

III. International Monetary Study II for
KUINEP

Hong Kong dollar and the currency board system

the target of currency speculation

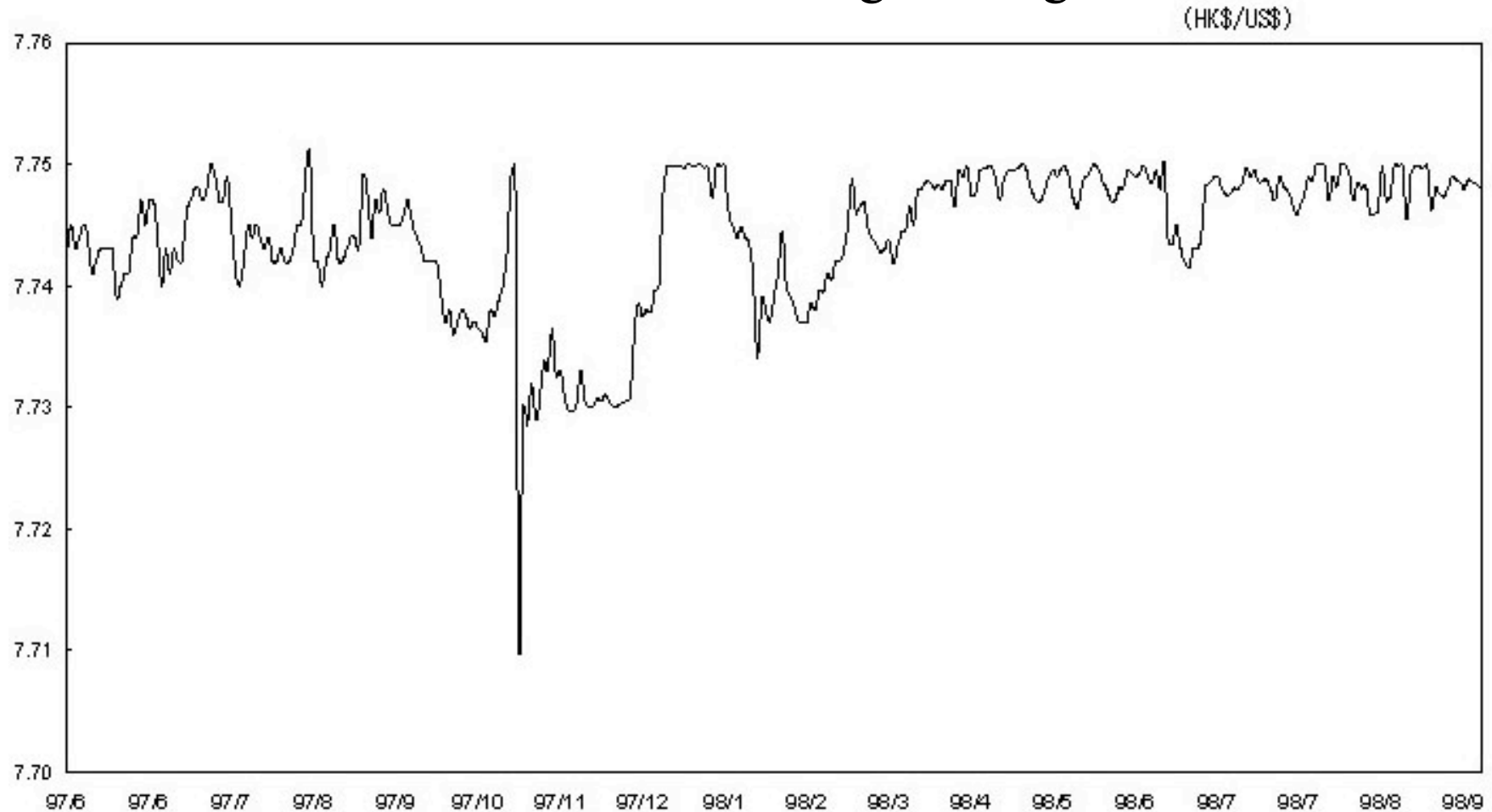
April-July 2004

1. Features of Hong Kong dollar 香港ドルの特徴

- (1) **Full convertibility** → international currency 国際通貨
(cf. Chinese RMB with limited convertibility)
- (2) **Currency board system** (linked exchange rate system):
fixed exchange rate at US\$1=HK\$7.8 カレンシー
ボード制
- (3) The monetary base is fully **backed by US dollar
foreign reserve.**
- (4) Bank notes are issued by 3 commercial banks, not by
a central bank.
- (5) The confidence in HK dollar supports the prosperity
of Hong Kong within “**one country, two systems**”
framework (「一国二制度」) .

