

*Hong Kong Monetary Authority*

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

*3 January 2000*

## *Y2K*



**Wellness checks completed**

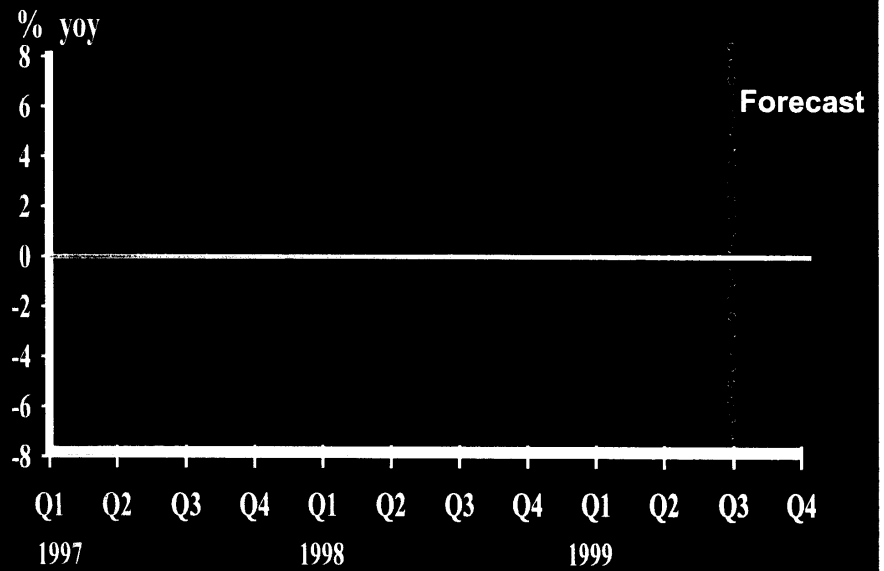


**Banks operating as usual**

# *Economic Recovery*

## Real GDP Growth

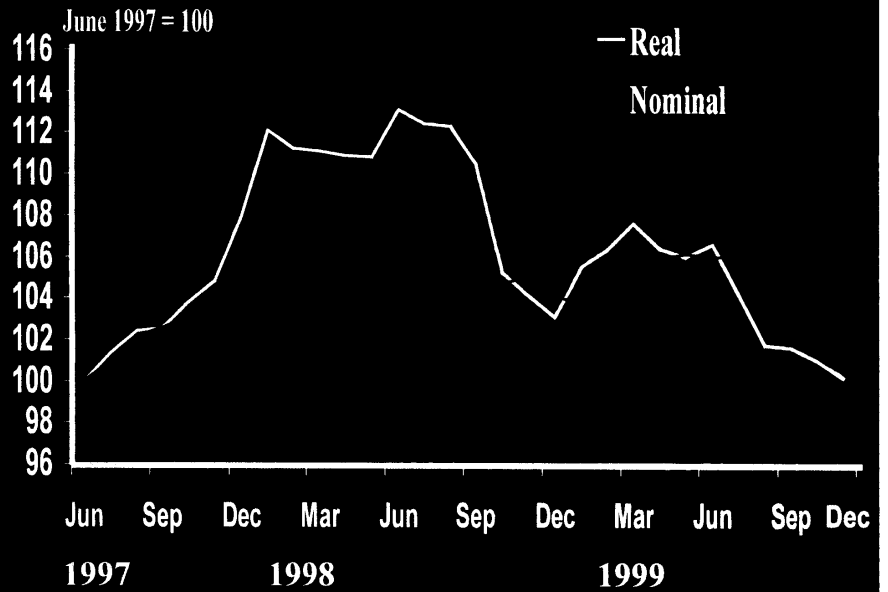
- Strong rebound in Q2
- Q3 growth: 4.5%



