



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

**6 May 2024
[Translation]**



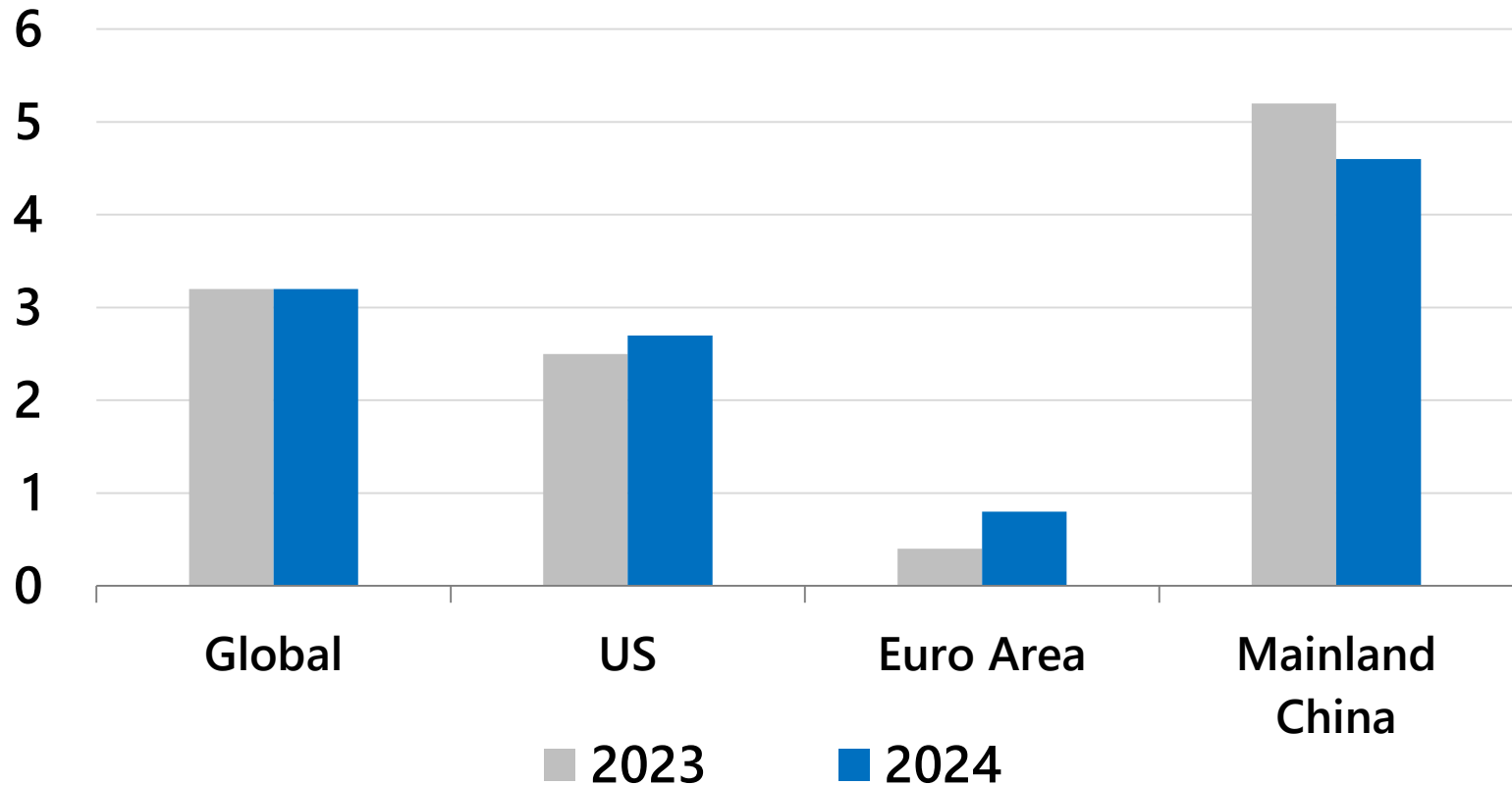
- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
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US economy expected to achieve soft landing while Mainland economy is likely to grow steadily

International Monetary Fund's economic growth projections

Real GDP growth projection
(% yoy)



Source: International Monetary Fund

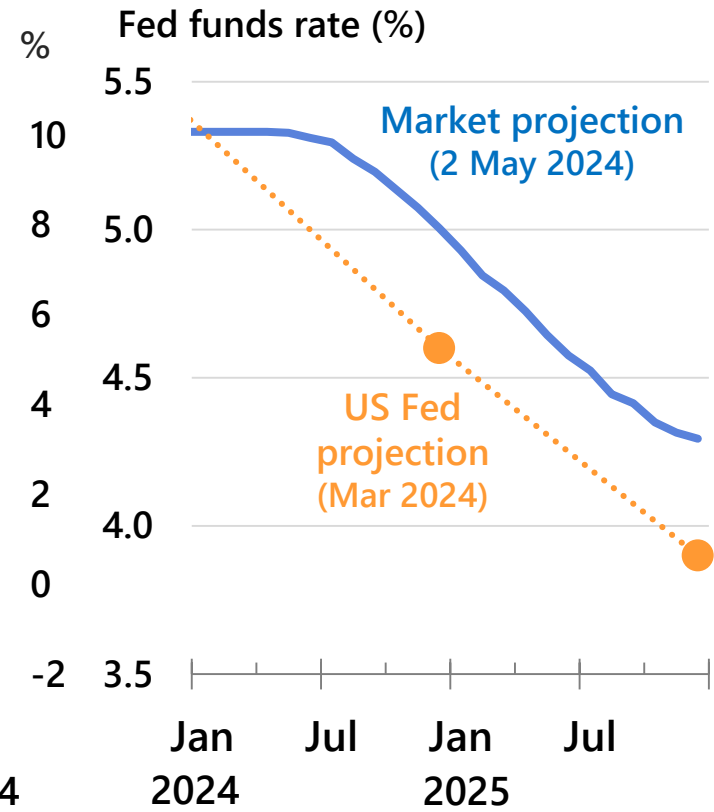
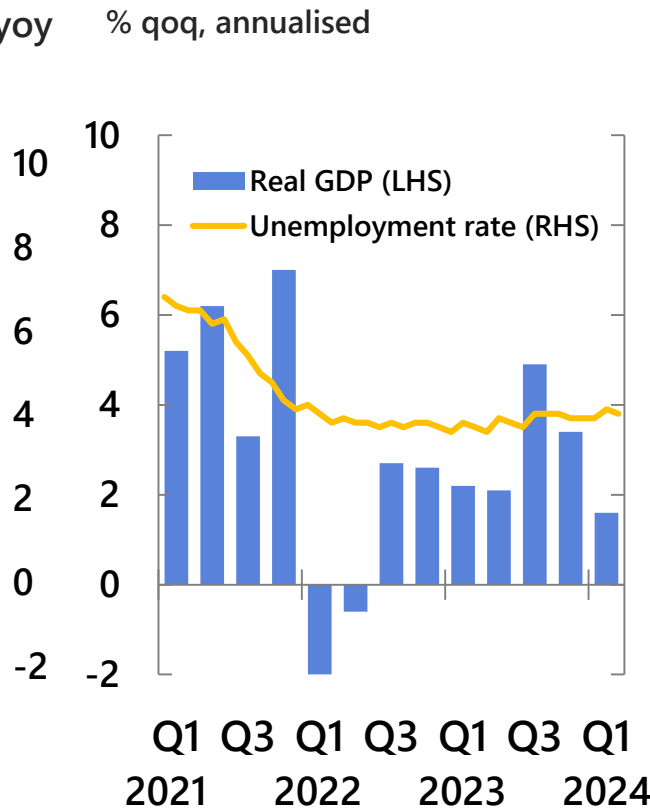
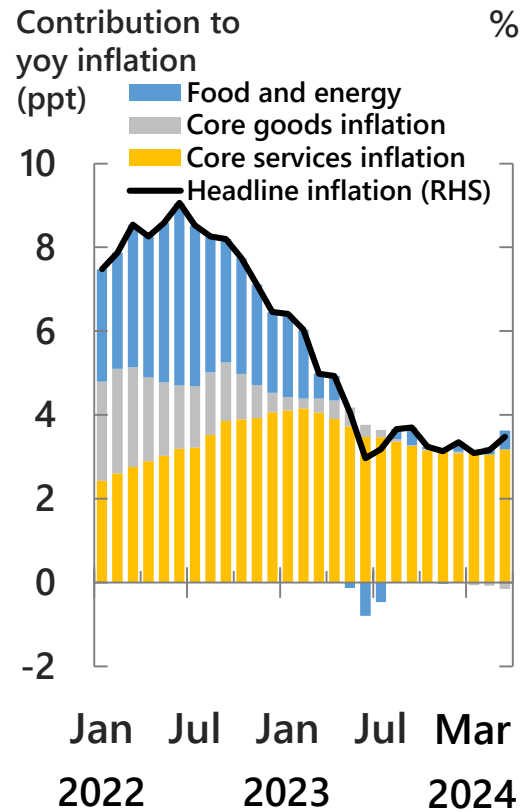
Uncertainties about the timing and pace of US Fed rate cuts



