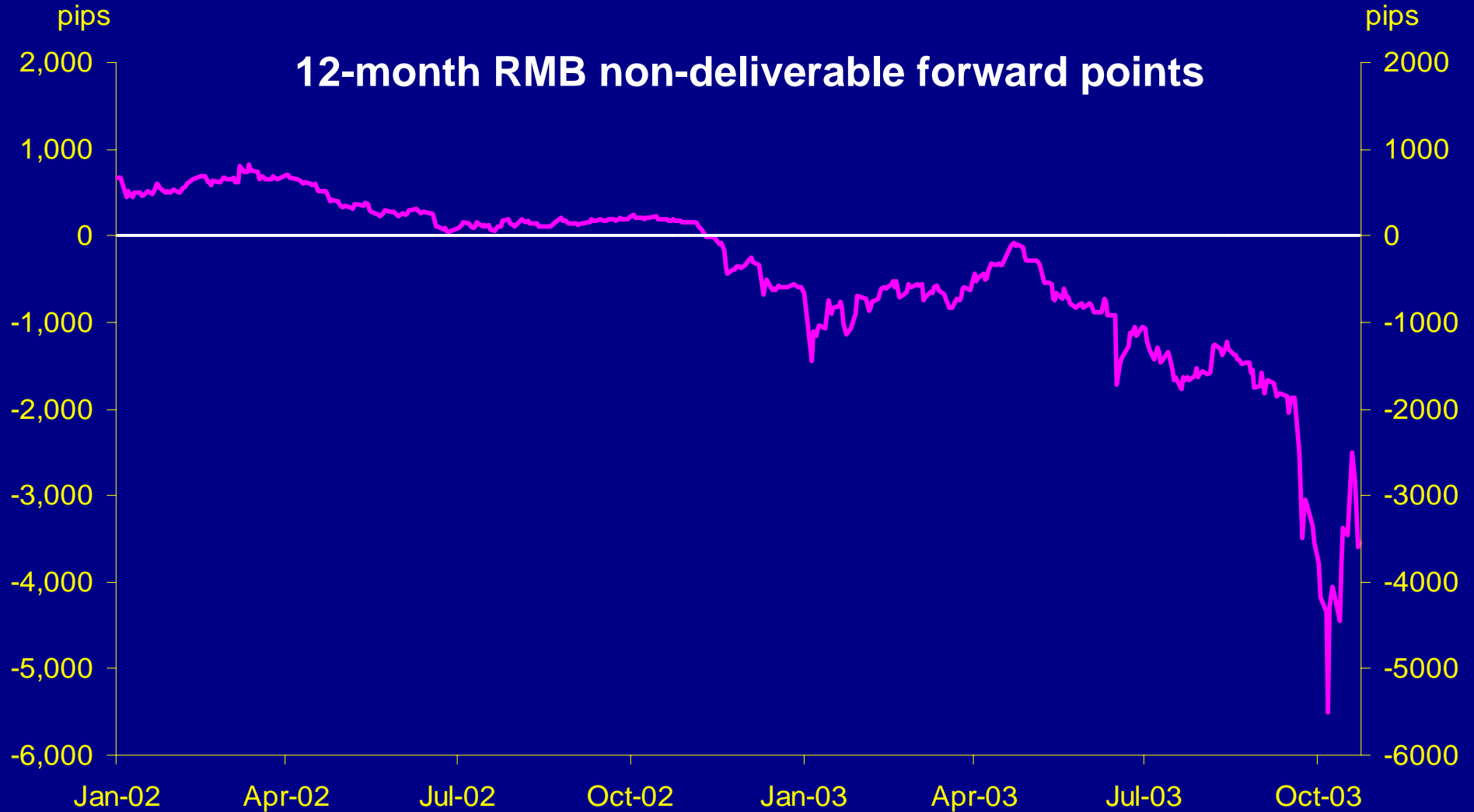


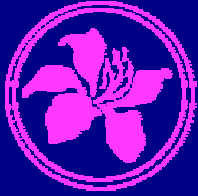
EXCHANGE RATE VOLATILITY



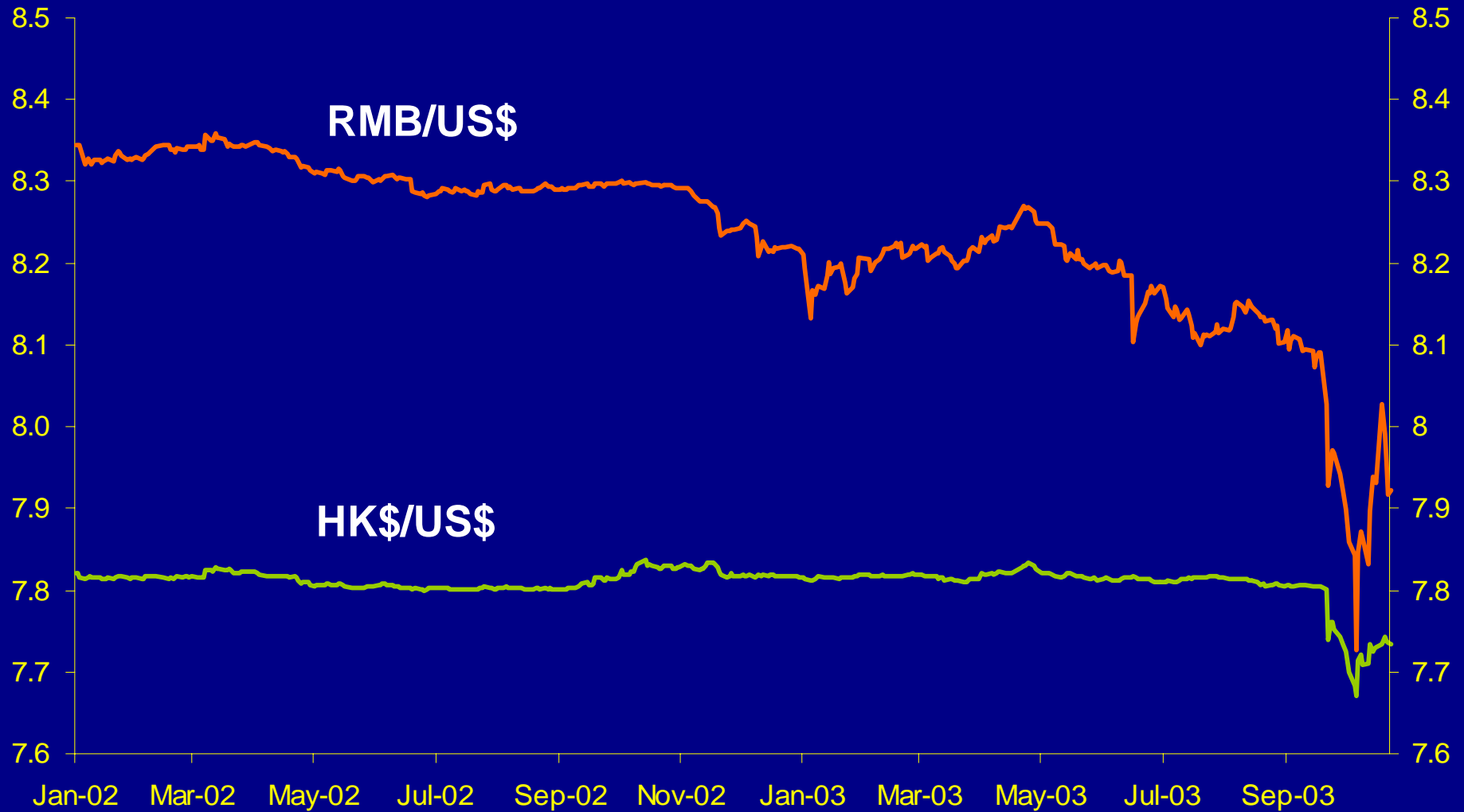


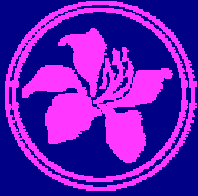
RENMINBI - MARKET EXPECTATIONS





12-MONTH HONG KONG DOLLAR AND RENMINBI FORWARD EXCHANGE RATES

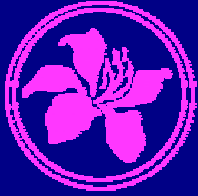




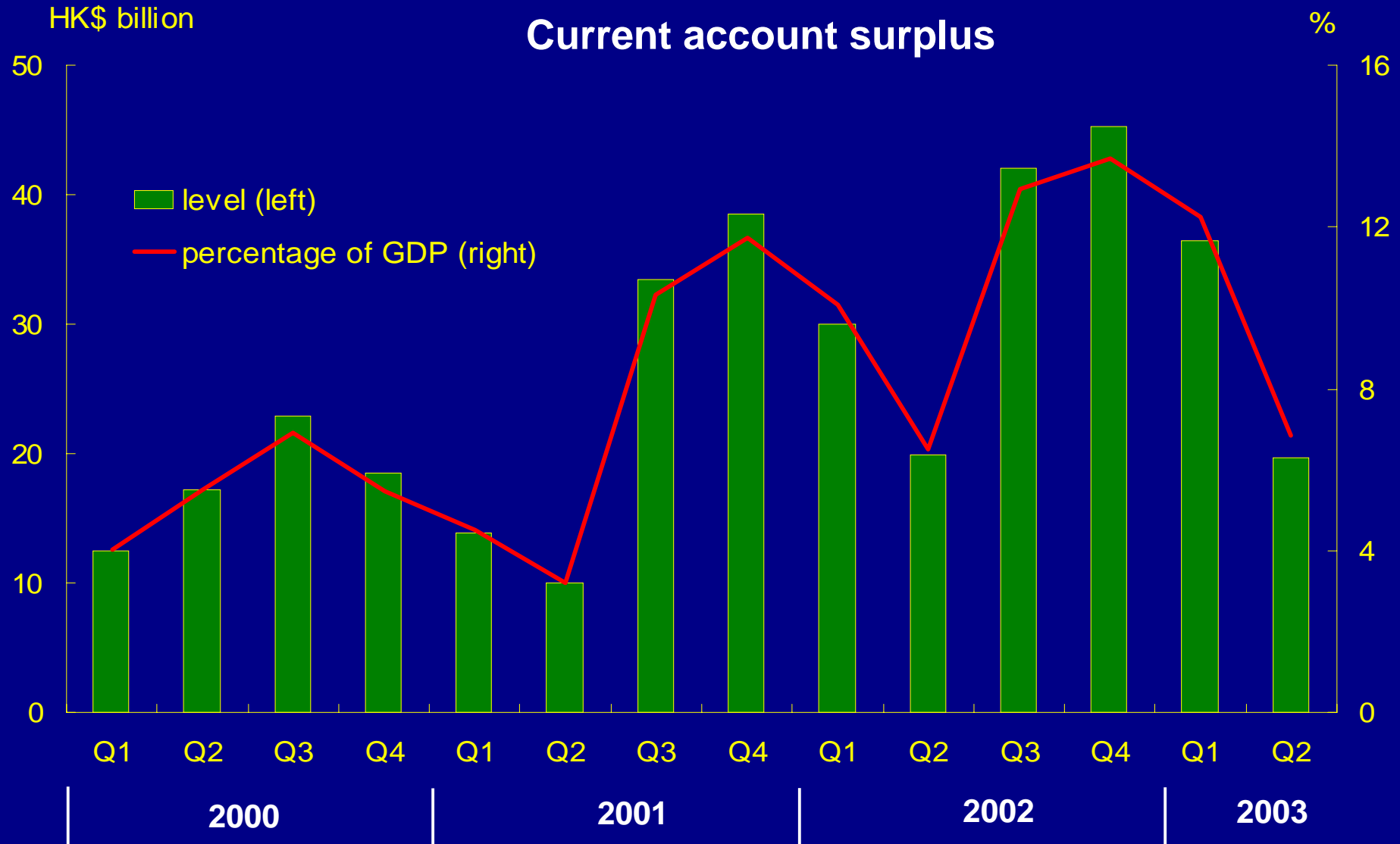
CURRENCY - RISKS & VULNERABILITIES

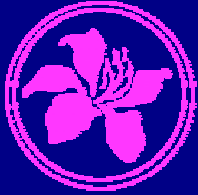
Domestic factors

- Economic recovery
- Current account surplus
- International investment position
- Public finance
- Unemployment
- Deflation

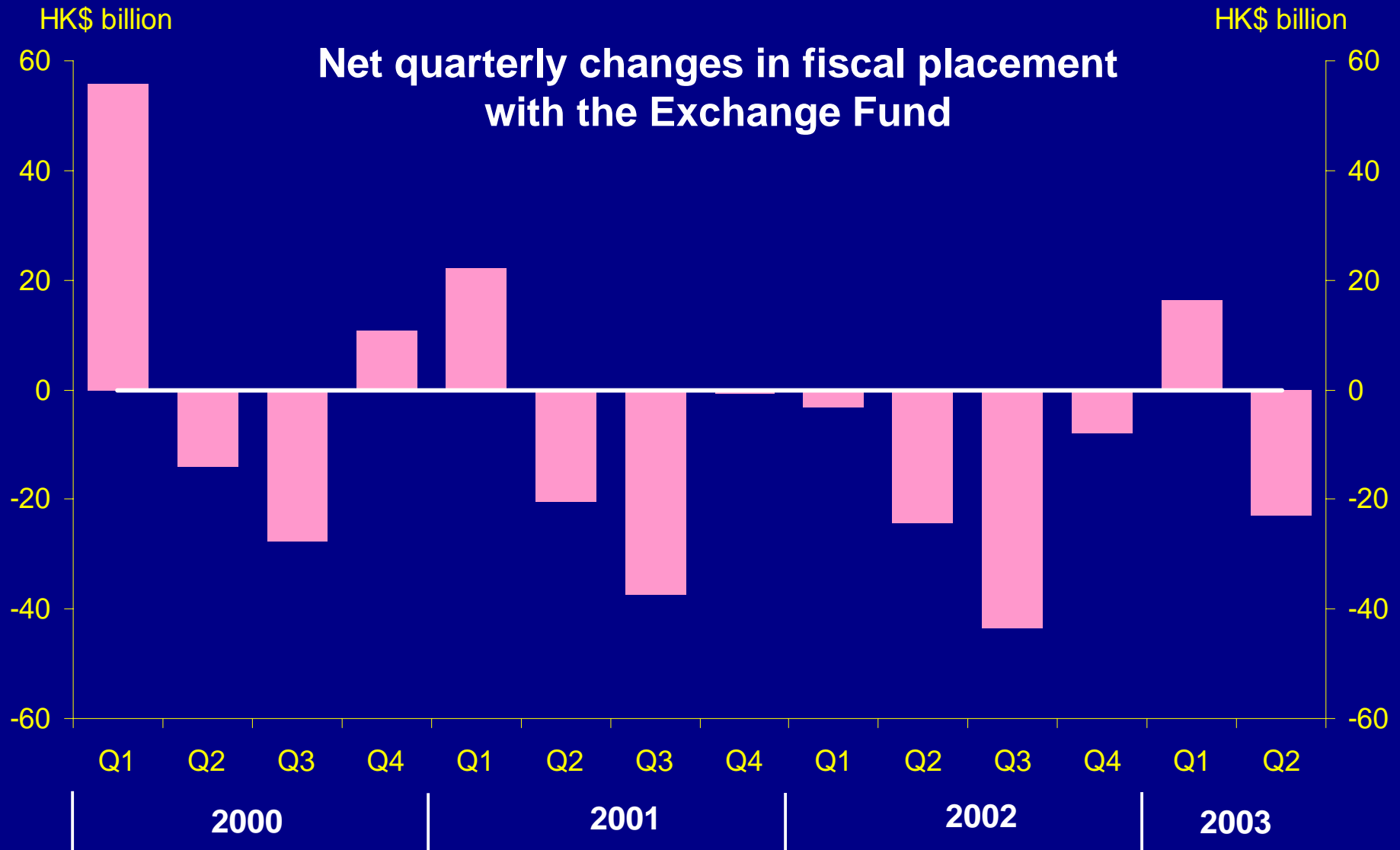


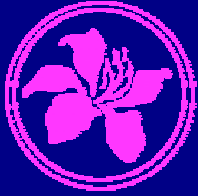
BALANCE OF PAYMENTS ACCOUNT





FISCAL DRAWDOWNS





INTERNATIONAL INVESTMENT POSITION

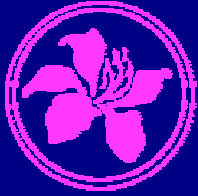
Net IIP position as at end-2002

	<u>Amount (US\$ billion)</u>	<u>as % of GDP</u>
Hong Kong	339	210
Selected economies		
Japan	1,462	37
Singapore	45	50
Thailand	-46	-37
United States	-2,605	-25
United Kingdom	-41	-3

Source: IFS, HKSAR government

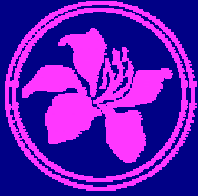
BANKING STABILITY - BACKGROUND

- **Asian financial turmoil**
- **Currency attack**
- **Bursting of the property bubble**
- **Bursting of the IT bubble**
- **Deflation**
- **Unemployment**
- **Economic difficulties**

