

Fund flows in Hong Kong: A Balance of Payments' Perspective

CHOI Wing Hung, Ricky

Hong Kong Special Administrative Region Government, Hong Kong, China

ricky_choi@fso.gov.hk

Abstract

After the global financial crisis, large fund flows were recorded into and out of Hong Kong, especially following the launch of quantitative easing (QE) measures in the advanced economies. It would be interesting to analyse the different dimensions of fund flows into Hong Kong, i.e. Hong Kong dollar vs other currencies, resident vs non-resident, and where they have gone.

Several dimensions of fund flows activities are of analytical interests. For instance, how large is the scale of net flow into and out of Hong Kong during a particular period of time? Are the fund flows driven by non-resident or resident activities? Are they related to normal business activities, such as foreign direct investment or “hot money” entering different types of financial products and markets in Hong Kong? This note sets out an analytical framework on fund flows into and out of Hong Kong, particular focus would be put on non-resident fund flows into stock and bond markets as well as the banking sector, as reflected in the Balance of Payments (BoP) statistics, since they are the most volatile and could enter or leave Hong Kong in a very short period of time.

Nevertheless, there are two caveats for using this approach. First, BoP transactions are not broken down into transactions involving different currencies. As such, the size and composition of fund flows in the BoP account will not exactly match the change in the aggregate balance and Exchange Fund Bills and Notes, the latter being a measure of Hong Kong dollar fund flows only. Second, BoP statistics can only provide data in relation to non-resident fund flows into resident shares, while the majority of non-resident fund flow into Hong Kong stock market may be more related to equity investment in Mainland enterprises, which constitute as much as 56% of Hong Kong stock market capitalization at end of March 2013.

Key Words: Fund flows, balance of payments, non-resident activities, Hong Kong

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