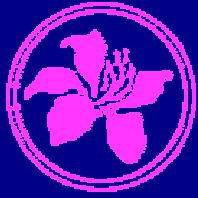


HONG KONG MONETARY AUTHORITY

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

6 May 2002

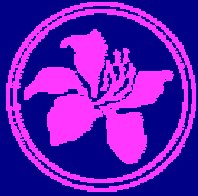


DISCUSSION TOPICS

Annual Report 2001

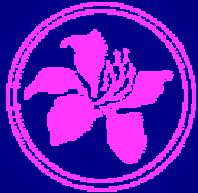
Progress on key responsibilities

- **Currency**
- **Banking**
- **Financial infrastructure**
- **Exchange Fund**



ANNUAL REPORT 2001 TRANSPARENCY & ACCOUNTABILITY

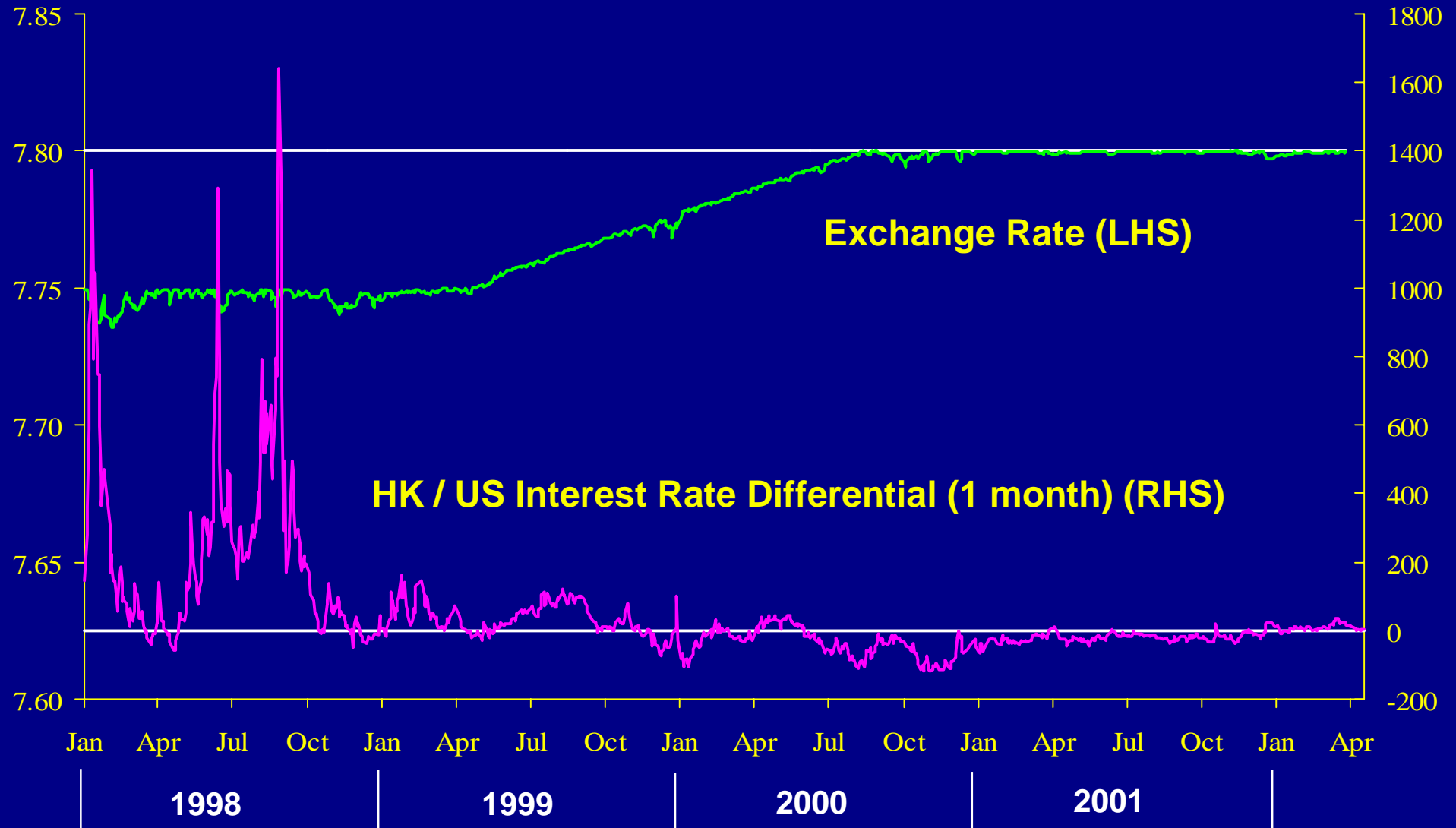
- **Public education -- 2nd summer exhibition, education programmes for schools, etc**
- **Contacts with legislators -- quarterly briefings, attendance at 45 Panel and Bills Committee meetings and less formal meetings with legislators**
- **Contacts with media -- nearly 200 press releases issued, in addition to press conferences and educational briefings**
- **Publications -- statistics, research, banknote security features, monetary and banking terms, etc**
- **HKMA Website -- weekly *Viewpoint*, a new page of Research Memoranda launched in December**

