



HONG KONG MONETARY AUTHORITY

Recent Developments in Hong Kong Debt Market

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Outline

- I. Overview of the Hong Kong dollar debt market
- II. Public sector participation in the retail market
- III. Measures to facilitate market development



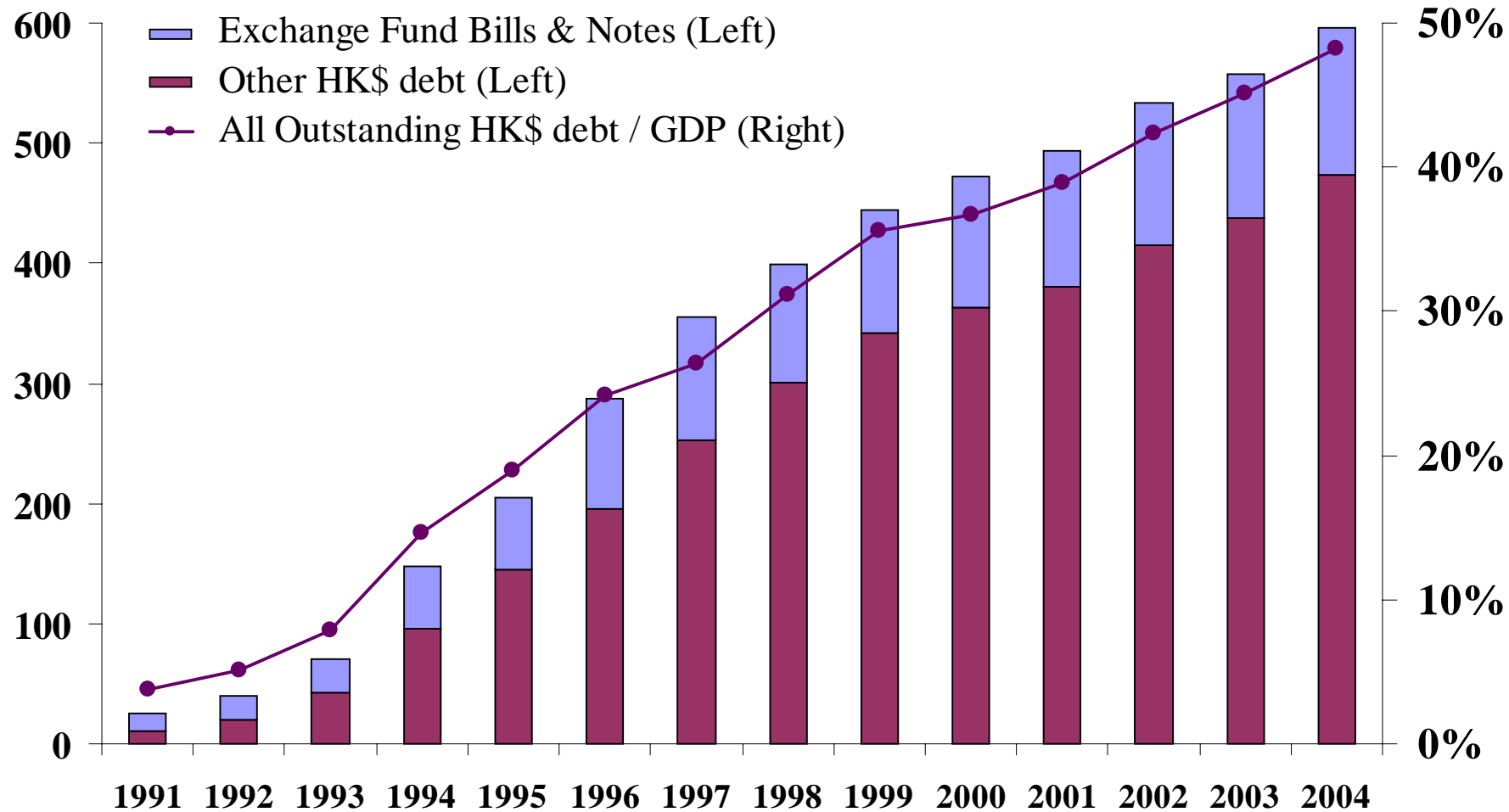
I. HK Dollar debt market

- Strong market growth with more overseas issuers
(Outstanding debt amount at HK\$ 596 billion in Q3 2004 from HK\$ 400 billion in 1998)
- Active retail market
(Issuance amount from HK\$13.5 billion in 2002 to HK\$14 billion in 2004)
- Product diversification (e.g. securitisation bonds issued by HKSAR Govt and HKMC, structured products such as credit linked notes and daily range accrual deposits)