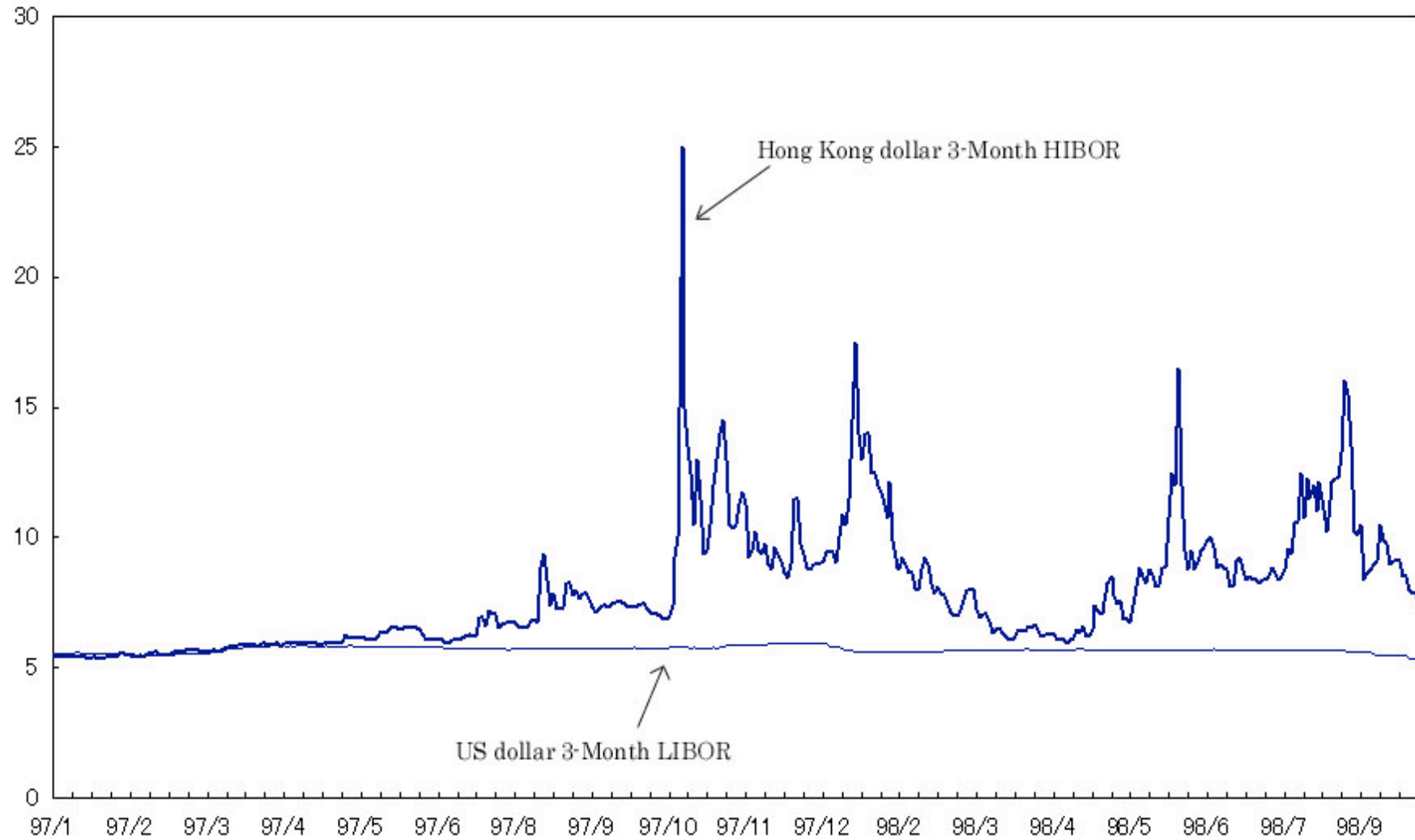
2. The target of speculation during the Asian crisis

The movement of HK\$ exchange rate against US\$



(出所: 東京三菱銀行香港支店)

HK dollar interest rate vs. US dollar interest rate



(出所: 東京三菱銀行香港支店)

(1) Four waves of speculative attacks on HK dollar from Oct. 1997 to Sep. 1998: speculators sell HK dollar and buy US dollar.

