Box 4.1

**Factors influencing the share of Hong Kong dollar deposits in total deposits**

The share of Hong Kong dollar deposits in total deposits, having surged from 44% in 1990 to 59% in mid-1997, fell back considerably to 52% in late 2000. It then staged a modest rebound, to 54% in the fourth quarter of 2003.

![Share of Hong Kong dollar deposits in total deposits](chart)

Note: As from April 1997, the deposits figures also include placements by the Exchange Fund with maturity below one month.

Several factors could influence the movement in the Hong Kong dollar deposits ratio over time in different ways. *First*, cyclical developments in the economy could affect the demand for Hong Kong dollars. In particular, faster economic growth in Hong Kong relative to its main trading partners is likely to lead to a greater demand for Hong Kong dollars relative to foreign currencies and thus a higher Hong Kong dollar deposits ratio, and vice versa. *Secondly*, a relatively larger significance of domestic demand in overall demand in the economy is also likely to have a positive impact on the demand for Hong Kong dollar vis-à-vis foreign currency deposits. Specifically, an expanding domestic sector can be expected to boost the demand for Hong Kong dollars for transaction purposes, thereby lifting the Hong Kong dollar deposits ratio. *Thirdly*, Hong Kong, being an international financial centre, is closely linked with the major economies in the world. Conceivably, Hong Kong residents are holding more foreign currencies for international transaction purposes. In parallel, non-residents are holding foreign currencies in Hong Kong. These are likely to have the effect of lowering the share of Hong Kong dollar deposits in total deposits.

*2003 Economic Background*