I. HK Dollar debt market

HK\$ bn



Sources: HKMA and Census and Statistics Department

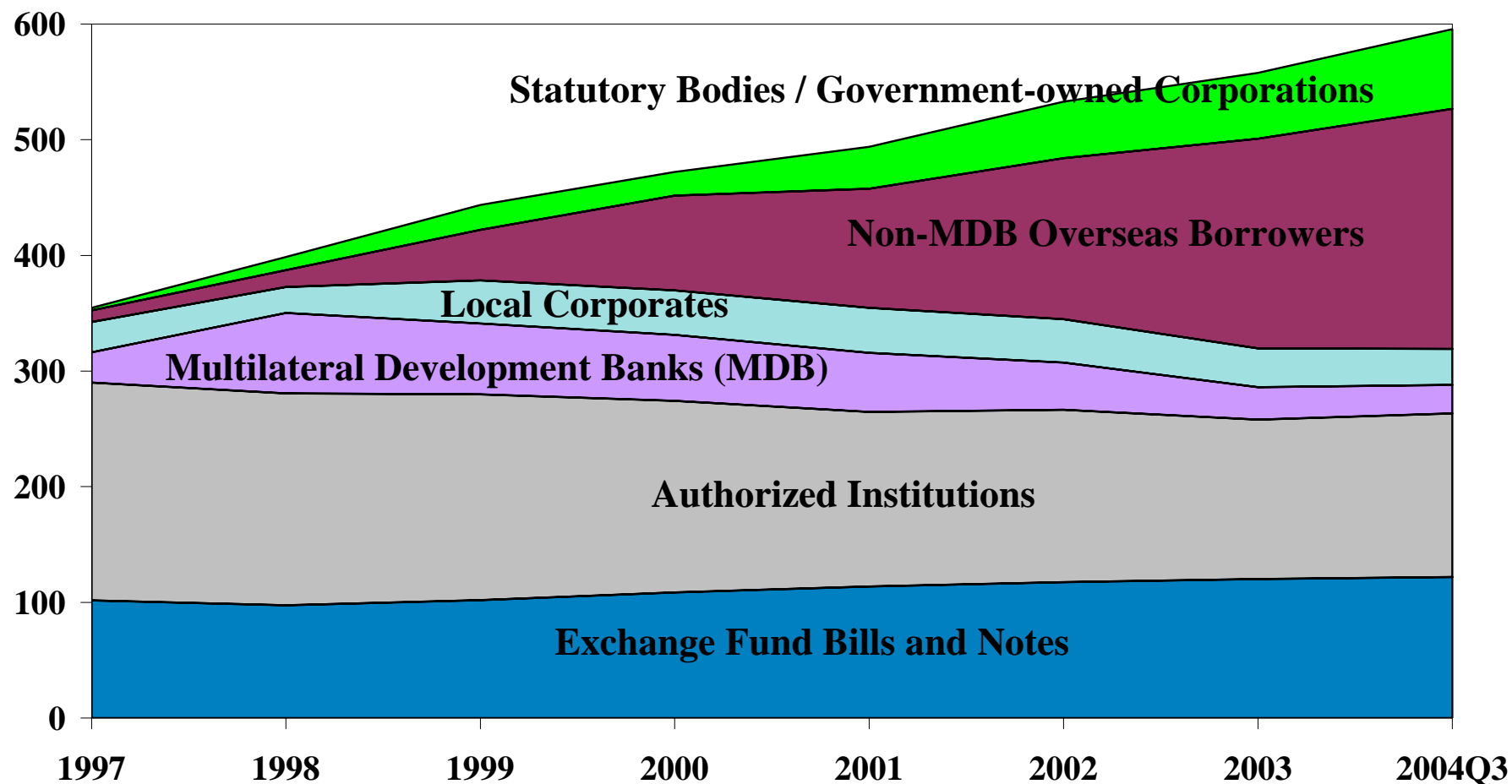
Q3



I. HK Dollar debt market

HK\$ bn

Amount outstanding by issuers



Sources: HKMA, Bloomberg, Basisfield and Thomson Financial



Exchange Fund paper Turnover

(HK\$ mn)