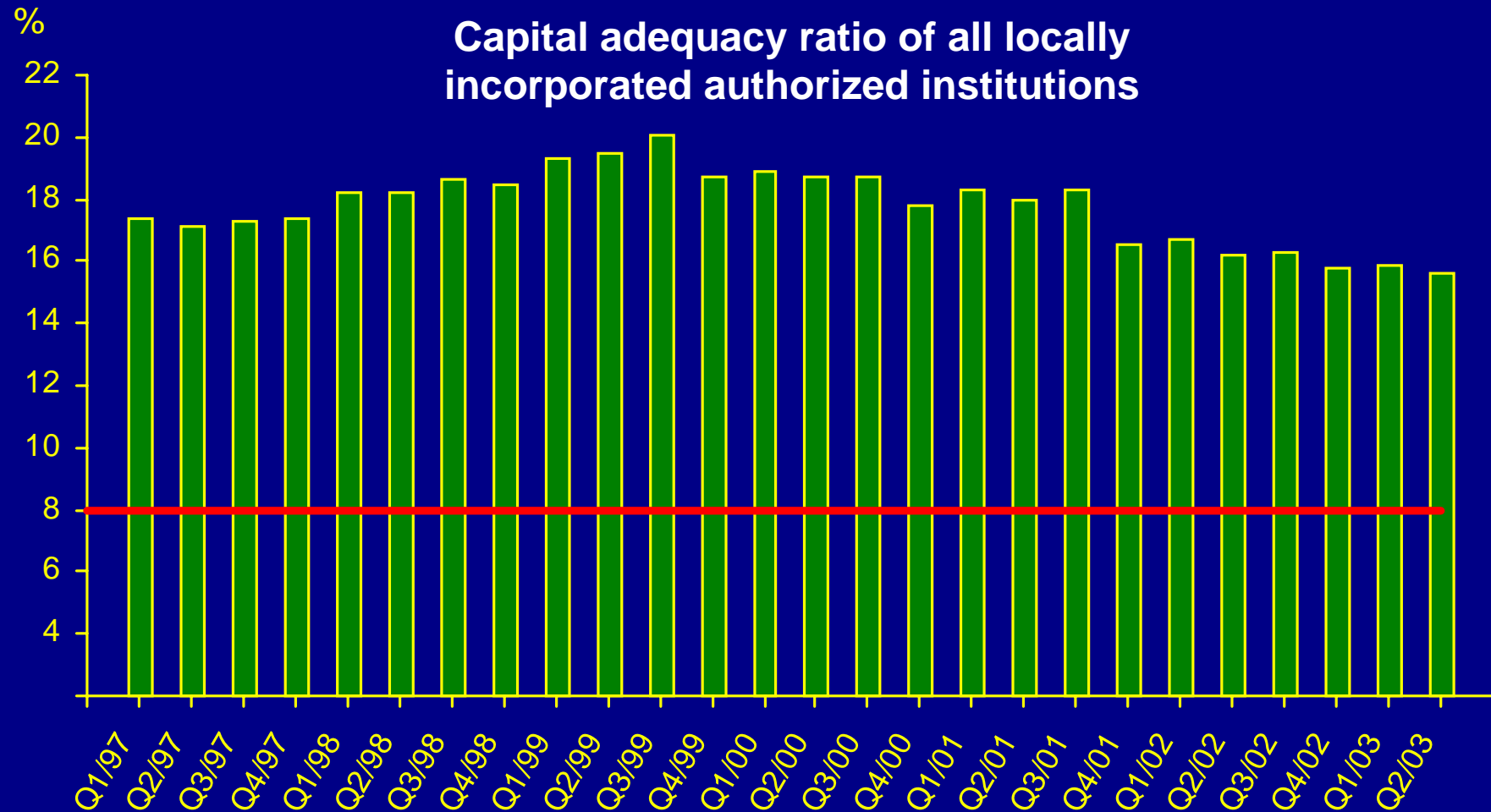


BANKING STABILITY

- **Capital adequacy**
- **Asset quality**
 - **personal bankruptcies**
 - **credit cards**
 - **residential mortgage loans in negative equity**
- **Business environment**
- **Profitability**

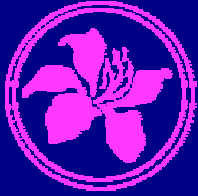


BANKING SECTOR PERFORMANCE

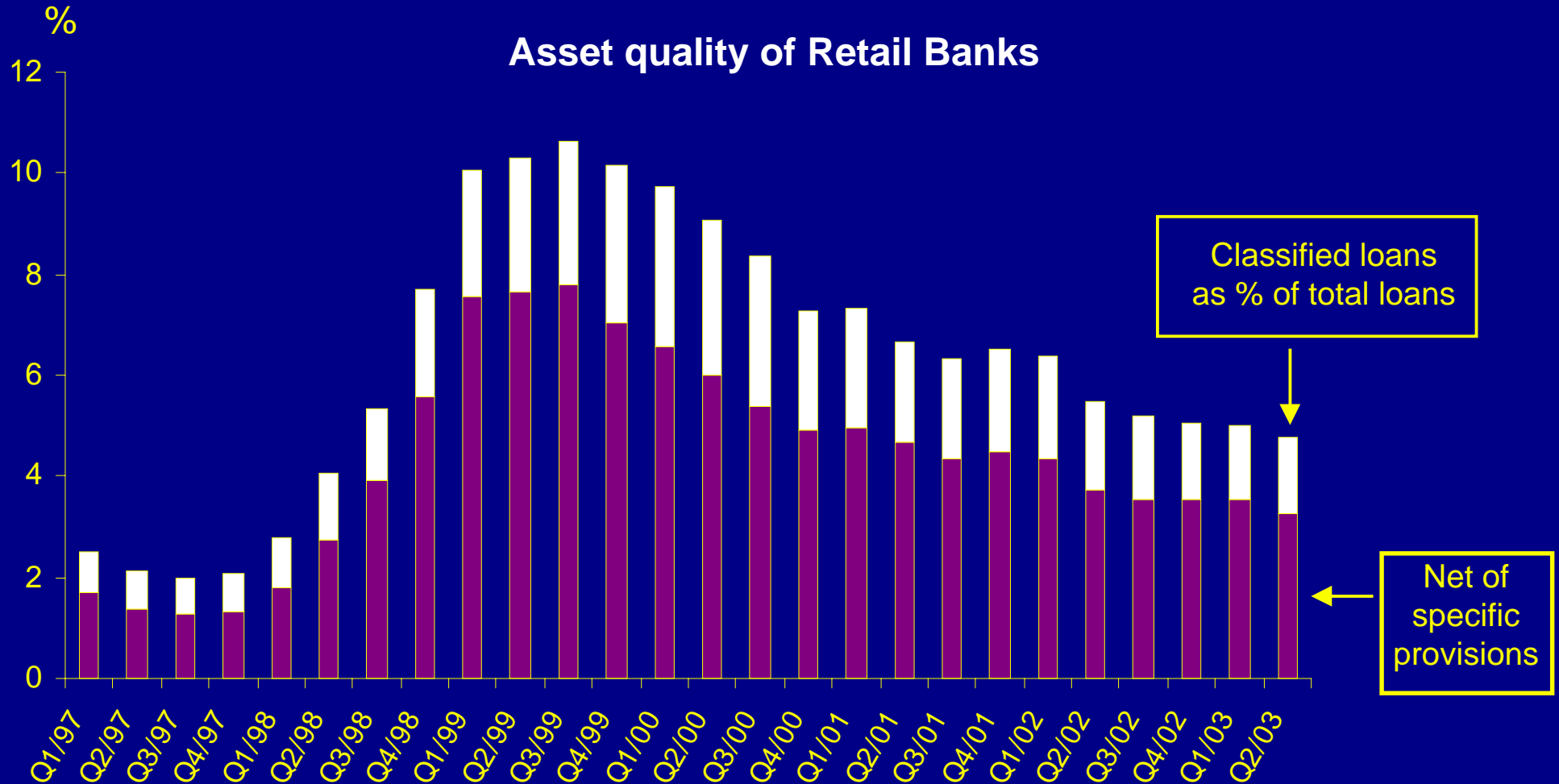


Period-end figures.

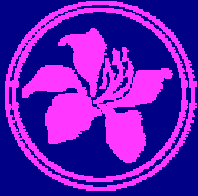
There is a break in series at end-December 2001 owing to a change in the reporting population.