Elevated services inflation in the US

US economy stayed resilient

Markets pared back Fed rate cut expectations



Source: US Bureau of Labour Statistics

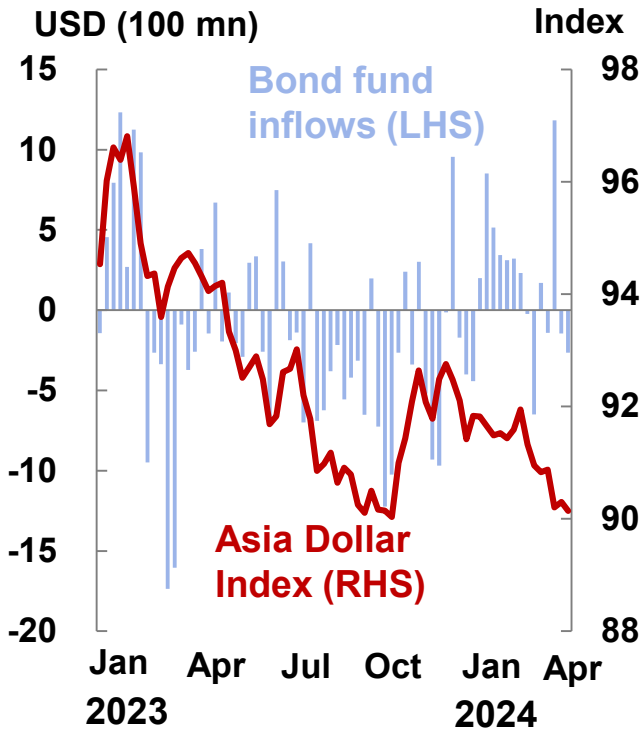
Sources: US Bureau of Economic Analysis and US Bureau of Labour Statistics

Sources: US Federal Reserve and Bloomberg

Amid high US interest rates, Asian currencies soften and corporate demand for bond issuance ease



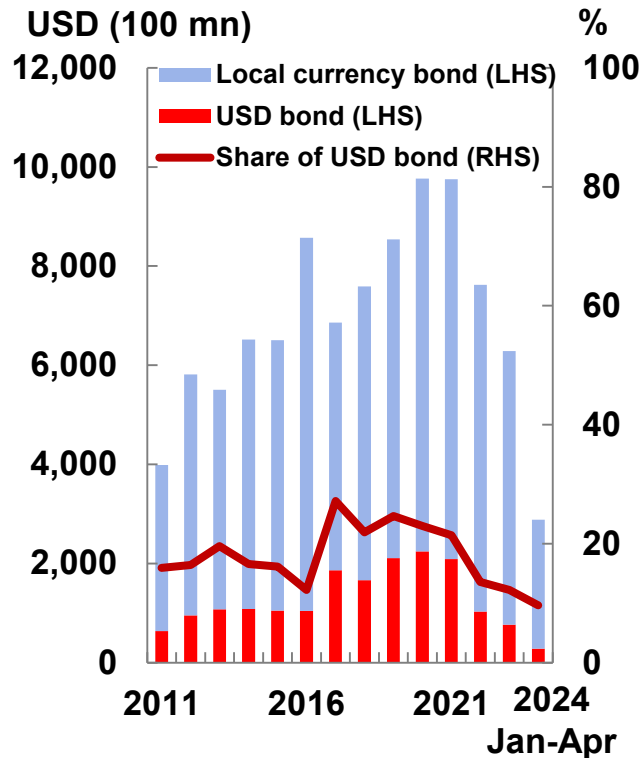
Bond fund flows and exchange rates in Asia-Pacific under pressure



Note: The Bloomberg Asia Dollar Index tracks the performance of nine Asian currencies against the US dollar, including RMB, KRW, INR, SGD, THB, MYR, IDR, PHP and TWD.

Sources: EPFR and Bloomberg

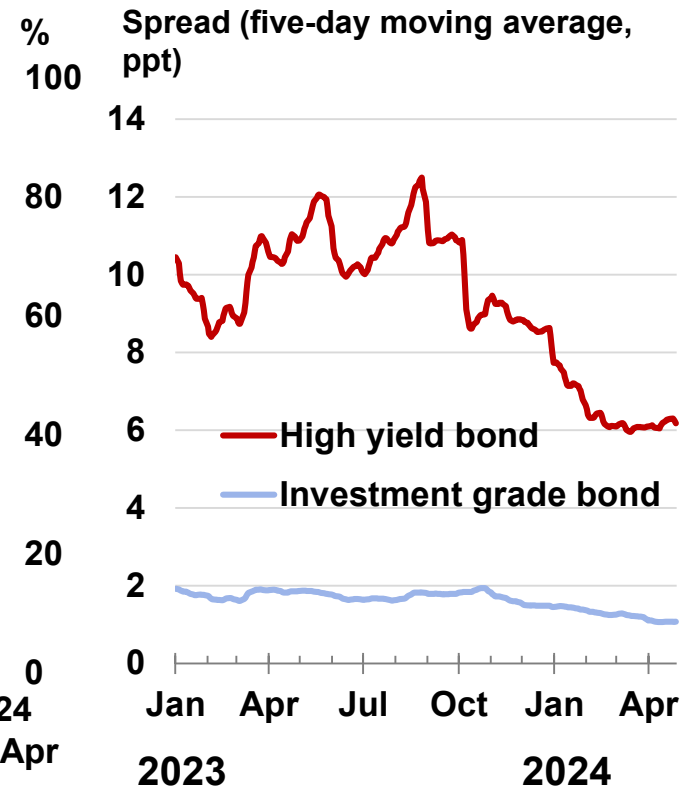
Reduced bond issuance by corporates within the region