Average daily turnover	EFB	EFN	Total
1999	15,831	292	16,123
2000	22,594	1,186	23,780
2001	18,702	2,504	21,206
2002	19,759	2,584	22,343
2003	18,510	2,280	20,790
2004 (up to Nov)	15,309	1,633	16,942



Financing by different channels

(HK\$ mn)

	New issuance of debt securities (excluding EFBN)	Stock market	Syndicated Loans
1997	100,870	247,577	286,034
1998	100,888	38,257	43,251
1999	155,110	149,704	63,079
2000	180,625	467,337	208,346
2001	152,051	64,428	259,132
2002	180,084	110,480	184,743
2003	170,472	213,675	130,689
2004 Q1-3	126,890	221,675	107,507

Sources: HKMA and Basisfield



II. Public Sector bond offerings HKSAR Government bond

- The SAR Government successfully launched its *first* global bond offering in July 2004
- Objectives:
 - to promote development of local bond market
 - to fund infrastructure and other investment projects
 - to provide greater flexibility in liquidity management
- Total HK\$20 billion of which US\$1.25 billion (around 50%) is USD denominated; and HK\$ 5.25 billion sold to retail investors



II. Public Sector bond offerings

Securitisation bonds

The Hong Kong SAR Government

- In May 2004, the Government sold HK\$6 billion of securitisation bonds, backed by toll revenues from 5 tunnels and 1 bridge to finance infrastructure projects

Hong Kong Mortgage Corporation (HKMC)

- In November 2004, the HKMC sold for the first time HK\$900 million of mortgage-backed securities to retail investors



II. Public Sector bond offerings Exchange Fund Notes Retail Scheme

- 1-year scheme launched in Aug 2003
- selected issues of 2-year and 3-year EFN available for retail public by non-competitive tender
- Distributor Banks undertake to adopt unified trading practices to enhance liquidity in the secondary market for retail customers
- a total of HK\$ 330 million of EFN was sold to retail investors



III. Measures to foster debt market development

- Retail Programme of Exchange Fund Notes
- HKMA to consider lengthening the maturity profile of Exchange Fund Notes
- Government to consider further tax concessions to stimulate demand for debt securities
- Maintaining an efficient clearing and settlement system — Central Moneymarkets Unit (CMU)