BANKING SECTOR PERFORMANCE



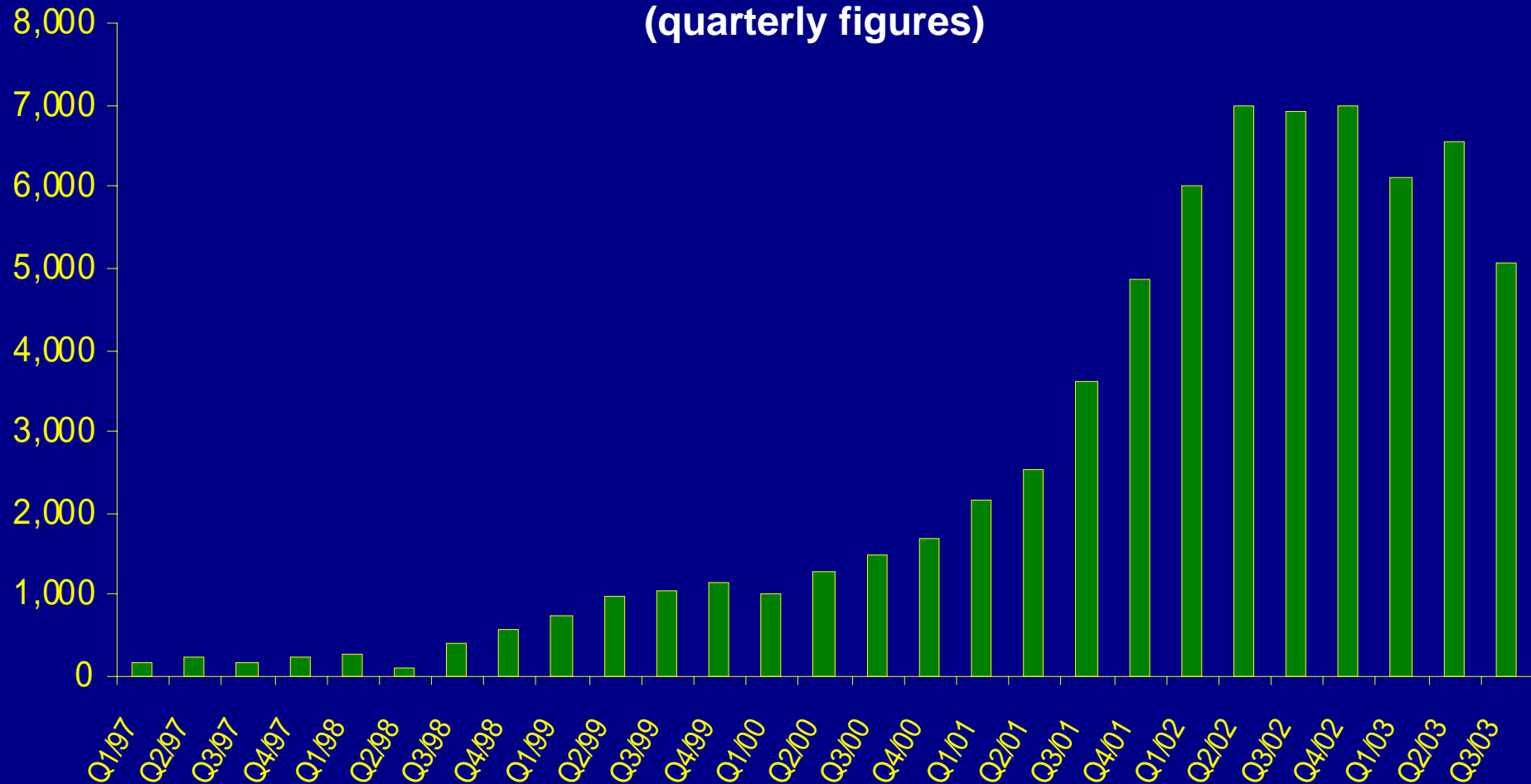
Period-end figures.

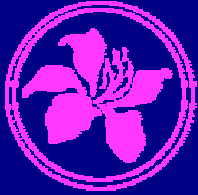


BANKING SECTOR PERFORMANCE

Number

Personal bankruptcy petitions
(quarterly figures)



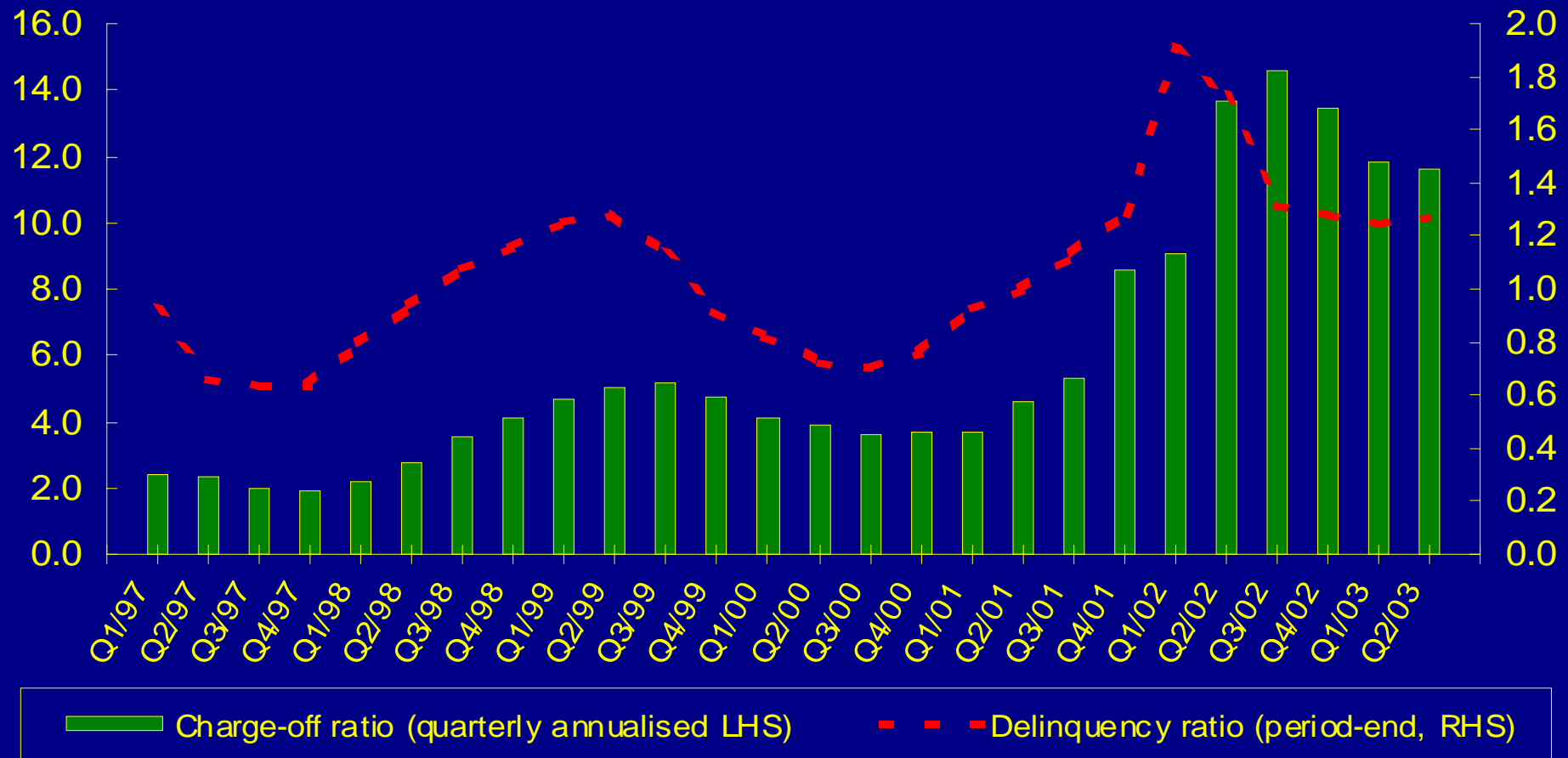


BANKING SECTOR PERFORMANCE

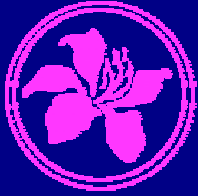
Charge-off ratio (%)

Credit card asset quality

Delinquency ratio (%)



There is a break in series at Q4 2001 owing to an increase in the number of surveyed institutions.