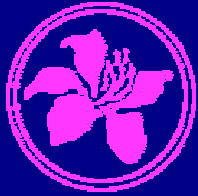


CURRENCY STABILITY

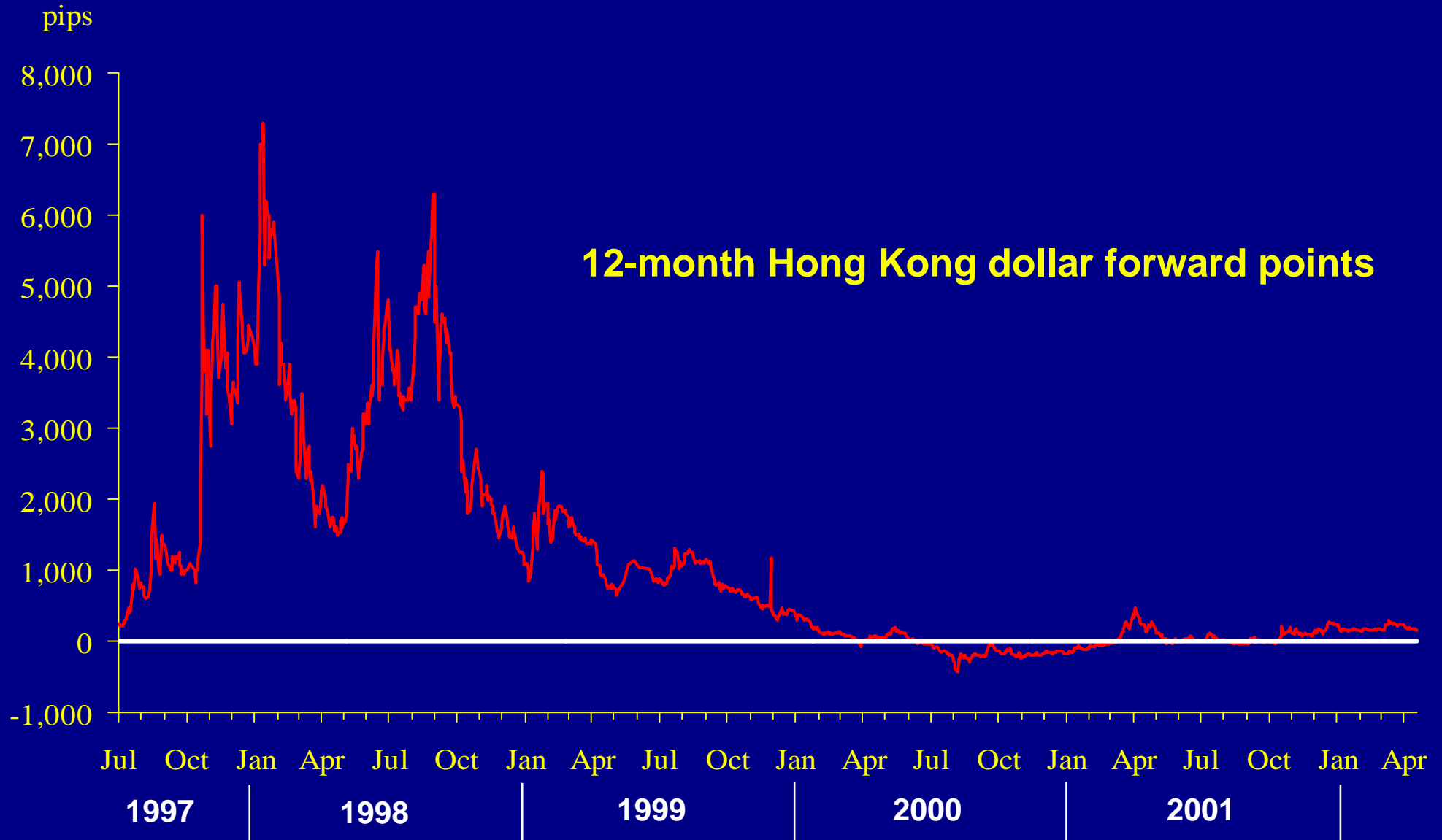
HK\$ / US\$

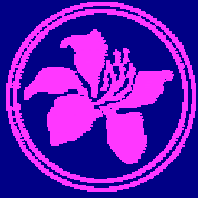
b.p.





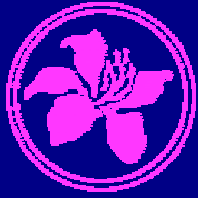
CURRENCY - MARKET EXPECTATIONS





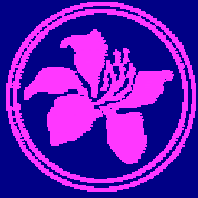
CURRENCY - RISKS & VULNERABILITIES

- **Argentina -- less of a risk factor to Hong Kong**
- **Exchange rates of the yen and RMB -- stable**
- **Public finances in Hong Kong -- credible strategy for deficit reduction**
- **Confidence in the Link -- strong but sensitive to rumours**
- **Hong Kong markets used as proxy hedge against Asian risks -- inevitable due to Hong Kong's role as an international financial centre**



CURRENCY - MARKET EXPECTATIONS





BANKING SECTOR PERFORMANCE

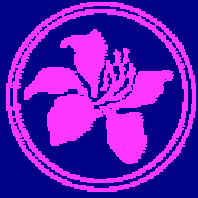
Capital adequacy ratio¹	: 16.60% (Dec 01)	18.30% (Sep 01)
Liquidity ratio²	: 45.16% (Dec 01)	49.15% (Sep 01)
Net interest margin²	: 2.09% (Q4 annualised)	1.98% (Q3 annualised)
Classified loans²	: 6.37% (Dec 01)	6.36% (Sep 01)
Mortgage delinquency ratio³	: 1.18% (Mar 02)	1.22% (Dec 01)
Credit card - charge-off ratio³	: 8.27% (Q4 annualised)	5.33% (Q3 annualised)
Growth of total HK dollar deposits⁴	: 0.10% (Q4)	0.30% (Q3)
Growth of total domestic lending⁴	: -1.40% (Q4)	-1.70% (Q3)