Note: The chart shows bond issuance by non-financial corporates in the Asia-Pacific region

Source: Dealogic

Regional corporate bond yield spreads narrowed



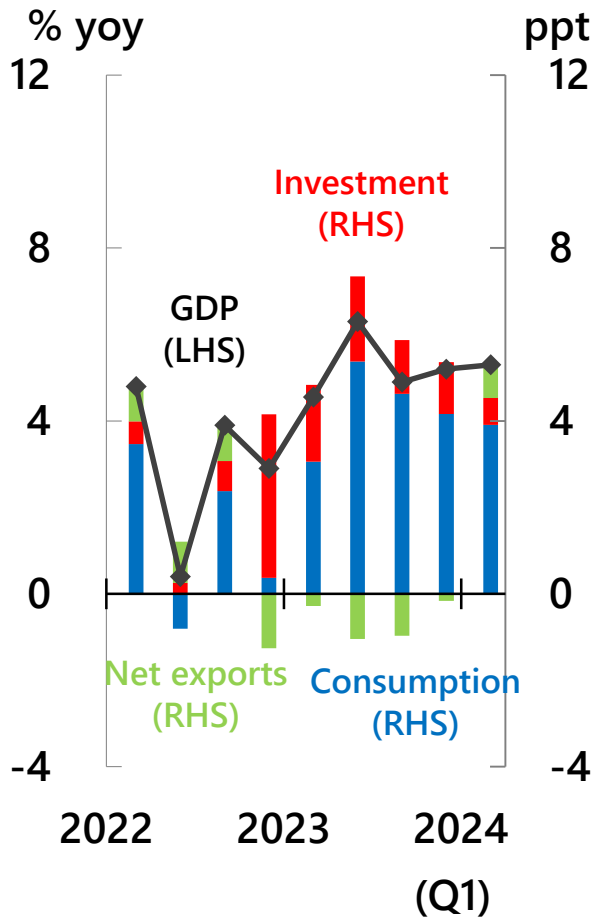
Note: The chart shows the z-spread of constituent corporate bonds of Bloomberg Asia Ex-Japan USD credit corporate index.

Source: Bloomberg

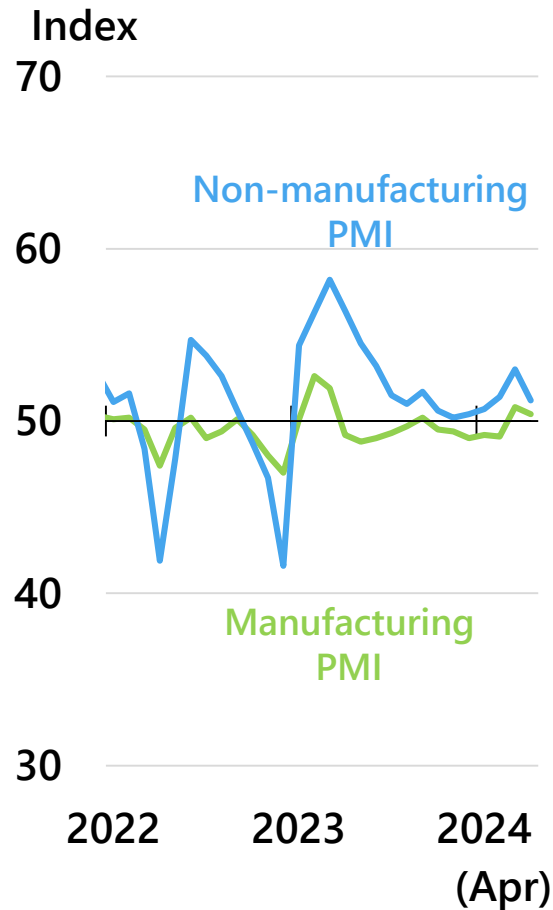


Overall Mainland economy rebounds

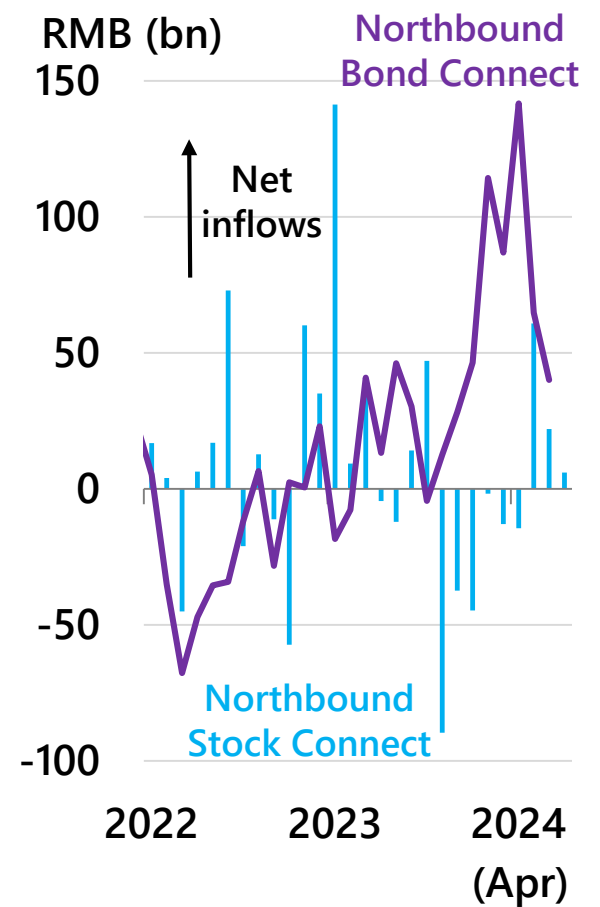
Continued recovery in overall Mainland economy



Leading indicators show continued improvement in Mainland economy



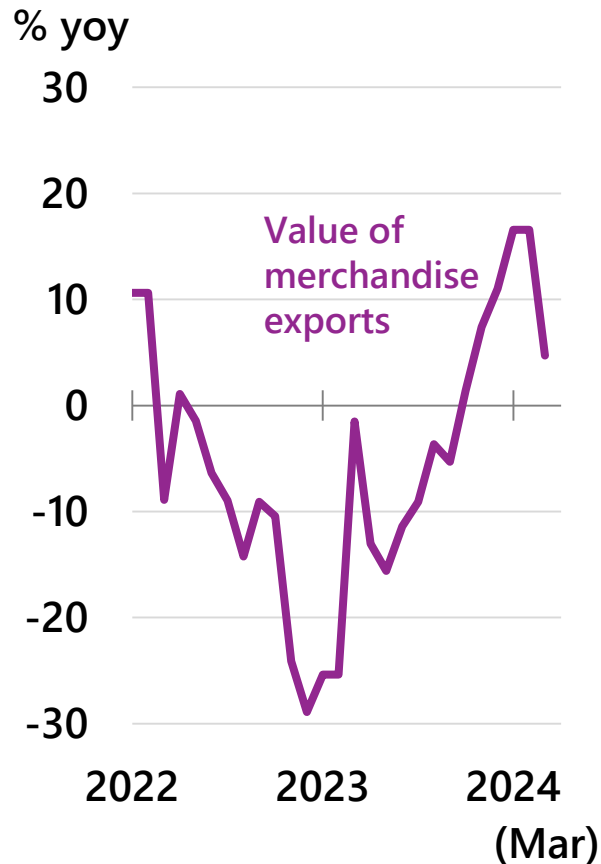
Fund inflows under Northbound Connect Schemes



