

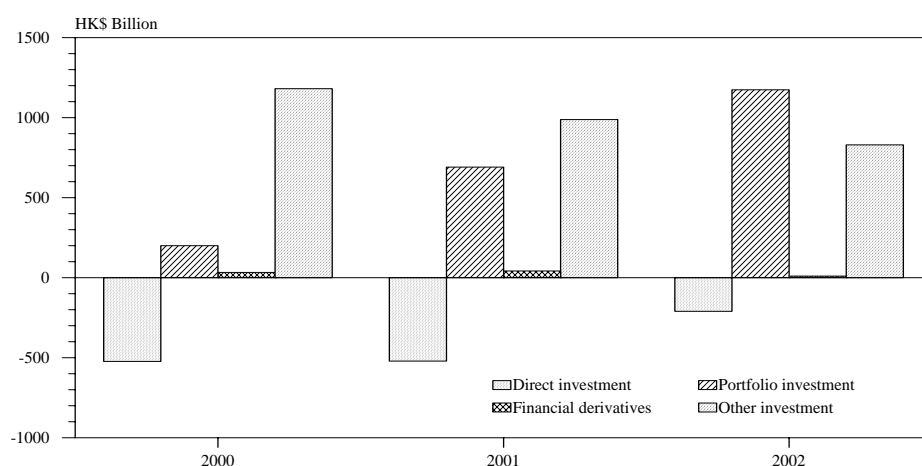
## Box 2.3

### Hong Kong's international investment position and external debt

Following the release of detailed balance of payments (BoP) statistics in June 2000, the availability of international investment position (IIP) and external debt (ED) statistics for publication is another notable statistical attainment in Hong Kong. IIP is a balance sheet showing the stock of an economy's external financial assets and liabilities at the end of a reference period. As to gross ED, it is the outstanding amount of those actual current, and not contingent, liabilities that require payment of principal and/or interest by the debtor at some point in the future and that are owed to non-residents by residents of an economy. Basically, it equals the sum of the non-equity liabilities components of the IIP's statement.

At end-2002, Hong Kong's net IIP stood at \$2,677.4 billion, equivalent to 213% of GDP in that year. This indicates that Hong Kong is very much a net creditor economy, with the amount of external financial assets well exceeding the amount of external financial liabilities. Amongst the major IIP components, only direct investment was in a net liability position. Yet this indicates that Hong Kong has received more direct investment from abroad than it has invested overseas.

Hong Kong's net international investment position by component  
(end of period)



Such a robust net IIP bodes well for Hong Kong's external balance. Moreover, both Hong Kong's external financial assets and liabilities are substantial, reflecting that Hong Kong is a highly externally oriented economy with considerable cross-territory investment and is also a major financial centre with considerable cross-territory fund positions.

Hong Kong's external financial assets and liabilities both fell during 2001 and 2002, amidst the global economic downturn and the ensuing lacklustre economic climate. Yet with a larger dip on the liability side than on the asset side, net external financial assets actually surged, by 20% and 29% respectively during 2001 and 2002, cumulating to a 55% increase over the past two years.

As to Hong Kong's ED, it is in a healthy position, with a predominant share of the ED being associated with normal operations of the banking sector and with inward direct investment. Also, the Government has no external debt. At end-September 2003, Hong Kong's ED amounted to \$2,664.9 billion, equivalent to 216% of GDP. The banking sector takes up a large part of the overall ED, being mostly in the form of short-term inter-bank placements from overseas banks, and this reflects the role of Hong Kong as an international banking centre. As to the private non-bank sector, the level of ED other than from inward direct investment is low, indicating that it generally does not rely too much on borrowing as a source of finance.