1 *Locally incorporated authorized institutions*

2 *Retail banks*

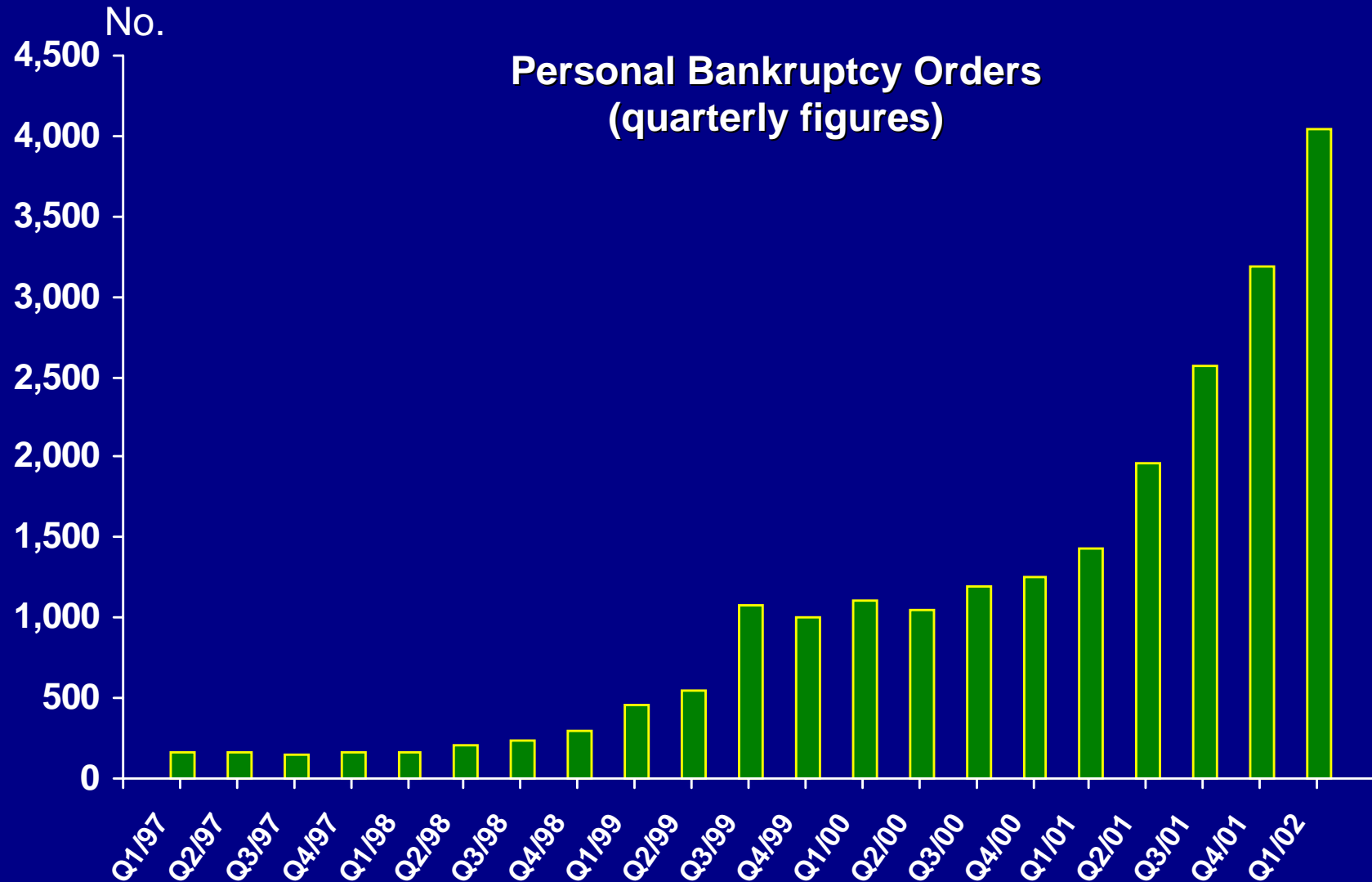
3 *Surveyed AIs*

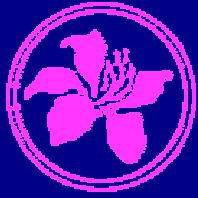
4 *All AIs*



BANKING - SAFETY & SOUNDNESS

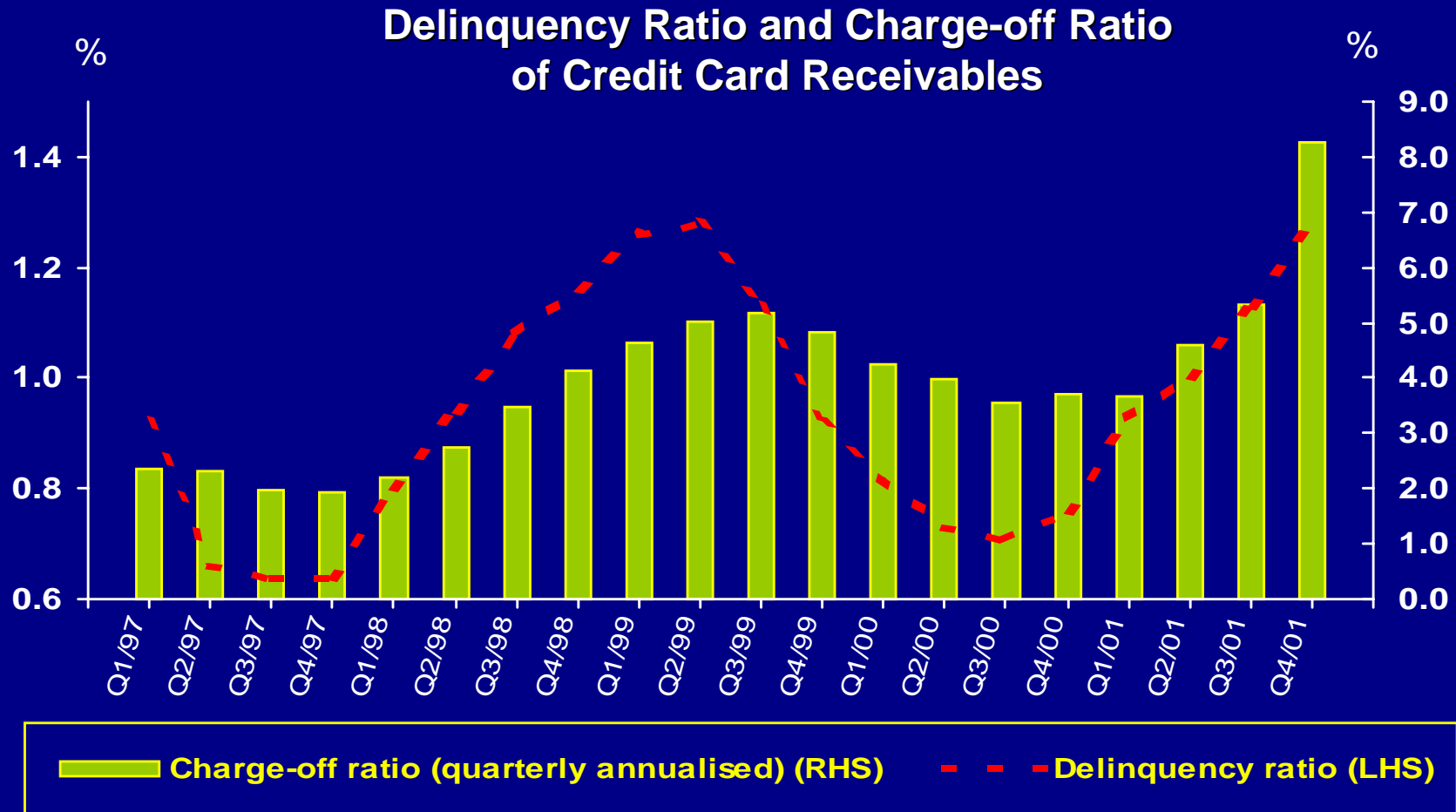
PERSONAL BANKRUPTCIES - FACTS

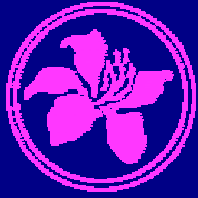




BANKING - SAFETY AND SOUNDNESS

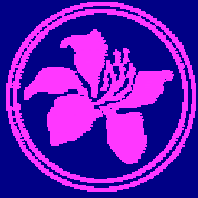
PERSONAL BANKRUPTCIES - FACTS





BANKING - SAFETY & SOUNDNESS PERSONAL BANKRUPTCIES - ACTIONS

- **Circular issued in February on measures to prevent abuses of the bankruptcy provisions and on best practices for managing credit card operations**
- **Conducting special on-site examinations on AIs which are active credit card issuers**
- **Sharing of positive consumer credit data should help bring real benefits to good borrowers in terms of more favourable pricing and banks in terms of lower bad debts**