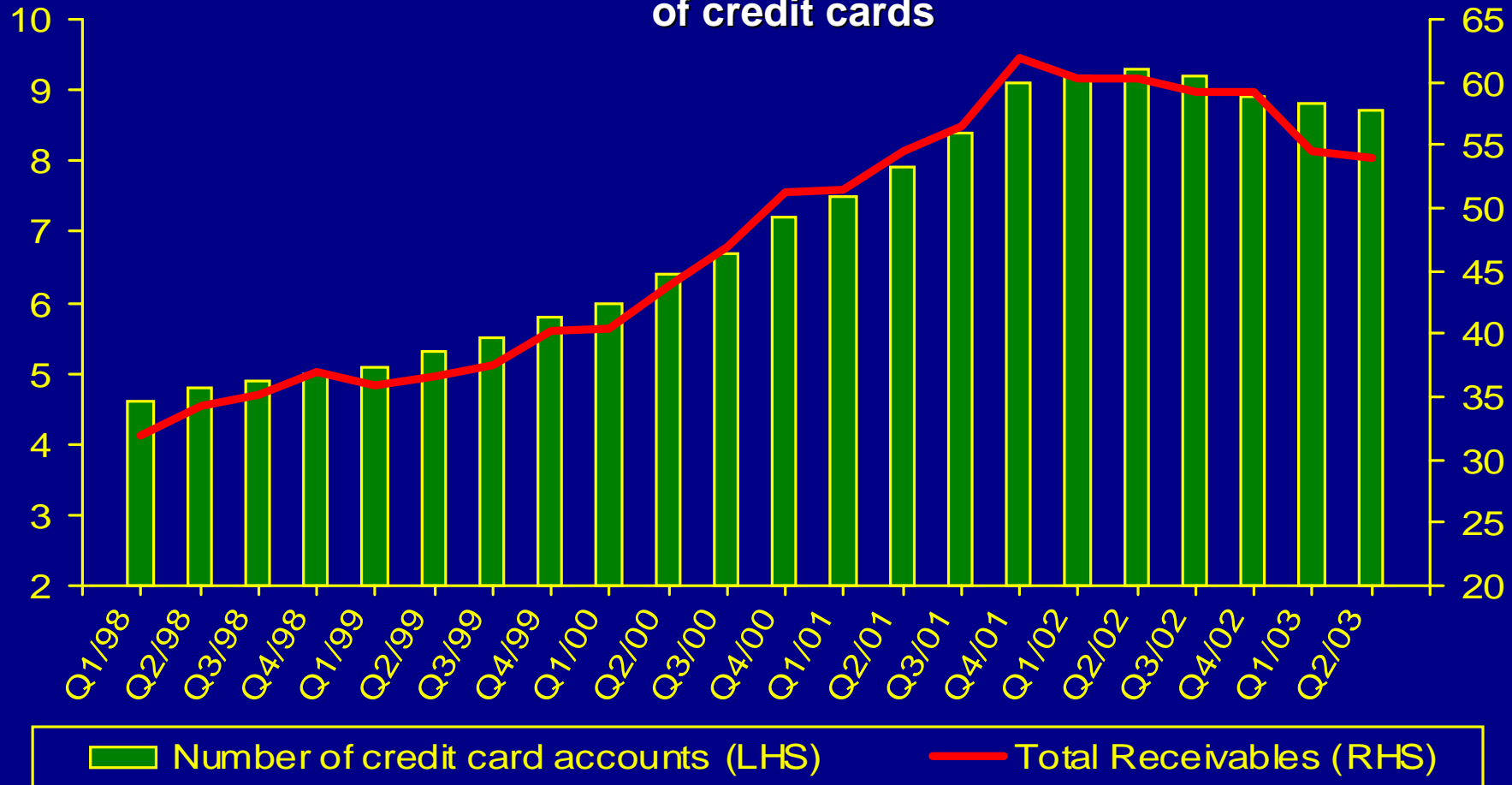


BANKING SECTOR PERFORMANCE

No. in million

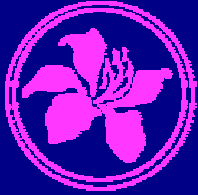
Number of accounts and total receivables
of credit cards

HK\$ billion

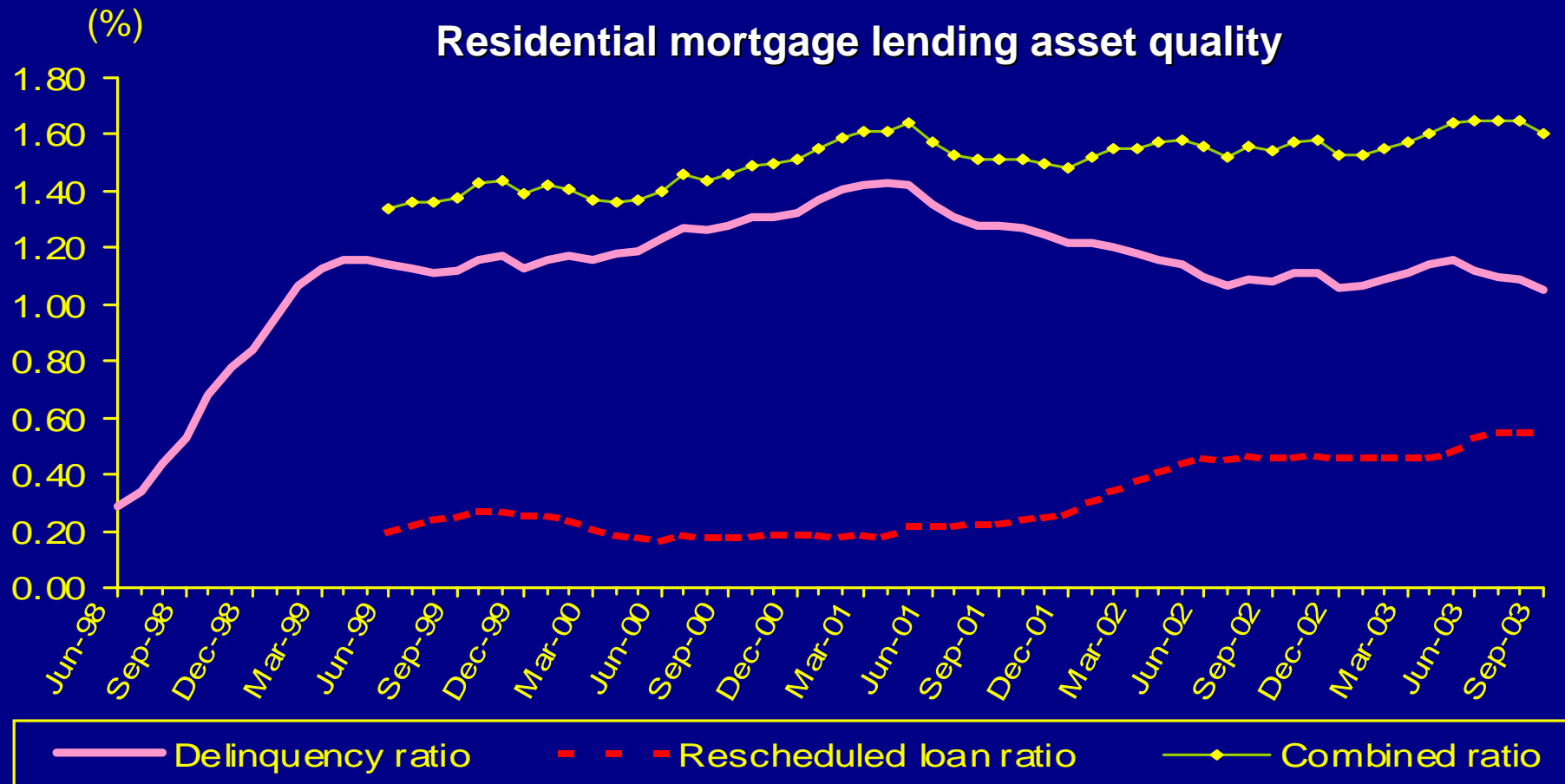


Period-end figures.

There is a break in series at Q4 2001 owing to an increase in the number of surveyed institutions.



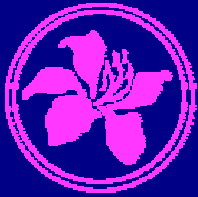
BANKING SECTOR PERFORMANCE



Period-end figures.

