

**FOR
AGENDA**

SM/08/332
Supplement 1

November 13, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **People's Republic of China—Hong Kong Special Administrative Region—Staff Report for the 2008 Article IV Consultation Discussions—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation discussions with the People's Republic of China—Hong Kong Special Administrative Region (SM/08/332, 11/13/08), which is tentatively scheduled for discussion on **Monday, December 1, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the People's Republic of China—Hong Kong Special Administrative Region indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Chalk (ext. 38281), Mr. Porter (ext. 37316) and Mr. Vitek (ext. 37393) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, November 21, 2008; and to the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA—HONG KONG
SPECIAL ADMINISTRATIVE REGION

**Staff Report for the 2008 Article IV Consultation
Discussions—Informational Annex**

Prepared by the Asia and Pacific Department

November 13, 2008

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ANNEX I: HONG KONG SAR—FUND RELATIONS

I. Membership Status

As a Special Administrative Region of the People's Republic of China, Hong Kong SAR is not a member of the Fund. However, annual consultation discussions have been held with the Hong Kong SAR authorities since October 1990, and the staff also holds discussions with the authorities in connection with the Fund's *Global Financial Stability* reports. STA has provided Hong Kong SAR with technical assistance in the area of balance of payments statistics and Hong Kong SAR officials have attended IMF Institute courses on balance of payments and monetary statistics, and financial programming.

II. Exchange Rate Arrangement

The Hong Kong dollar has been linked to the U.S. dollar under a currency board arrangement since October 1983 at a rate of HK\$7.8/US\$1. The Hong Kong Monetary Authority (HKMA) refined the operations of the LERS in May 2005—the first changes since September 1998. For the first time since the introduction of the LERS in 1983, the HKMA explicitly committed to sell Hong Kong dollar at a pre-announced price (set at HK\$7.75/US\$), which is referred to as the strong-side convertibility undertaking. Previously, the HKMA had only committed to buy Hong Kong dollar at a pre-announced rate (the weak-side convertibility undertaking introduced in October 1998) and could sell Hong Kong dollar at any price. Along with this two-way convertibility undertaking, the HKMA also introduced a symmetric trading band of 0.6 percent around a central parity of HK\$7.8/US\$. There are no restrictions on current or capital account transactions in Hong Kong SAR, and the Hong Kong dollar is freely convertible. The People's Republic of China accepted the obligations under Article VIII, Sections 2, 3 and 4 of the Articles of Agreement on December 1, 1996.

III. Resident Representative

The Hong Kong SAR sub-office of the Beijing Resident Representative's office was opened on September 23, 2000. Mr. Olaf Unteroberdoerster is the Resident Representative.

ANNEX II: HONG KONG SAR—STATISTICAL ISSUES

Data provision is adequate for surveillance purposes. Hong Kong SAR provides statistics to the Fund on a timely basis for surveillance and publication in the *International Financial Statistics (IFS)*. Hong Kong SAR subscribes to the Fund's Special Data Dissemination Standard and is fully compliant with its requirements.

Hong Kong SAR publishes comprehensive balance of payments data and international investment position statistics for 2000 onwards, and also publishes quarterly external debt statistics according to the recommendations given in the *External Debt Statistics: Guide for Compilers and Users*.

Hong Kong SAR reports both cash and accrual-based annual data for the general government according to the Fund's *Government Finance Statistics Manual (GFSM 2001)*. No subannual data are provided for publication in the *IFS*.

Hong Kong SAR participated in the IMF's Coordinated Compilation Exercise for Financial Soundness Indicators (FSIs) and its FSI data and metadata for 2005 have been posted on the IMF website.

Work is in progress on the compilation of monetary statistics using the Standardized Report Forms that present data consistent with the *Monetary and Financial Statistics Manual*.

HONG KONG SAR—TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of October 30, 2008

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange rates	09/23/08	09/23/08	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	08/08	09/08	M	M	M
Reserve/base money	08/08	10/08	M	M	M
Broad money	07/08	09/08	M	M	M
Central bank balance sheet	08/08	10/08	M	M	M
Consolidated balance sheet of the banking system	07/08	09/08	M	M	M
Interest rates ²	09/18/08	09/23/08	D	D	D
Consumer price index	08/08	10/08	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴					
Revenue, expenditure, balance and composition of financing ³ – central government	07/08	09/08	M	M	M
Stocks of central government and central government-guaranteed debt ⁵	07/08	08/08	M	M	M
External current account balance	Q2/08	10/08	Q	Q	Q
Exports and imports of goods and services	Q2/08	10/08	Q	Q	Q
GDP/GNP	06/08	09/08	Q	Q	Q
Gross external debt	03/08	09/08	Q	Q	Q
International investment position	2007	06/08	A	A	A

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial assets and liability position vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).