# Exchange Rates

## Effective Exchange Rate Indices

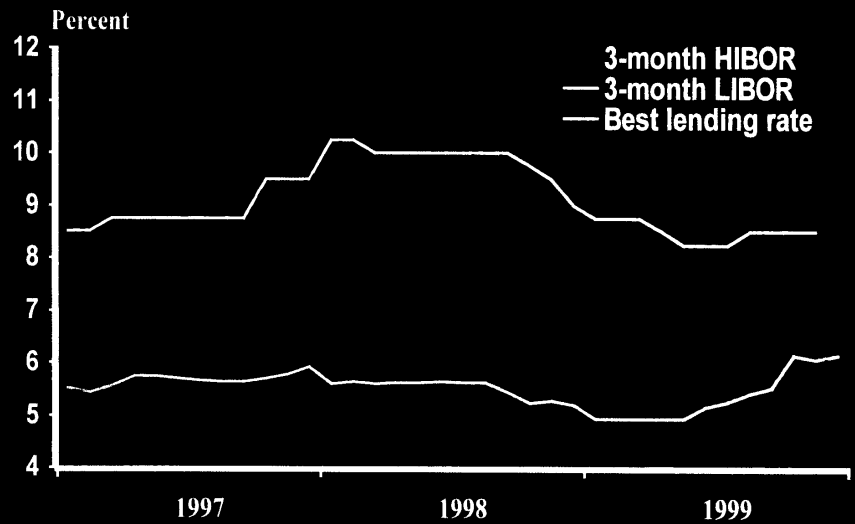
- REER back to pre-crisis level
- Not a strong impediment to competitiveness



# *Interest Rates*

## Nominal Interest Rates

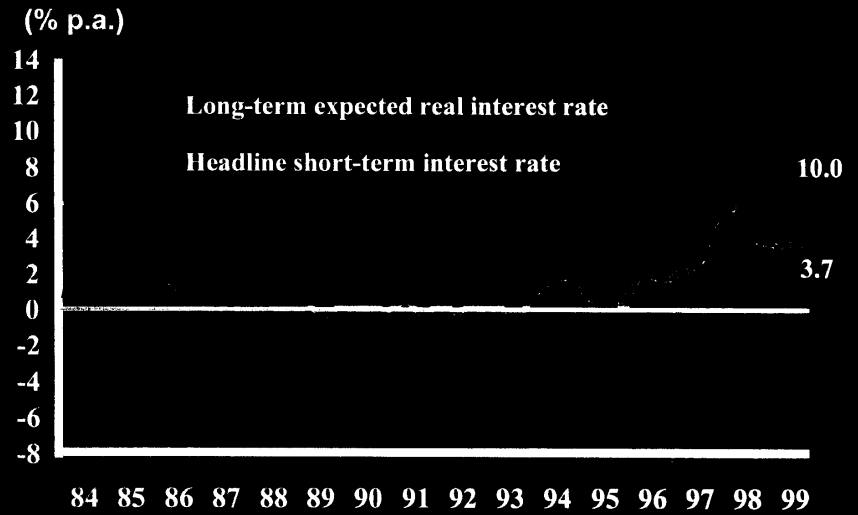
- **Stable since September 1998**
- **Premium over USD interest rates has narrowed**



# *Interest Rates*

## **Real Interest Rates**

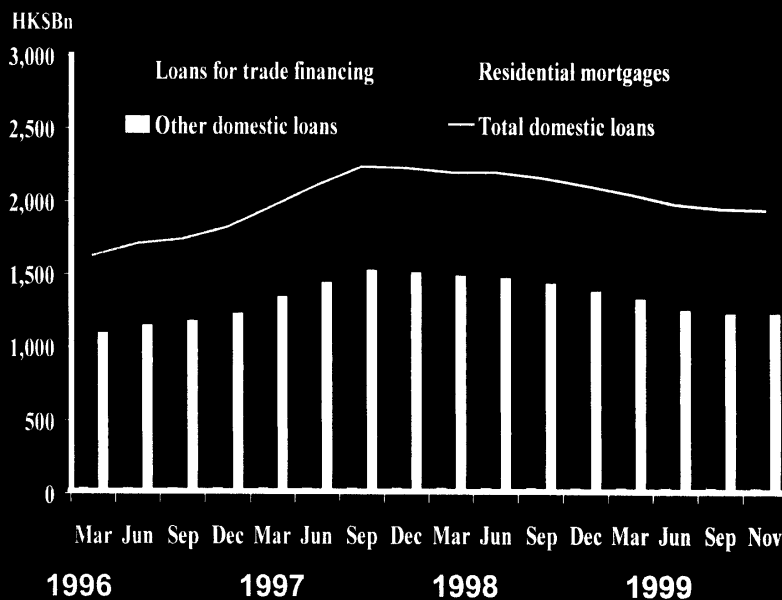
- **Long-term rate still high but has come down**
- **Well below headline rate**
- **Not as serious an obstacle to recovery as sometimes is thought**



# Domestic Credit

## Bank Lending

- Domestic loans showed first rise in 17 months
- Should increase further with continuing economic recovery & resolution of GDE issue