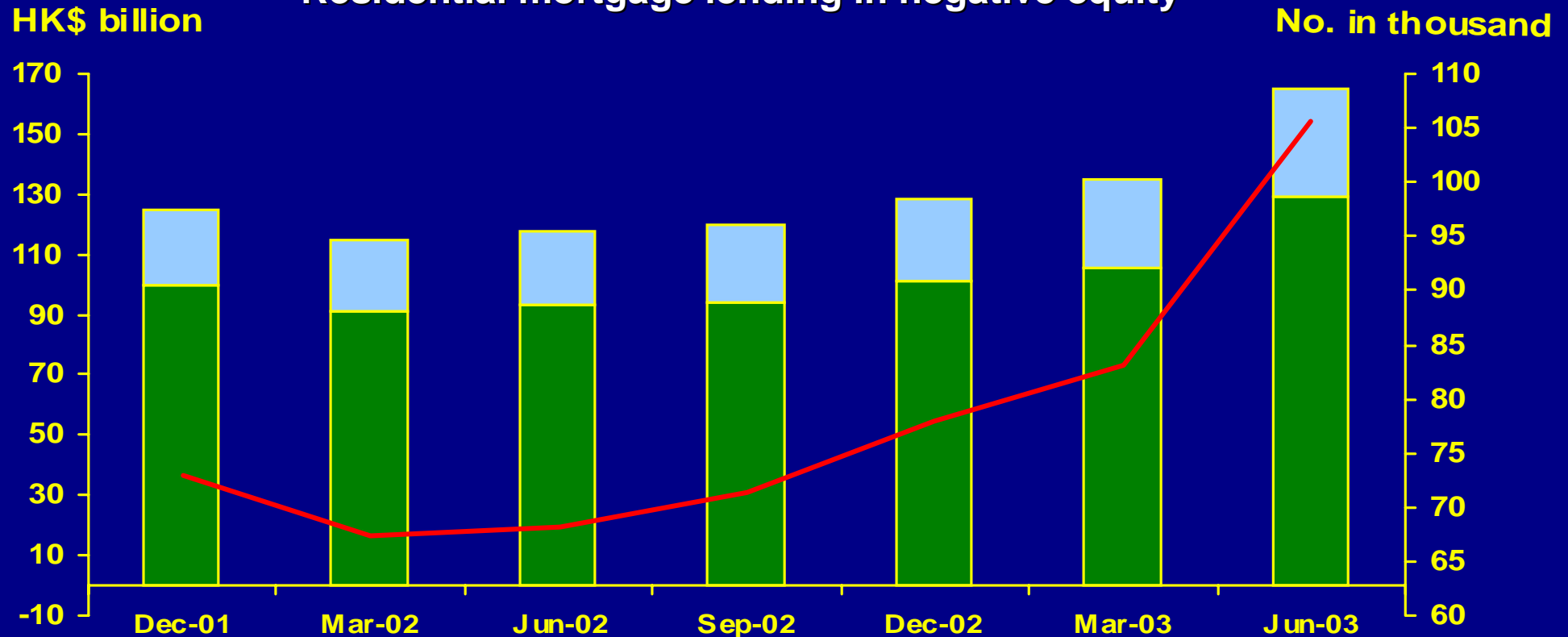
There is a break in series at December 2000 owing to an increase in the number of surveyed institutions.

Combined ratio is the sum of delinquency ratio and the rescheduled loan ratio.



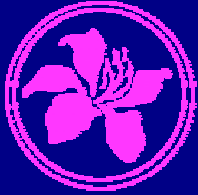
BANKING SECTOR PERFORMANCE

Residential mortgage lending in negative equity

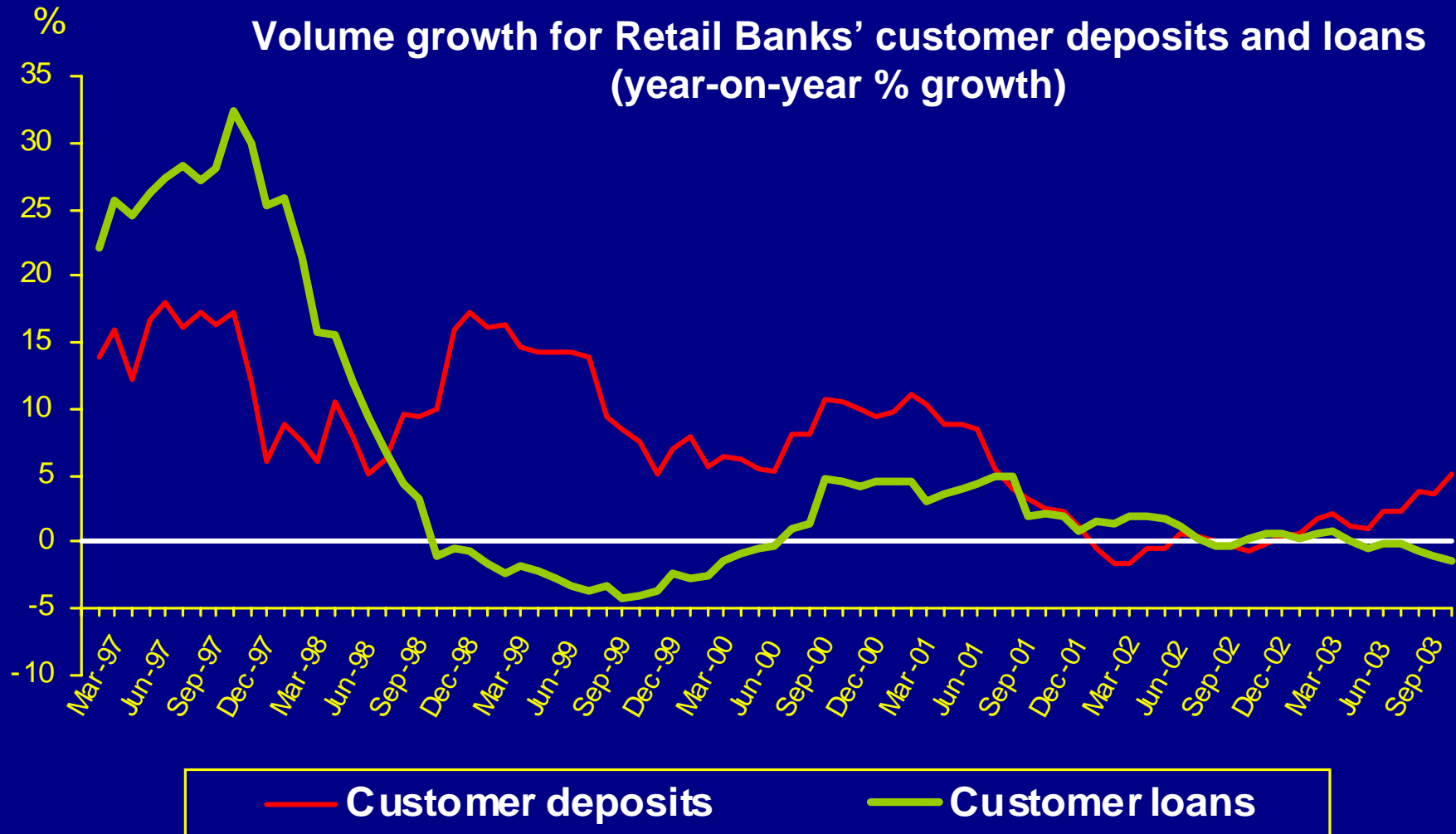


- Amount of unsecured negative equity residential mortgage loans (LHS)
- Amount of secured negative equity residential mortgage loans (LHS)
- Number of negative equity residential mortgage loans (RHS)

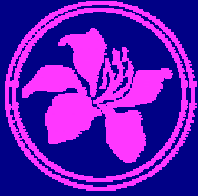
Period-end figures.



