

\$485b Exchange Fund transfer signed

By Bayani Cruz

BRITAIN and China yesterday completed an agreement on the transfer of the \$485 billion Exchange Fund, paving the way for a smooth handover.

The Exchange Fund is the territory's first line of defence in the event of speculative attacks on its financial markets.

Senior representatives of the Joint Liaison Group (JLG) signed the agreement, a government spokesman said.

It will ensure continuity in the management of the exchange fund by the Hong Kong Monetary Authority (HKMA) after the handover.

The key to the success of the Exchange Fund was that it remained under the management of the HKMA, an analyst said.

China and Britain also agreed to appoint a reputable international audit firm in Hong Kong to check the accounts of the fund up to the handover.

At present, the Exchange Fund is audited by the Director of Audit.

"There will be no gap in the transfer process and no possibility of any doubt concerning the ownership of the exchange fund by Hong Kong," a HKMA spokesman said.

People's Bank of China governor Dai Xianglong, in his first official speech in the territory, said Beijing would not do anything to jeopardise Hong Kong's prosperity during the transfer of the Exchange Fund.

The entire fund would be transferred to the Special Administrative Region (SAR) government



Dai Xianglong: No change pledge.

and managed according to relevant SAR laws.

Mr Dai said China's goal was to help maintain the financial stability of Hong Kong.

But he denied China had set up a \$300 billion fund to stabilise the financial system.

He also gave his assurance that the HKMA would remain "independent" of China's central bank after 1997.

Analysts described yesterday's agreement as purely "symbolic", saying that there would be no change in the management of the fund.

Foreign exchange reserves have rocketed 8.6 per cent, or \$38 billion, since the beginning of the year, according to data released by the HKMA.

They are about three-quarters the size of the mainland's foreign exchange reserves, which at the end of September were US\$80.8 billion (HK\$630 billion).

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