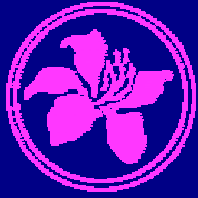
BANKING - SAFETY & SOUNDNESS

NEGATIVE EQUITY - FACTS

Residential Mortgage Loans in Negative Equity

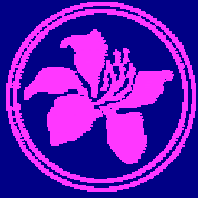
	<u>Dec 2001</u>	<u>Sep 2001</u>
Total number	73,000	65,000
Total outstanding value	\$125 billion	\$127 billion
Percentage priced below Best Lending Rate	56%	51%
Average interest rate charged	0.57% below BLR	0.27% below BLR

Source: HKMA surveys on residential mortgage loans in negative equity



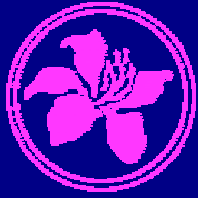
BANKING - SAFETY & SOUNDNESS NEGATIVE EQUITY - ACTIONS

- **Since October 2001, Als have been allowed to depart from the 70% LTV ratio in refinancing residential mortgage loans in negative equity**
- **Recommended that Als set up centralised units to handle enquiries**
- **Schemes to assist homeowners in negative equity**