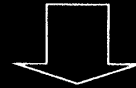


# *Challenges and Opportunities*

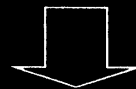
**Technology**

**Globalisation**

**Volatile  
Capital Flows**



**Changing Financial Landscape**



**Banks**

**Small Open Economies**

- **Consolidation for scale**

- **Bigger markets**
- **Strengthen own financial systems**



# *Challenges and Opportunities*

## **International Reforms**

- **Risk Management**
- **Transparency**
- **Code of Good Practices**

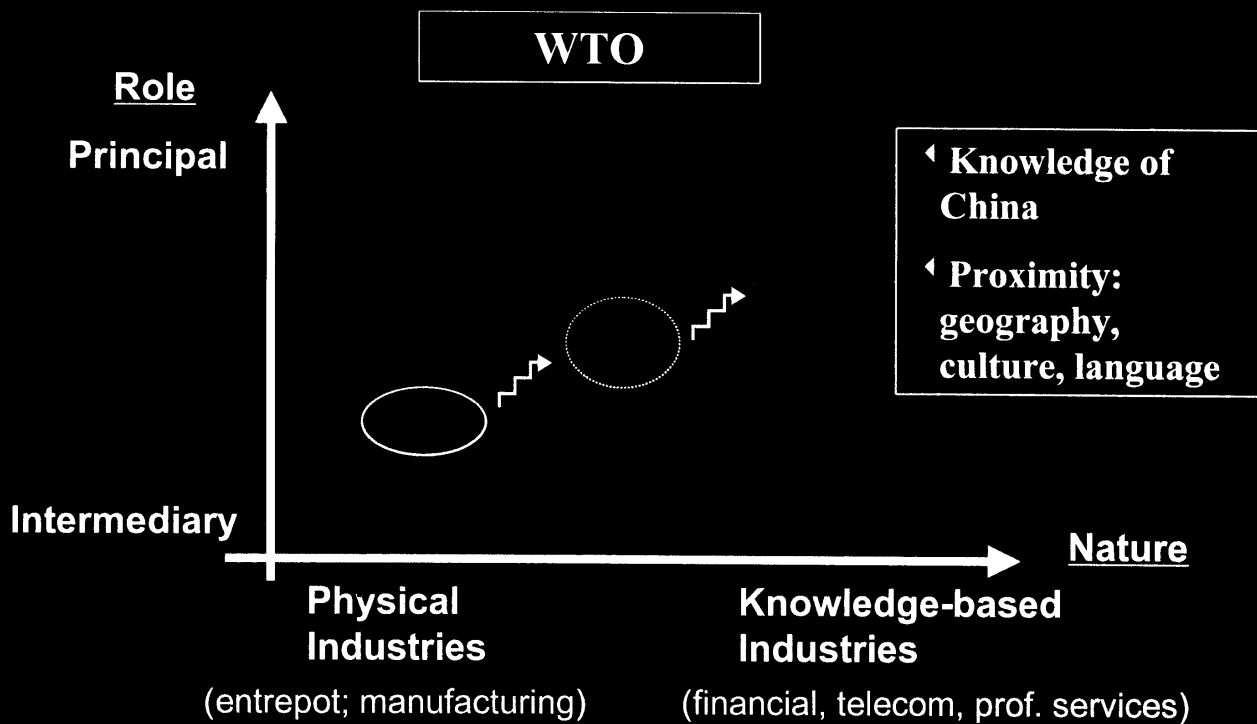
## **Regional Initiatives**

- **AMU?**
- **Bond Market**
- **Technical Cooperation**

## **Domestic Responses**

- **Self-strengthening**
  - ▶ **resources**
  - ▶ **market development**
  - ▶ **regulatory coordination**
  - ▶ **tighter rules**

# Challenges and Opportunities



# *Work Plan 2000 - Monetary*



**9/1998**      **9/1998 -8/2000**      **8/2000**      **8/2000 onwards**



↑  
**7 Technical Measures**

↑  
**Sub-committee on Currency Board Operations**  
•Two-way convertibility  
•Transferability among Monetary Base components  
•Scheduled movement of CU rate of Aggregate Balance to 7.80  
•Currency options  
•Electronic money  
•Dollarisation

↑  
**Convergence of Convertibility Rates**

↑  
**Ongoing review of system**

# *Work Plan 2000 - Monetary*



## The Hong Kong Institute for Monetary Research



**Research**

**Seminars**



### Possible Topics:

- Competitiveness issues
- Repercussions of Asian crisis on regional financial markets
- Mainland's financial developments and interface with Hong Kong
- Monetary linkages among Asian economies