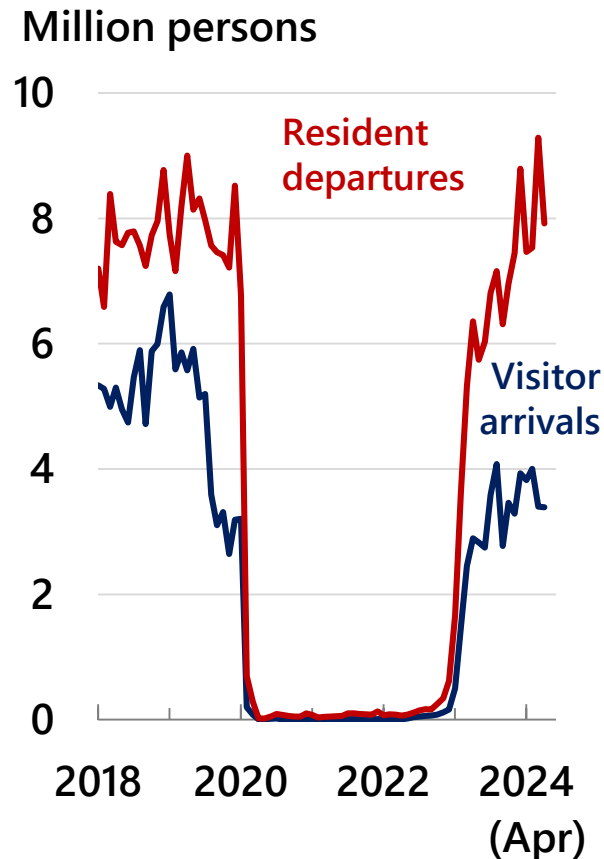
Hong Kong economy experiences moderate growth



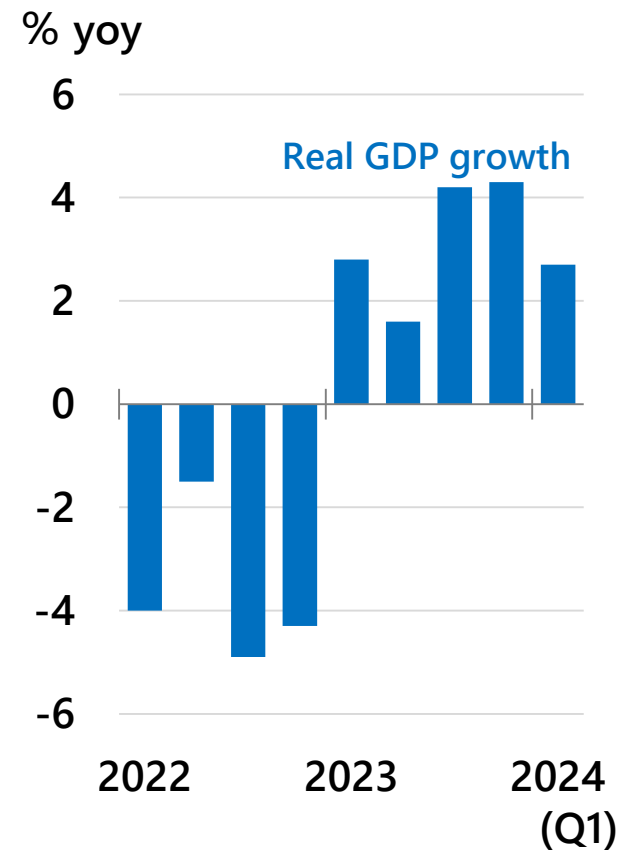
Merchandise exports continue to strengthen



Tourism continues to recover



Overall economic activities grow steadily

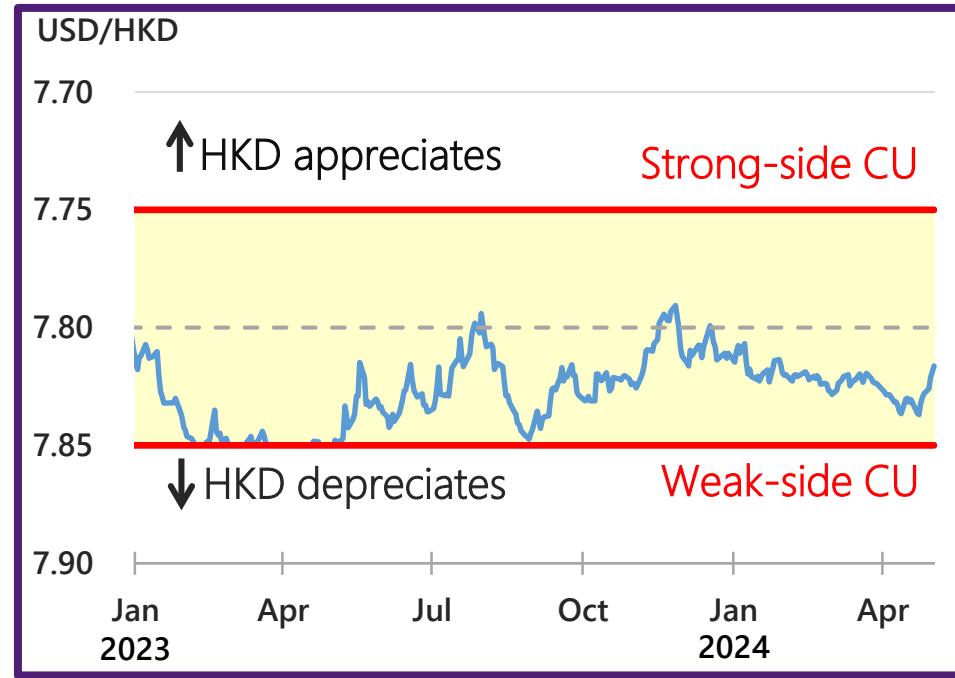
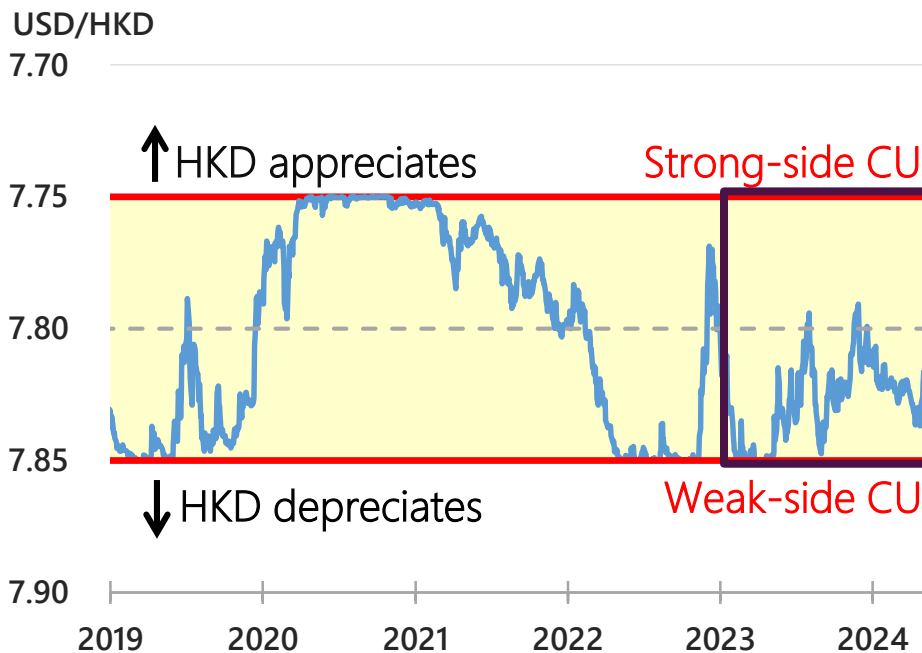


Note: The values of merchandise exports in January and February 2024 are combined to remove the distortion caused by the different timing of the Lunar New Year in 2023.