BANKING REFORMS & CONSUMER ISSUES

- **Deposit insurance scheme**
 - 2nd public consultation paper issued
 - draft legislation ready by end-2002
- **Commercial credit reference agency**
 - Working Party to thrash out details of a voluntary participation scheme
- **Banking consumer protection**
 - guideline on complaint handling issued
 - further consideration of way forward



REVIEW OF MARKET ENTRY CRITERIA

Foreign applicants to be a licensed bank

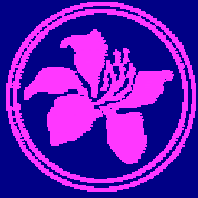
- Replacing the US\$16 billion asset size criterion with the much lower asset and deposit size criteria applicable to local licensed bank applicants (HK\$4 billion and HK\$3 billion respectively)
- Dispensing with the requirement to maintain a local representative office for at least one year

Local applicants to be a licensed bank

- Reducing the requisite period of operation as an RLB or DTC from 10 to 3 years
- Removing the requirement to be “closely associated and identified with Hong Kong”

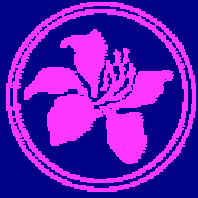
All applicants to be a licensed bank

- Minimum paid up capital to increase from HK\$150 million to HK\$300 million



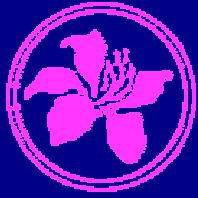
FINANCIAL INFRASTRUCTURE

- **Domestic financial activities**
- **International financial activities**
- **Mainland / Hong Kong financial activities**



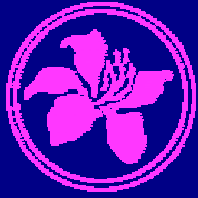
FINANCIAL INFRASTRUCTURE FOR DOMESTIC FINANCIAL ACTIVITIES

- **Bond market development**
 - **retail bond issues by Hong Kong Mortgage Corporation**
 - **proposals to streamline retail bond issuing procedures**
- **Integration of payment, clearing and settlement systems**