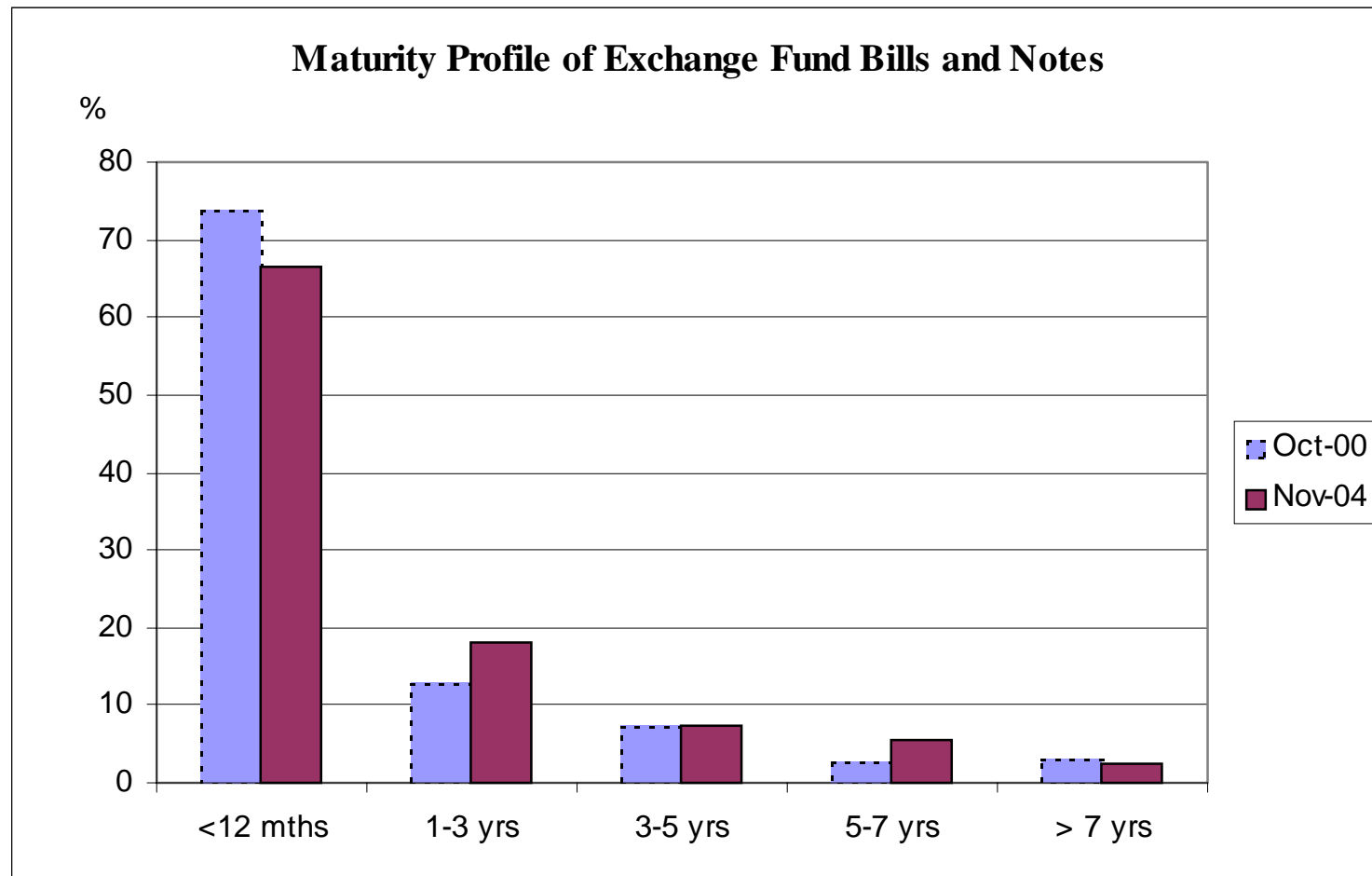


Retail Programme of Exchange Fund Notes

- HKMA conducted a review on the retail scheme of EFN
- Consider how to improve the attractiveness of EFN to retail investors
 - e.g. flexible selection of issues
 - more distributor banks
 - favourable allotment price
 - publicity campaign