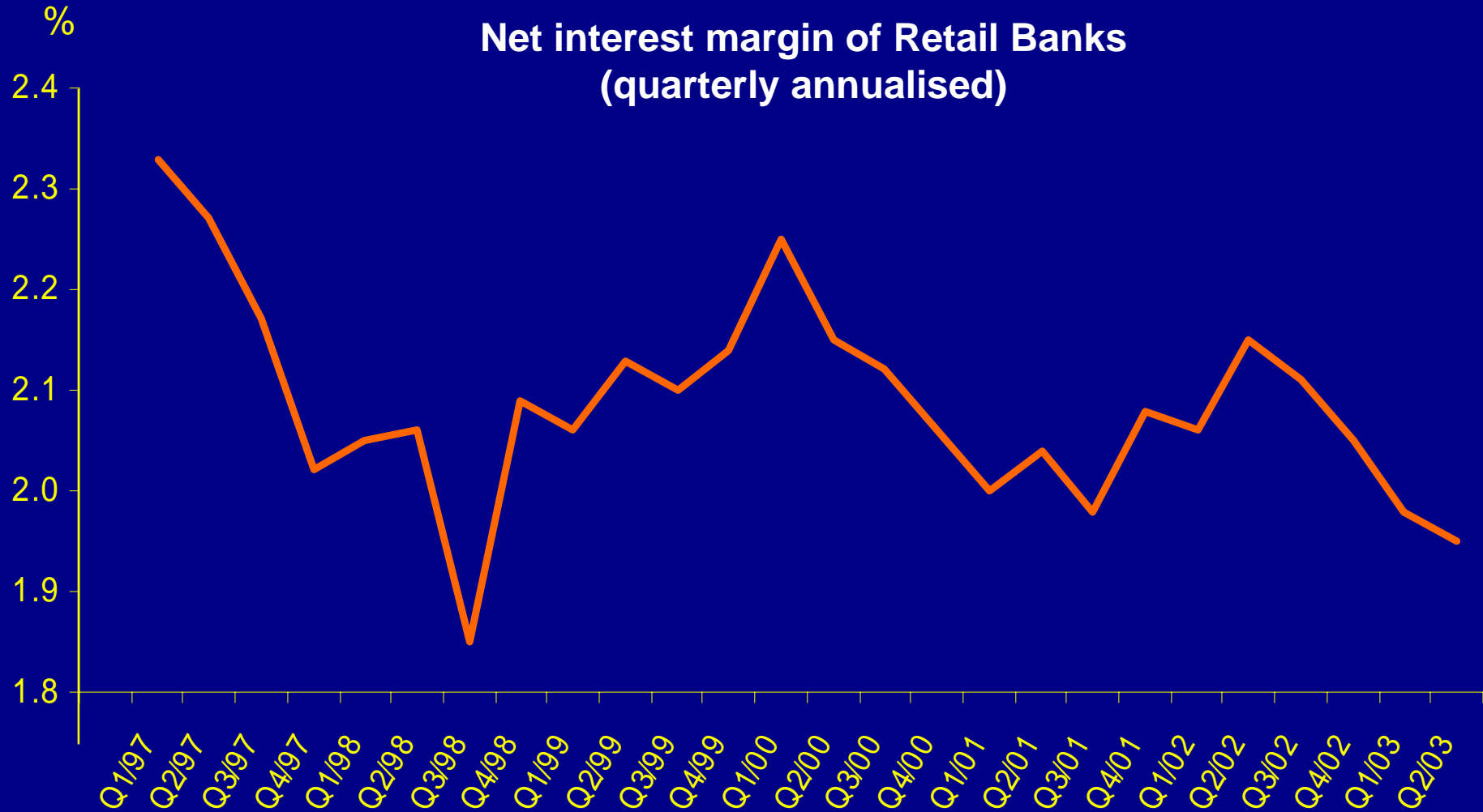
BANKING SECTOR PERFORMANCE

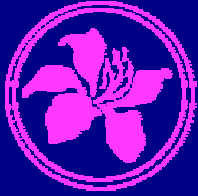


Month-end figures.

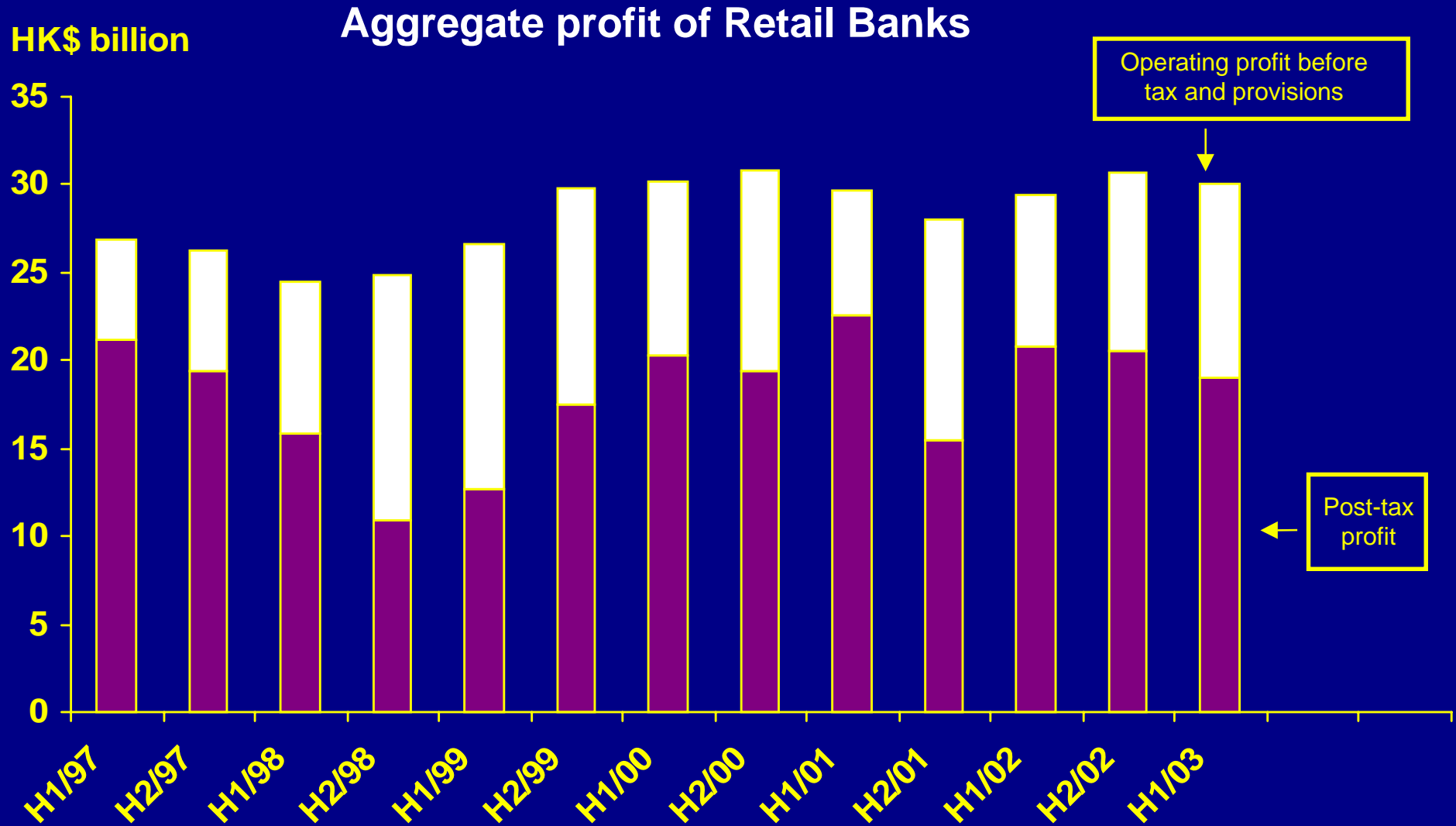


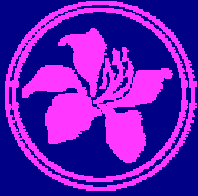
BANKING SECTOR PERFORMANCE





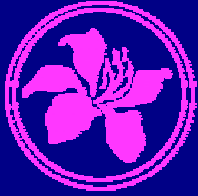
BANKING SECTOR PERFORMANCE





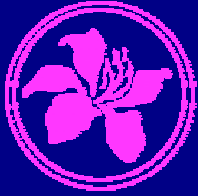
INITIATIVES / WORK PROGRESS

- **Deposit protection scheme**
 - under the scrutiny of a Bills Committee
- **Consumer credit data sharing**
 - issued a statutory guideline to specify the minimum standards that authorized institutions should observe in the sharing and use of consumer credit data through a credit reference agency



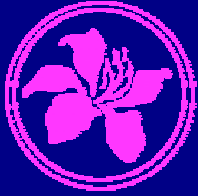
INITIATIVES / WORK PROGRESS

- **Commercial credit reference agency**
 - consulting the banking industry on a statutory guideline on the sharing and use of commercial credit data through a commercial credit reference agency, expected to be launched in the 3rd quarter of 2004
- **Insurance activities of authorized institutions**
 - signed Memorandum of Understanding with Insurance Authority



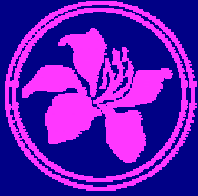
INITIATIVES / WORK PROGRESS

- **Consumer protection**
 - reviewing the self-assessment reports by authorized institutions on their compliance with the Code of Banking Practice
- **ATM fraud**
 - issued a circular to authorized institutions on implementation of precautionary measures to prevent and address ATM fraud cases



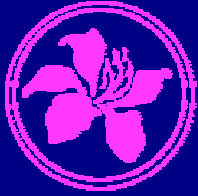
FINANCIAL INFRASTRUCTURE FOR DOMESTIC FINANCIAL ACTIVITIES

- **Oversight framework for clearing and settlement systems**
 - **Clearing and Settlement Systems Bill to be introduced into Legislative Council**
 - **entry of Hong Kong dollar into the Continuous Linked Settlement system expected to be in late 2004**
- **Retail payments**
 - **new HK\$500 and HK\$100 banknotes to go into circulation in December 2003**



FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

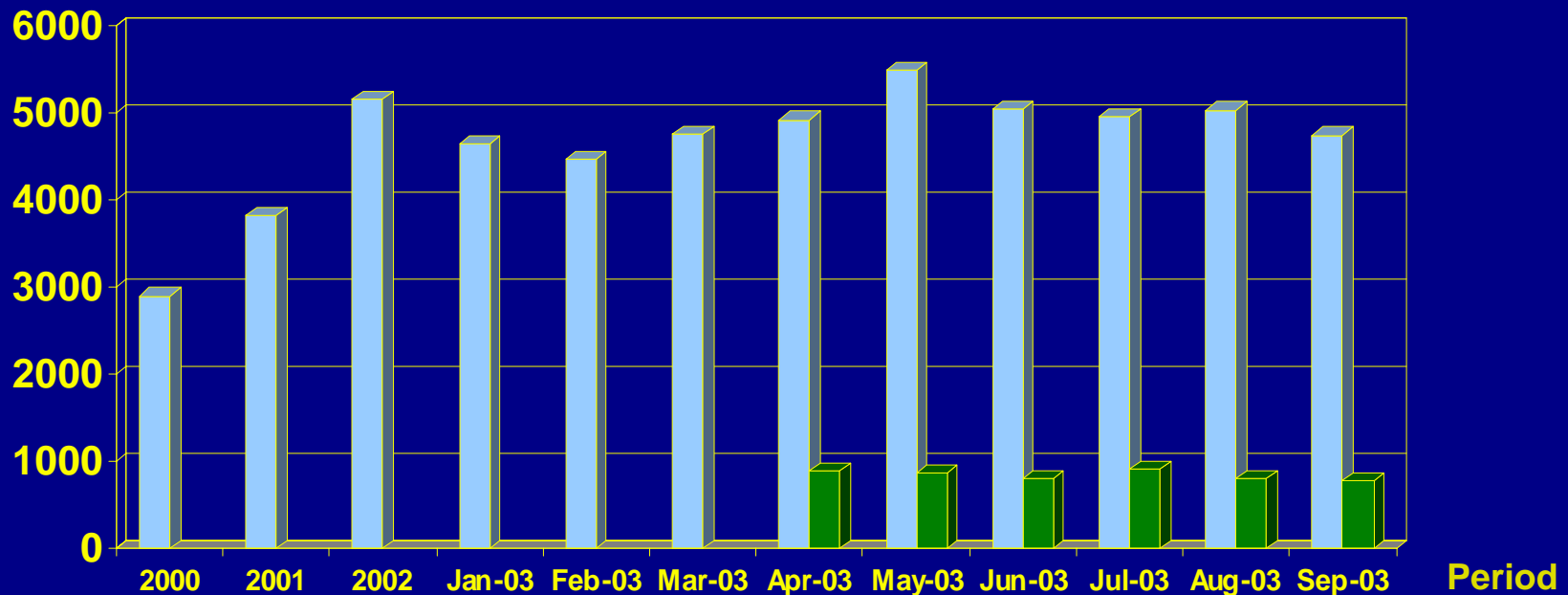
- **Hong Kong as a regional settlement hub**
 - **two-way linkages between CMU and Euroclear / Clearstream**
 - **US dollar and euro RTGS clearing systems in Hong Kong**



US DOLLAR & EURO RTGS CLEARING SYSTEMS IN HONG KONG

Value
(in million)

Turnover (daily average)



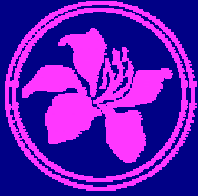
US\$ RTGS

- Avg. daily value in 2003 : US\$4.9 bn
- No. of Direct Participants : 67
- No. of Indirect Participants : 157



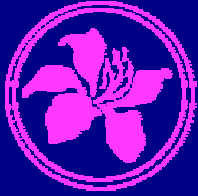
EUR RTGS

- Avg. daily value in 2003 : EUR0.8 bn
- No. of Direct Participants : 23
- No. of Indirect Participants : 21



FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

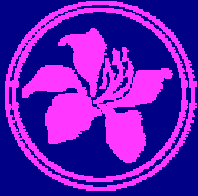
- **Infrastructural linkages with the Mainland**
 - **joint Hong Kong dollar cheque clearing between Hong Kong and Guangdong (including Shenzhen)**
 - **Hong Kong dollar / US dollar RTGS linkages between Hong Kong and Shenzhen**
 - **one-way linkage from the Mainland's Government Securities Book-Entry System to CMU**



HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

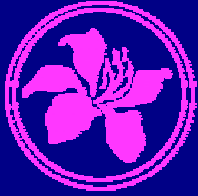
Renminbi business proposal

- **Helps facilitate economic and financial integration between Hong Kong and the Mainland**
- **Central Government to actively consider allowing banks in Hong Kong to trial run personal renminbi business, including deposits, remittances, exchange and credit card business**
- **HKMA in close discussion with the People's Bank of China on the detailed technical design of a scheme**



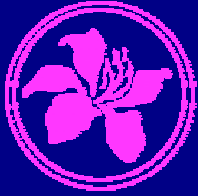
HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

- **APEC Initiative on Development of Securitisation and Credit Guarantee Markets**
 - offering technical assistance to China, Thailand, the Philippines and Mexico to identify and remove impediments to developing securitisation and credit guarantee markets
- **Asian Bond Fund**
 - led the EMEAP group in the structuring of the US dollar denominated Asian Bond Fund I, which was launched in June 2003. Conducting feasibility study on Asian Bond Fund II, which extends the ABF I concept to local currency denominated Asian bonds



HONG KONG'S CREDIT RATING

- **Better credit rating for Hong Kong enhances cost effectiveness of Exchange Fund borrowing**
- **Joint Rating Advisors appointed in July 2003 to assist in formulating an effective communication strategy to engage the international credit rating agencies.**
- **With help from other parts of Government, the HKMA has produced a comprehensive Hong Kong credit story, and deployed it in meetings with the agencies.**



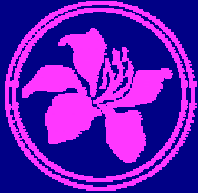
HONG KONG'S CREDIT RATING

Long-term Sovereign Credit Ratings

	Foreign Currency			Local Currency		
	S&P's	Moody's	Fitch	S&P's	Moody's	Fitch
China	BBB (positive)	A2 (stable)	A- (positive)	Not Rated	Not Rated	A (stable)
Hong Kong	A+ (stable)	A1 (stable)	AA- (negative)	AA- (negative)	Aa3 (stable)	AA+ (negative)

() rating outlook

Note: On 16 October, Moody's upgraded Hong Kong's sovereign rating for long-term foreign currency from A3 to A1, and China's from A3 to A2.



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

30 Jun 03²

31 Dec 02¹

ASSETS

Deposits

67.2

51.5

Debt securities

760.0

764.8

Hong Kong equities

53.1

50.9

Other equities

70.7

63.1

Other assets

28.9

24.8

Total assets

979.9

955.1

LIABILITIES AND ACCUMULATED SURPLUS

Certificates of Indebtedness

124.4

118.5

Government-issued currency notes & coins in circulation

6.1

5.9

Balance of the banking system

0.9

0.5

Exchange Fund Bills and Notes

126.1

122.9

Placements by other HKSAR government funds

295.2

301.7

Other liabilities

70.1

78.4

Total liabilities

622.8

627.9

Accumulated Surplus

357.1

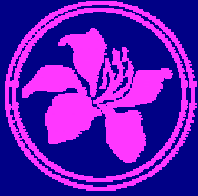
327.2

Total liabilities and Accumulated Surplus

979.9

955.1

1 Audited figures; 2 Unaudited figures

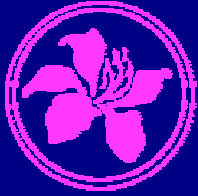


EXCHANGE FUND PERFORMANCE

(HK\$ billion)	2003 Jan-Jun ²	2002 Full year ¹
Gain / (Loss) on HK equities*	2.9	(11.8)
Gain / (Loss) on other equities*	10.8	(22.7)
Exchange gain / (loss)	14.9	27.2
Total return from bonds, etc	<u>19.2</u>	<u>54.3</u>
Investment income	47.8	47.0

* including dividends

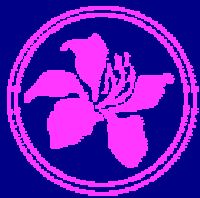
1 Audited figures; 2 Unaudited figures



EXCHANGE FUND CHANGE IN ACCUMULATED SURPLUS

	2003 Jan-Jun ²	2002 Full year ¹
(HK\$ billion)		
Investment income/(loss)	47.8	47.0
Other income	0.1	0.2
Interest and expenses	<u>(2.9)</u>	<u>(7.0)</u>
Net investment income/(loss)	45.0	40.2
Treasury's share	<u>(15.1)</u>	<u>(15.6)</u>
Increase/(Decrease) in EF accumulated surplus	29.9	24.6

1 Audited figures; 2 Unaudited figures



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

6 November 2003