Sources: Census and Statistics Department, Hong Kong Tourism Board and Immigration Department



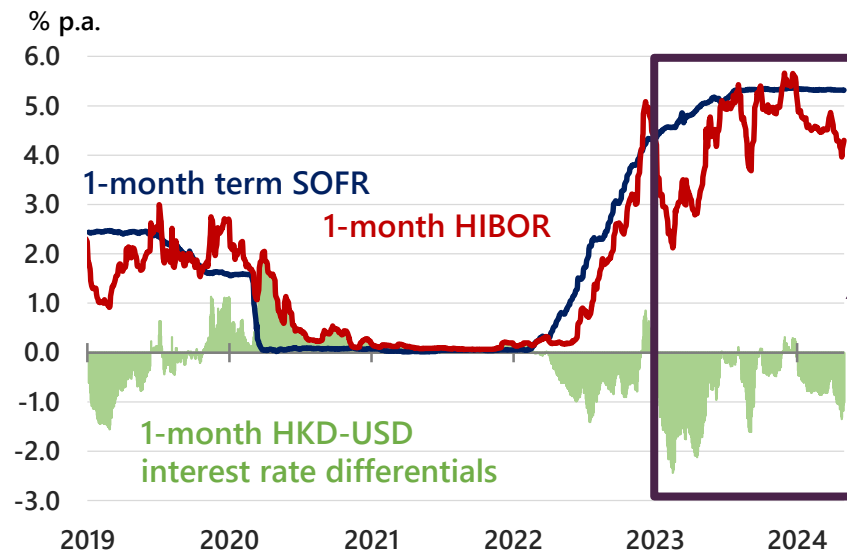
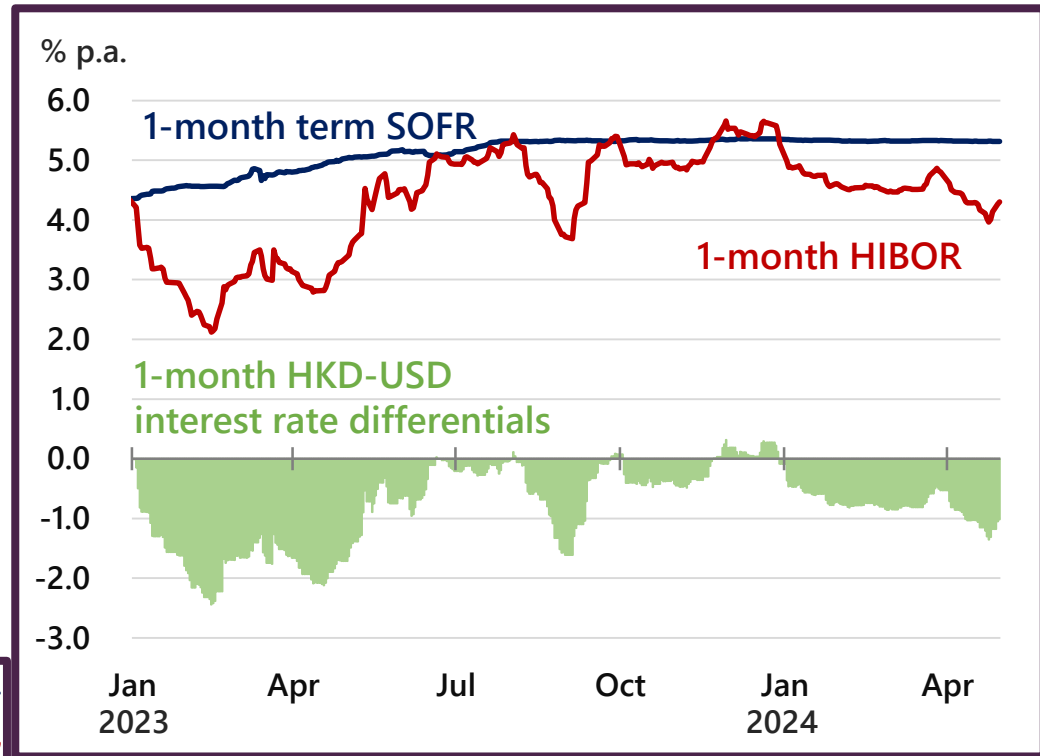
HKD exchange rate remains stable



| Year | Trigger of weak-side CU | Purchase of HKD (HKD bn) |
|----------------|-------------------------|--------------------------|
| 2019 Mar | 8 times | 22.1 |
| 2022 May - Nov | 41 times | 242.1 |
| 2023 Feb - May | 8 times | 51.5 |