Lengthening the Exchange Fund Notes Maturity Profile



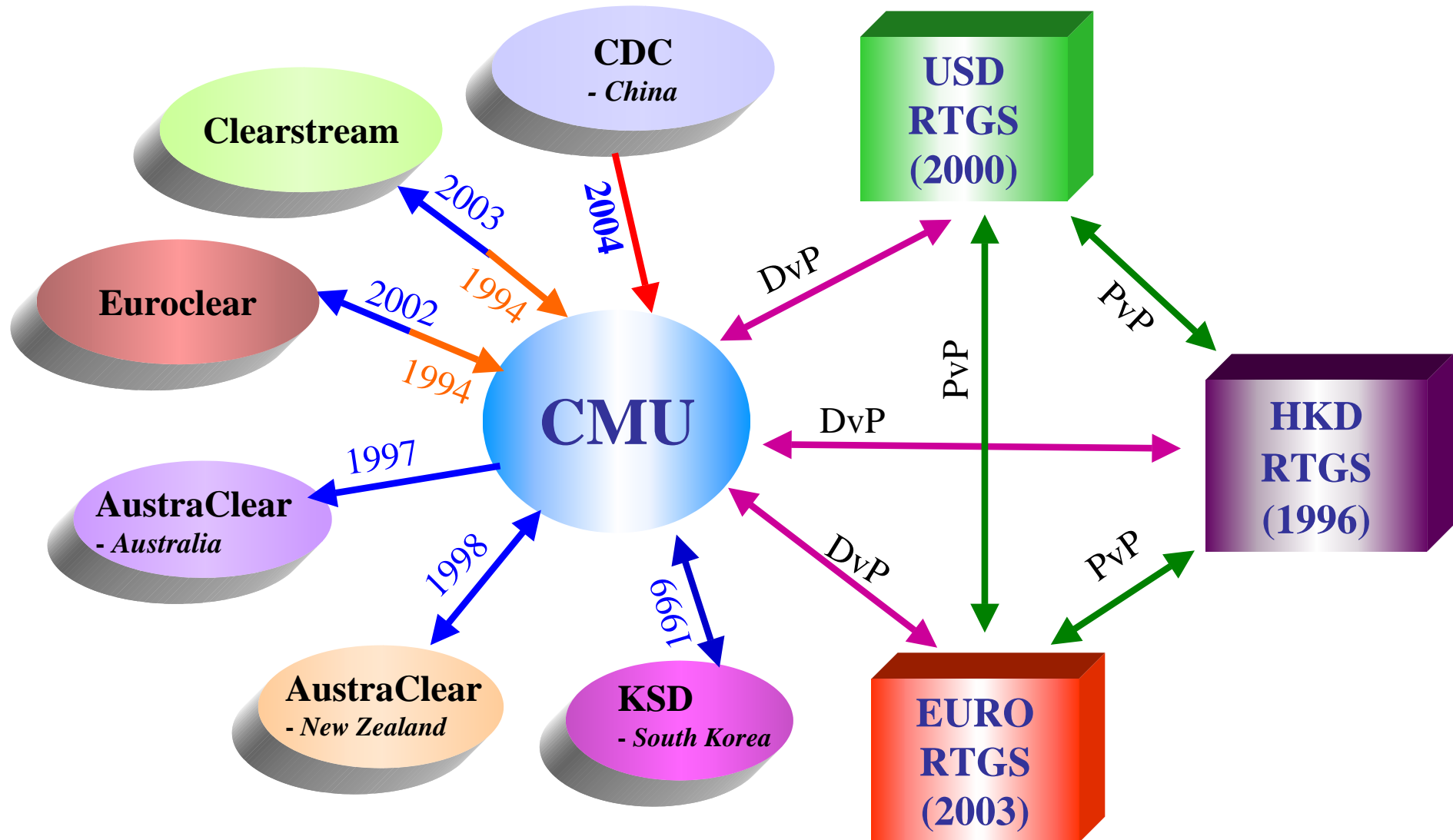


Tax concessions

- HK\$ debt issued by supranationals are exempt from profits tax
- Profits tax exemption (50% concession) for qualified debt instruments
 - lodged with CMU
 - minimum credit rating of investment grade (BBB-)
 - original maturity of 7 years
 - minimum denomination of HK\$50,000
 - issued to the public



Clearing and settlement system





Bank Repo platform

- HKMA as system administrator to provide a platform to facilitate repo lending between banks
- Platform in operation since Dec 2004
- Only for direct clearing members of the HKD interbank payment system
- Borrower and lender arrange a deal between them (lending amount, interest rate and repurchase date)
- Participants need to specify the maximum bank repo limit to control the maximum total outstanding bank repo amount



Bank Repo platform

- Eligible securities: lodged with CMU and HK\$ denominated
 - Exchange Fund Bills and Notes
 - Specified Instruments
 - HKSAR govt bond
 - securities issued by HKMA, MTRC, AA, KCRC
 - debt issued by supranationals
- Haircut ratio:
 - EFBN and SI :2% p.a. for each year of remaining tenor
 - Others: the higher of [4% p.a. for each year of remaining tenor, or 10%]



Thank you