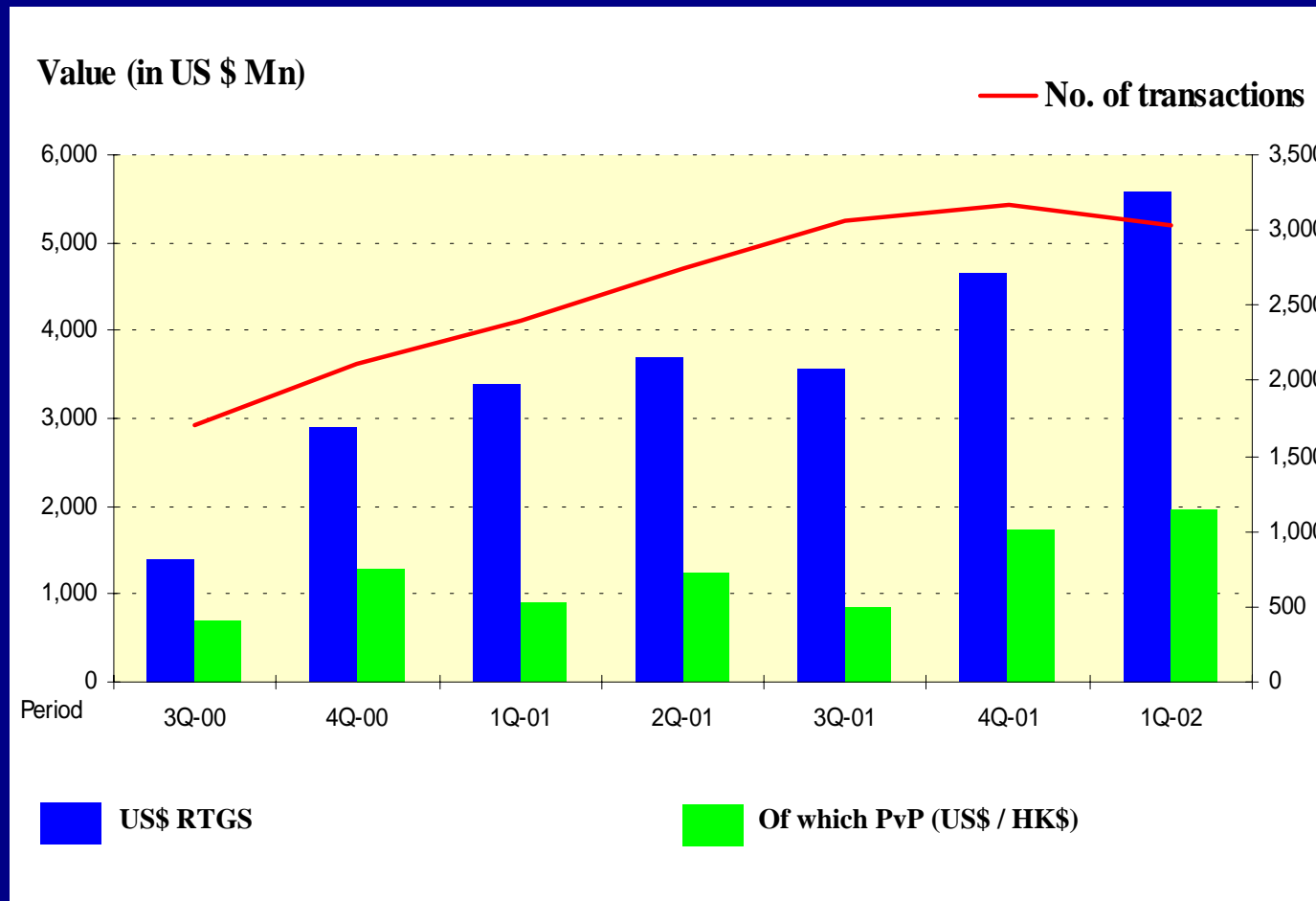
FINANCIAL INFRASTRUCTURE FOR DOMESTIC FINANCIAL ACTIVITIES

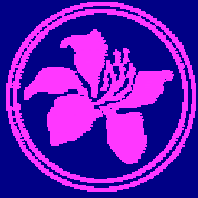
- **Retail payment systems review**
 - **codes of practices on credit cards, debit cards and stored-value cards being drawn up**
 - **implications of further development of e-money being considered**
 - **design and security of Hong Kong's currency under review**



FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

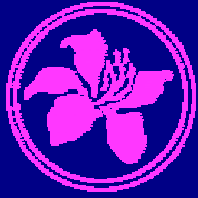
US Dollar RTGS Turnover (daily average)





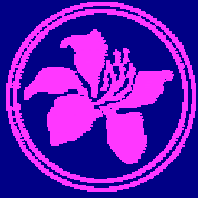
FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

- **Proposal to develop euro and yen RTGS clearing systems**
- **International linkages of payment systems**
- **International linkages of debt clearing systems**
 - **linkage to Euroclear**
 - **clearing of US Treasuries in Hong Kong**



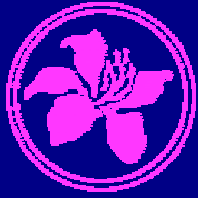
FINANCIAL INFRASTRUCTURE FOR MAINLAND / HONG KONG FINANCIAL ACTIVITIES

- **Greater mobility of capital flows between Mainland and Hong Kong will benefit the two economies in terms of higher growth and more jobs**
- **At present, Hong Kong's capital can move "north" without restrictions, but not vice versa**
- **GDP of Mainland in 2001: US\$1,159 billion. GDP of Hong Kong in 2001: US\$162 billion. → A ratio of 7:1**
- **Mainland's direct investment in Hong Kong in 2000: US\$14 billion. Hong Kong's direct investment in Mainland in 2000: US\$46 billion. → A ratio of 1:3**



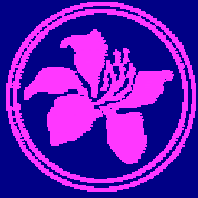
CHANNELS TO FACILITATE MAINLAND / HONG KONG CAPITAL FLOWS

- **Closer Economic Partnership Arrangement**
- **RMB deposit-taking in Hong Kong**
- **Qualified Domestic Institutional Investors (QDII)**
- **Joint cheque clearing between Guangdong and Hong Kong**
- **Linkages in debt clearing systems**
- **Linkages in payment systems**



EXCHANGE FUND

Accounts of the Exchange Fund up to end-April 2002 are being prepared, and will be tabled at the meeting of the Panel on Financial Affairs on 6 May 2002



HONG KONG MONETARY AUTHORITY

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

6 May 2002