(2) Objectives of HK dollar currency speculation (香港ドル通貨投機の目的)

(a) **devaluation** of HK dollar 通貨切下げに追込む

to sell HK dollar high, and buy back when devalued.

(b) **proxy currency** of RMB (人民元の代理通貨)

to sell HK dollar to hedge the risk of possible RMB devaluation.

© **fall of HK stock prices**

to sell HK stocks short (香港株の空売り), and buy back when prices fall.

Selling of HK\$ → HK\$ interest rate rises → stock price falls

(3) The Hong Kong Monetary Authority (HKMA: 香港金融管理局) succeeded in defending the HK dollar fixed exchange rate and the currency board system, but had to pay an expensive cost---the worst recession over 40 years. 通貨防衛の代償は戦後最悪の不況

	1996	1997	1998	1999	2000	2001
Real GDP growth rate % 経済成長率	4.5	5.3	-5.1	3.1	10.5	0.6
CPI (A) % 消費者物価指数	6.0	5.7	2.6	-3.3	-3.0	-1.7
Unemployment rate % 失業率	2.8	2.4	4.7	6.1	4.9	5.1
Foreign reserve (bio US\$) 外貨準備	63.8	92.8	89.6	96.3	107.6	111.2
Fiscal surplus (bio HK\$) 財政余剰	25.7	86.4	-1.8	0.8	-0.6	-5.2

(source : HKMA annual reports, etc.)

3. The mechanism of currency board system

カレンシーボード制の仕組み

- (1) The present currency board system (the linked exchange rate system) **was born out of crisis in 1983** over the pessimistic view after Hong Kong's return to China in 1997.

Before 1935: silver standard system (銀本位制)