HKD interest rates continue to stay at high levels



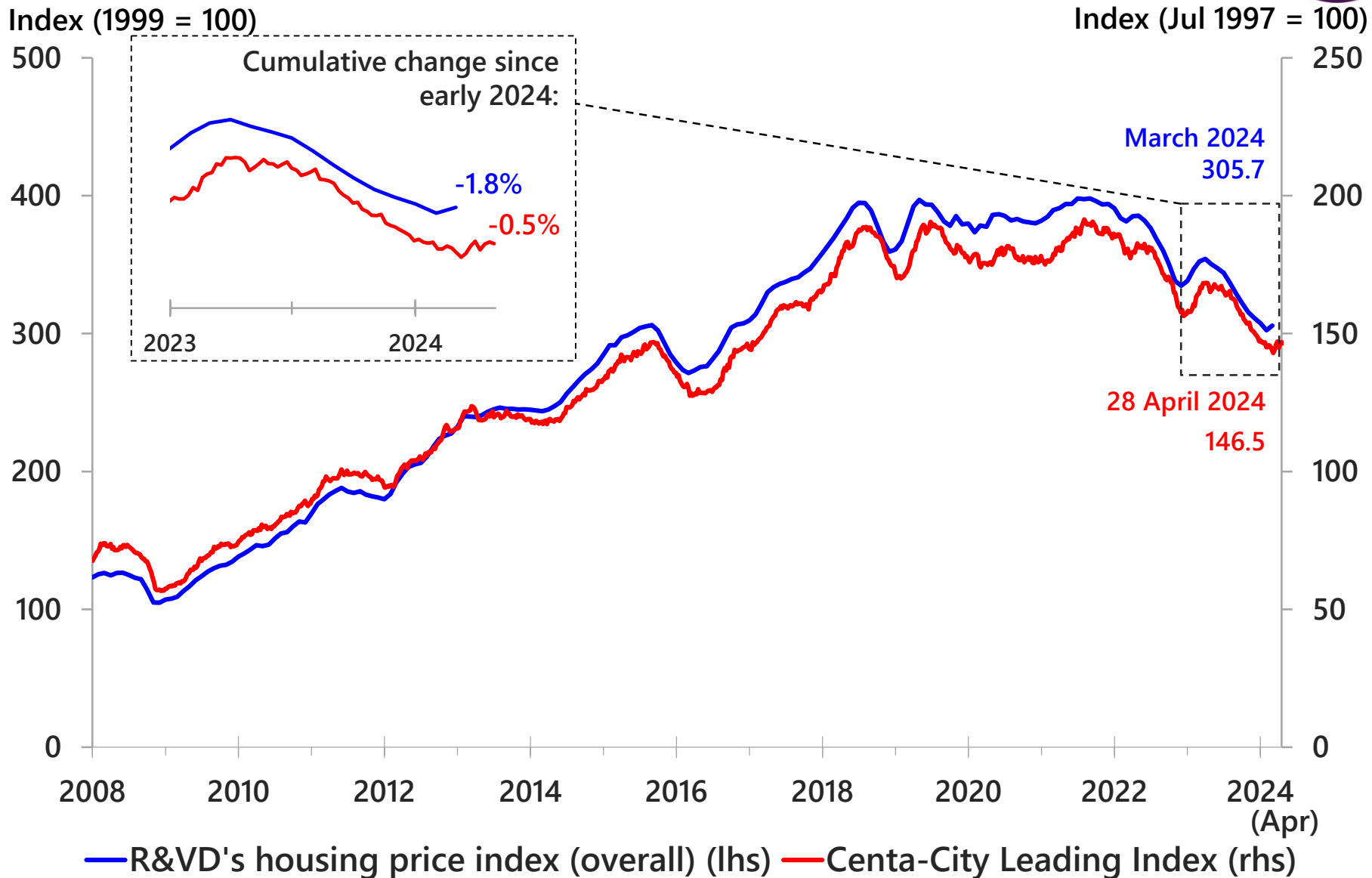


Bank deposits remain stable

Change during the period (%)

| | Total deposits | HKD deposits |
|------------------------------|-----------------------|---------------------|
| Full year 2023 | +5.1% | +2.1% |
| First quarter of 2024 | -0.2% | +0.1% |
| January | -0.6% | -0.3% |
| February | +0.2% | -0.2% |
| March | +0.2% | +0.7% |

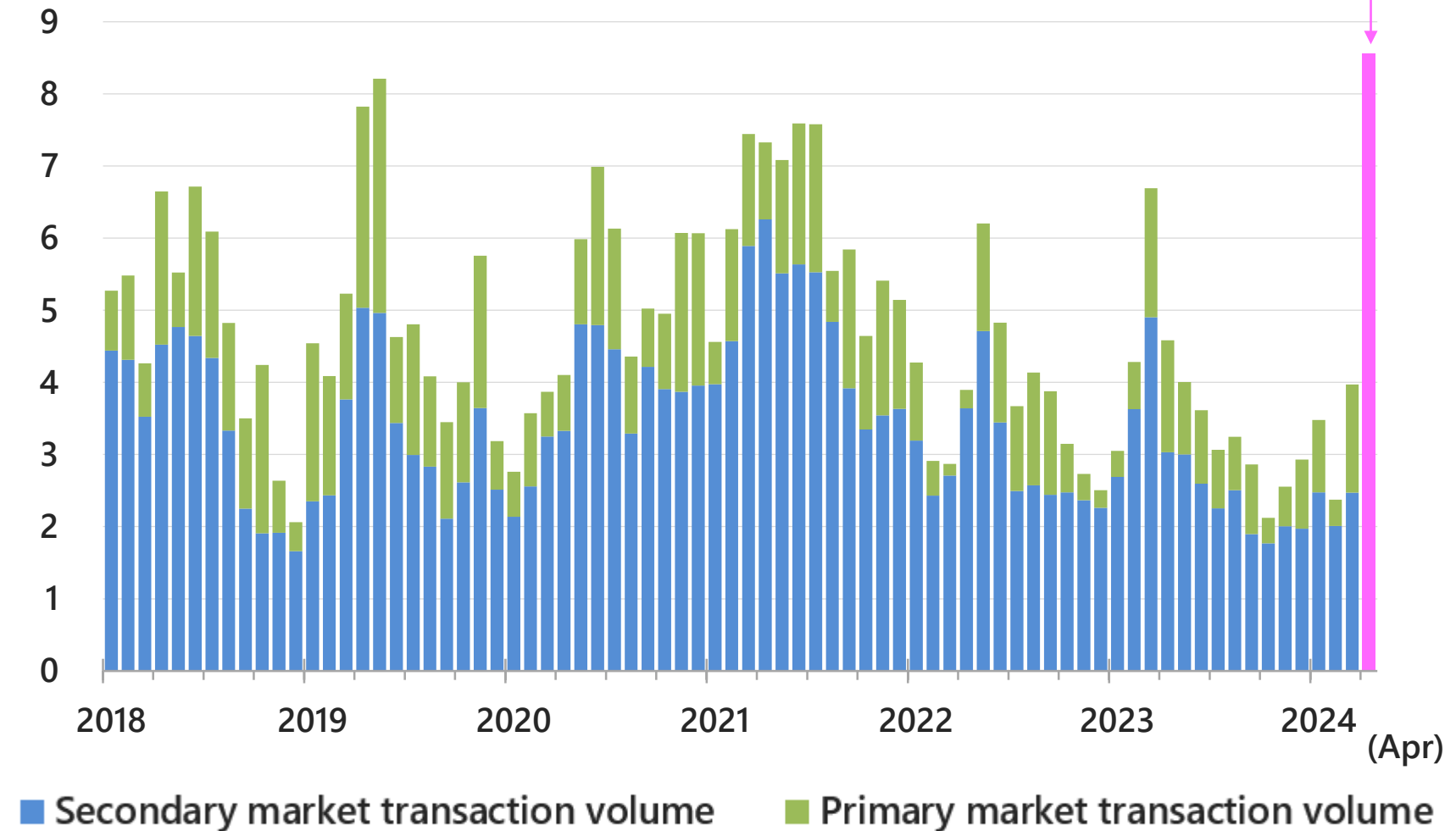
Property market sentiment improves



Property transactions increase



Number of transactions ('000)





Hong Kong's financial sector remains resilient

- The US Fed's future interest rate decisions will be dependent on incoming economic data, the evolving outlook, and the balance of risks. The timing and the pace of rate cuts are still subject to uncertainties
- While the high interest rate environment may last for some time, Asian economies and financial systems are resilient, supported by their robust policy frameworks and ample buffers
- The Hong Kong economy should continue to recover on the back of the improving Mainland economy, stabilising goods export and the hosting of various major events. However, the outlook is subject to geopolitical tensions and other uncertainties
- The local financial sector remains resilient with ample capital and liquidity buffers. Markets continue to operate in a smooth and orderly manner
- The HKMA has reminded banks to maintain a suitable balance between managing risk prudently and supporting the real economy. The HKMA, together with the Banking Sector SME Lending Coordination Mechanism, has announced a series of measures in assisting SMEs in obtaining bank financing