# *Work Plan 2000 - Banking*



July 2000

July 2001

• Time deposits < 7 days

• Savings account  
+

• Current account

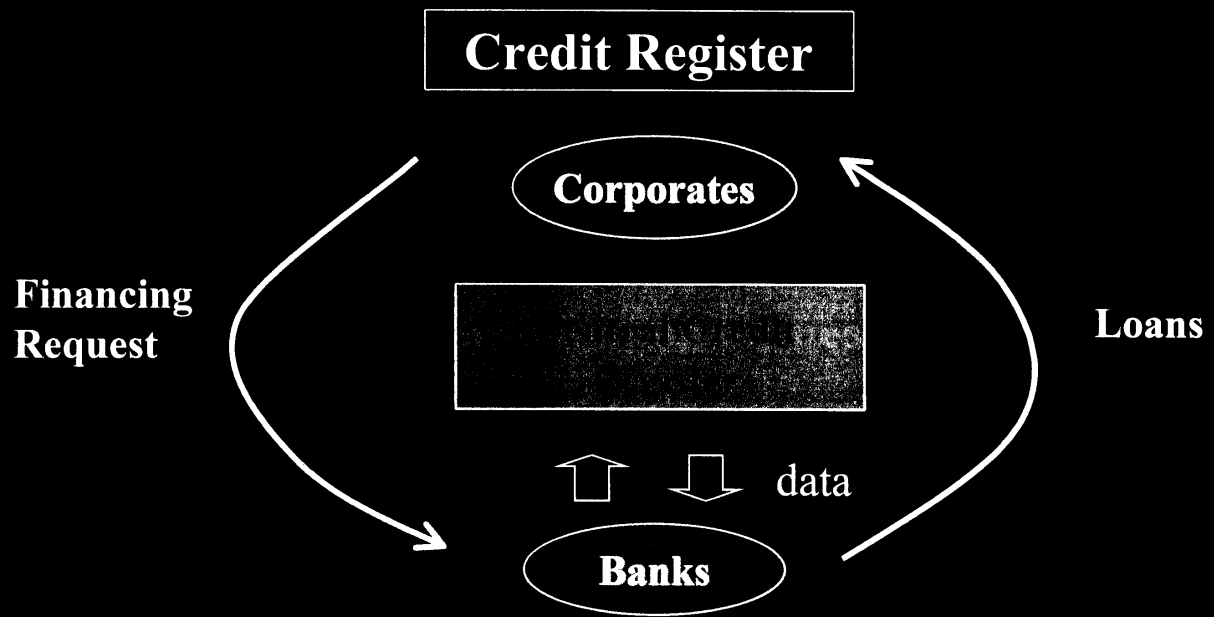
# *Work Plan 2000 - Banking*



<b>Depositor Protection</b>	
<b>Factors</b>	<b>Plan</b>
<ul style="list-style-type: none"><li>• <b>Increased Competition</b></li><li>• <b>Stability of the banking system</b></li><li>• <b>International Practice</b></li><li>• <b>Cost and moral hazard issues</b></li></ul>	<ul style="list-style-type: none"><li>▶ <b>Consultancy Study in H1 2000</b></li><li>▶ <b>Public Consultation</b></li></ul>



# *Work Plan 2000 - Banking*



**In-House Study in H1 2000**

# *Work Plan 2000 - Banking*



## **Consolidation**

- **Market-based approach**
- **HKMA, as supervisor, will facilitate**
- **No mandated consolidation for healthy banks**
- **Approaches to consolidation :**
  - ▶ **Alliance**
  - ▶ **Mergers and Acquisitions**



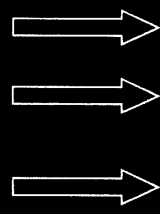
# *Work Plan 2000 -Infrastructure*



## **USD Clearing**

**HKMA**

**Settlement Institution**



**USD Cheques  
Securities Trading  
in USD  
Bulk Clearing**

In phases in H2 2000

**Enhance competitiveness as IFC**

**Enhance settlement efficiency**

**Enhance monetary stability**

*Work Plan 2000 -  
HKMA in Community*



**Accountability**

**Transparency**

**Accessibility**

• Website,  
Bulletins,  
Publications

• Public  
Education  
Programme

• Regular  
Briefings  
to LegCo

• Exhibitions  
at  
Districts