1935-72 (except during WWII): pegged to the sterling pound

1972-73: pegged to the US dollar

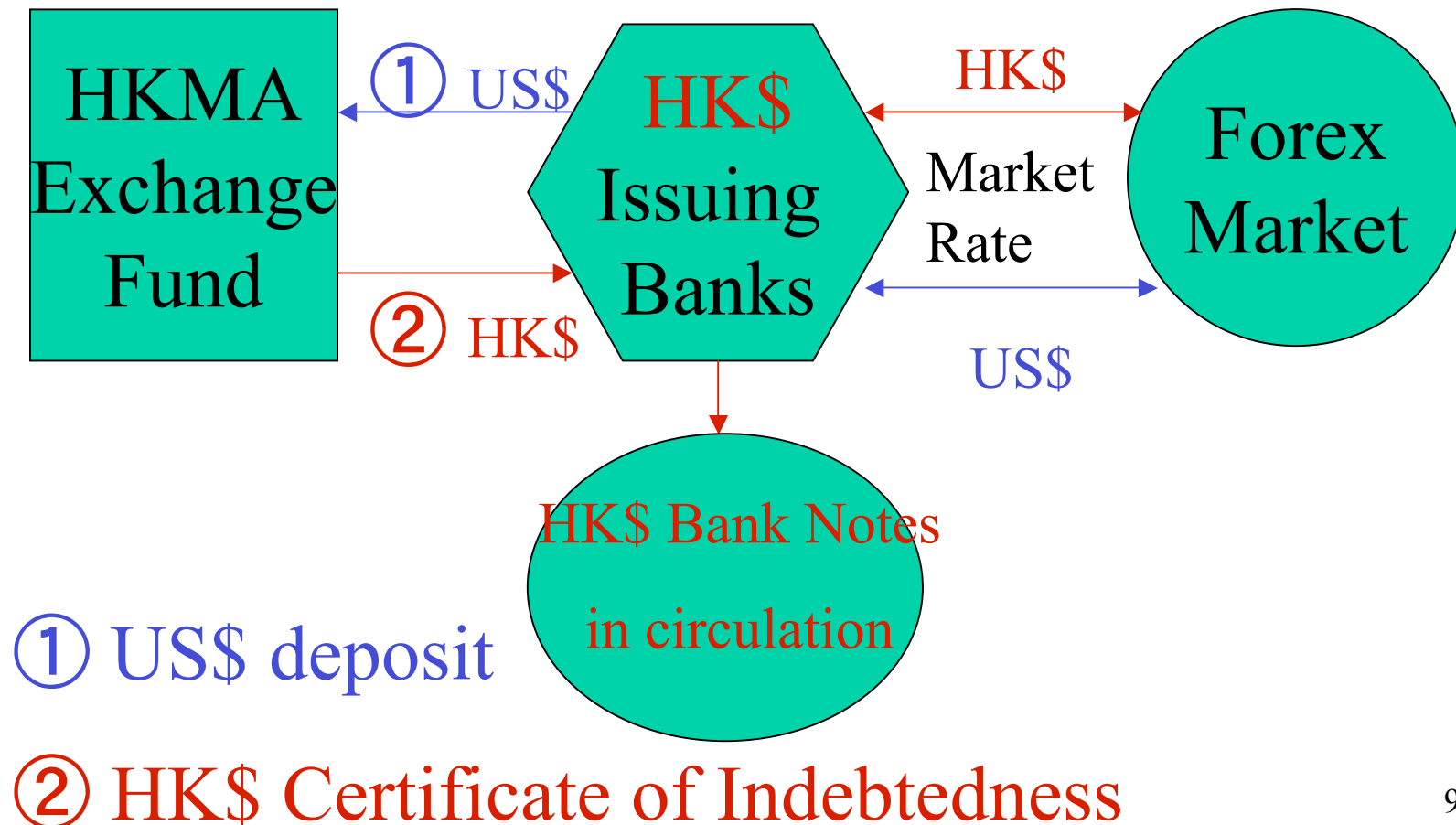
1974-83: floating exchange rate system

1983-today: currency board system

(2) Basic characteristics of the currency board system in HK

- No foreign exchange control 為替管理なし
- No central bank, but HK Monetary Authority 中央銀行の代わりに香港金融管理局
- No independent monetary policy (the interest rate follows the decision of US Federal Reserve Board) 独立した金融政策なし
- No lender of last resort 最後の貸し手機能なし
- The monetary base (M1) is fully backed by the foreign reserve. M1には100%以上の外貨準備の裏づけあり
- The change of M1 reflects the change of the foreign reserve. M1の変化は外準の変化を反映

The Structure of the Linked Exchange Rate System (for details see Figure 5.3)



Balance sheet of HKMA Exchange Fund (billion HK \$)

Assets 資產	1998	1997	Liabilities 負債	1998	1997
Cash, short term funds	133	100	Cert. of indebtedness	86	87
Fixed-term deposits	52	75	Coins in circulation	6	5
Certificate of deposits	28	69	Balance of bank account	3	1
Investment account	677	375	Exchange fund bill/note	98	89
Other	31	18	Fiscal surplus fund	425	238
(foreign currency assets)	(701)	(588)	Deposit	21	21
(HK dollar assets)	(220)	(48)	Other	40	6
			Net assets	242	190
Total	921	637	Total	921	637

(source : HKMA annual reports)

4. The secret of Hong Kong's prosperity

- (1) Hong Kong as a small, open economy: **free port, international financial center, gateway to China** (自由港、国際金融センター、中国への入口)
- Service oriented economy: more than 85% of workforce is employed in the service sector (retail, hotel, restaurant, trade, banking etc.)
 - High dependence on international trade: trade dependency ratio is more than 200%, re-export (再輸出) is more than 80% of export, mostly to and from China. 40% of China's export goes through Hong Kong.
 - The core of South China economic sphere (華南經濟圈)
- **Can Shanghai take over the position of Hong Kong?**

(2) Hong Kong dollar and “one country, two systems”

香港ドルと「一国二制度」

- (i) In 2003 HK economy was still in a serious recession. (the unemployment rate 8.5% in the III.Q)
- Is the fixed rate of US\$1=HK\$7.8 **overvalued**? 現在の香港ドル相場は過大評価？
 - Should the currency board system **be replaced by a floating exchange rate system**? カレンシーボード制は変動相場に移行すべきか？
 - Should the HK dollar be abolished, and the **Chinese RMB be introduced**? 人民元を法定通貨として導入すべきか？

(ii) “One country, two systems” 「一国二制度」

- Hong Kong SAR (香港特别行政区) is guaranteed to maintain its capitalistic system and autonomy (except foreign affairs and defense) for at least 50 years.
- The concept “one country, two systems” was devised by Deng Xiaoping (トウ小平) for future return of Taiwan.
- The Hong Kong’s economic prosperity is essential for the success of “one country, two systems,” and **the stability and credibility of the HK dollar is a prerequisite of Hong Kong’s function as an international financial, trade and business center.**