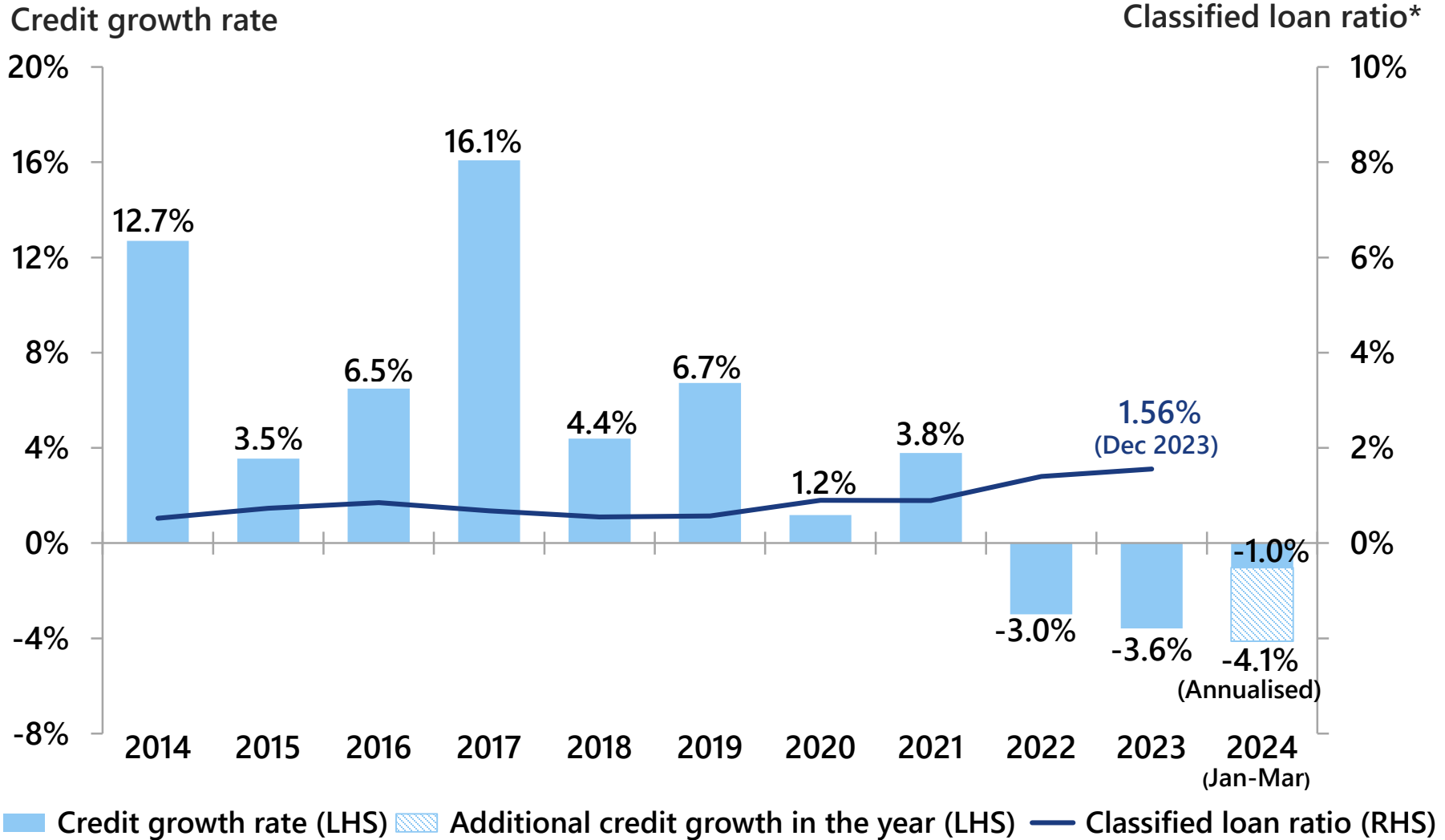


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Banking sector performance

Loan demand reduced while asset quality stays healthy



* Classified loan ratio of all authorized institutions

Source: HKMA



Supporting SMEs

- The HKMA and the Banking Sector SME Lending Coordination Mechanism introduced nine measures in March:
 - Support financing needs, including not demand early repayments from mortgagors repaying on schedule, provide a transition period for credit limit adjustments, and apply the principles under the Pre-approved Principal Payment Holiday Scheme to support customers facing difficulties
 - Offer more credit products through the use of fintech such as unsecured loans with fast approval
 - Enhance the bargaining power of SMEs to facilitate switching of lending banks



Legislative Proposals

International Standards Implementation

- **Basel III final reforms**
 - Amendments to Banking (Capital) Rules and Banking (Disclosure) Rules
- **Consequential and other updates**
 - Amendments to Banking (Exposure Limits) Rules and Banking (Liquidity) Rules
- **Progress**
 - Amendments passed negative vetting by the LegCo in January 2024
 - Commencement notice expected to be tabled to the LegCo around mid-2024

Review of the Banking Ordinance

- Amendments to the Banking Ordinance
- Target submission to LegCo: H2 2024

Hong Kong Taxonomy for Sustainable Finance



- The HKMA published the Hong Kong Taxonomy for Sustainable Finance on 3 May 2024
- Phase 2 development will commence soon to expand the coverage of sectors and activities, including transition activities



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Steady growth of Hong Kong's offshore renminbi (RMB) business



- Growth momentum of offshore RMB market continued in Q1 2024. Various businesses saw increasing trends

| (RMB bn) | Mar 2024 | Mar 2023 | Growth |
|--|----------|----------|--------|
| RMB deposits (incl. outstanding certificates of deposit) | 1,058.0 | 950.6 | 11% |
| Outstanding RMB loans | 524.2 | 245.4 | 114% |
| RMB bond issuance* | 142.0 | 123.3 | 15% |
| RMB trade settlement* | 3,713.7 | 2,312.6 | 61% |

*Figures of Jan-Mar period

Connectivity with the Mainland financial market



- Northbound Trading under Bond Connect remained active. In the first quarter of 2024, average daily turnover amounted to RMB45.2 billion (22% year-on-year growth). Southbound Trading has been in order, contributing to the growth in dim sum bond issuance and trading
- Banks may start using RMB bonds issued onshore by the Ministry of Finance and the policy banks in the Mainland as eligible collateral for obtaining liquidity from the HKMA's RMB Liquidity Facility from 26 February 2024 onwards. The HKMA is working with relevant authorities to explore more use cases of onshore bonds as collateral in the offshore market
- Enhancement measures of the Cross-boundary Wealth Management Connect Scheme went into effect on 26 February 2024. The majority of eligible Hong Kong banks have enhanced their services since the effective date. Operations have been smooth so far with positive market response, with a significant increase in the Southbound account opening, cross-border remittance and investment transactions in March. The HKMA is working with the industry to step up promotional and educational efforts

Developing Hong Kong's financial platform (1)



Green finance

- The HKMA assisted the Government in the second issuance of tokenised green bond in February 2024
- The HKMA is supporting the Government in expanding the scope of the Government Green Bond Programme to cover sustainable finance projects and setting up an Infrastructure Bond Programme
- The HKMA released an updated Guideline on the Green and Sustainable Finance Grant Scheme last week to implement the Budget proposal to extend the scheme by three years and expand the scope of subsidy to cover transition bonds and loans
- The Hong Kong Green Week – Finance Stream was successfully held in late February 2024 and achieved its intended outcome. More than 1,600 participants from close to 30 jurisdictions attended the various sustainability-themed events. The attendees were from financial institutions, corporates, central banks, international organisations, government agencies, academia, and professional services

Developing Hong Kong's financial platform (2)



Outreach

- The HKMA visited Paris, Brussels and New York in March and April 2024 to promote Hong Kong as an international financial centre. HKMA is planning to visit Malaysia and Indonesia to promote financial cooperation between Hong Kong and the two economies.
- Active preparations are under way for the third Global Financial Leaders' Investment Summit to be held on 18 – 20 November 2024

Stablecoin

- Collating the public views received on the legislative proposal to regulate stablecoin issuers, with a view to introducing the Bill into the LegCo as soon as possible
- The stablecoin issuer sandbox arrangement was launched in March 2024 to allow institutions planning to issue stablecoins in Hong Kong to conduct testing on their operational plans in a risk-controlled environment and facilitate two-way communications on the proposed regulatory requirements



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Financial infrastructures and fintech initiatives (1)



Financial infrastructures

- Operation of all financial infrastructures remains safe and efficient
- Registrations and turnover of the Faster Payment System (FPS) have been growing steadily
- Enhancement work of the Central Moneymarkets Unit (CMU) in good progress

Fintech

- Company search records from the Companies Registry are available to pilot banks through the connection between Commercial Data Interchange (CDI) and the Government's Consented Data Exchange Gateway (CDEG), effectively streamlining the KYC ("Know-Your-Customer") process

Financial infrastructures and fintech initiatives (2)



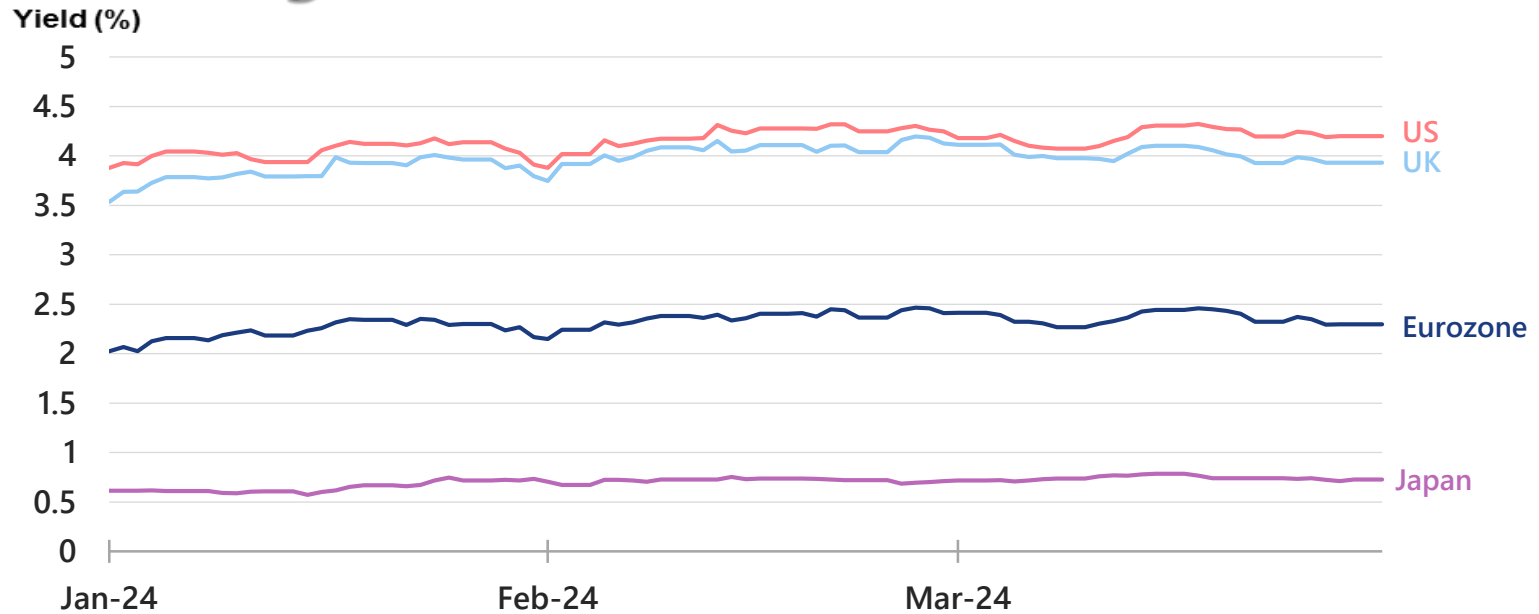
Central Bank Digital Currency (CBDC)

- For wholesale CBDC
 - Project mBridge: completed the development of the Minimum Viable Product (MVP); will enter into the MVP phase soon
 - Project Ensemble: commenced in March 2024 to render support to the development of the tokenisation market in Hong Kong
- For retail CBDC
 - Project e-HKD: announced the commencement of Phase 2 of the e-HKD Pilot Programme in March 2024

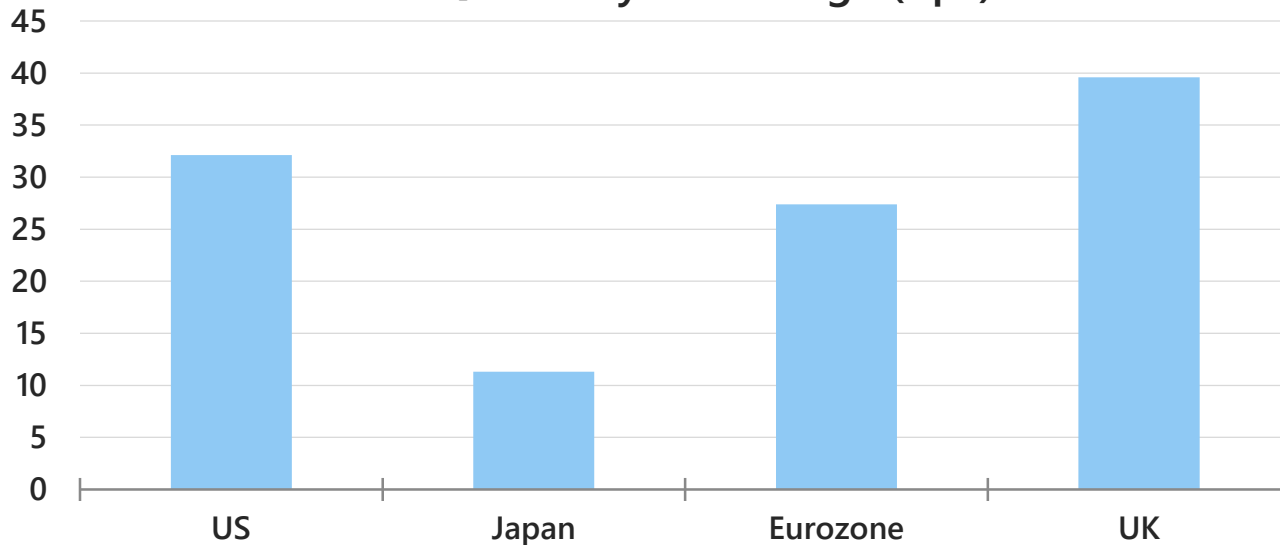


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Major 10-year sovereign bond yields remained high



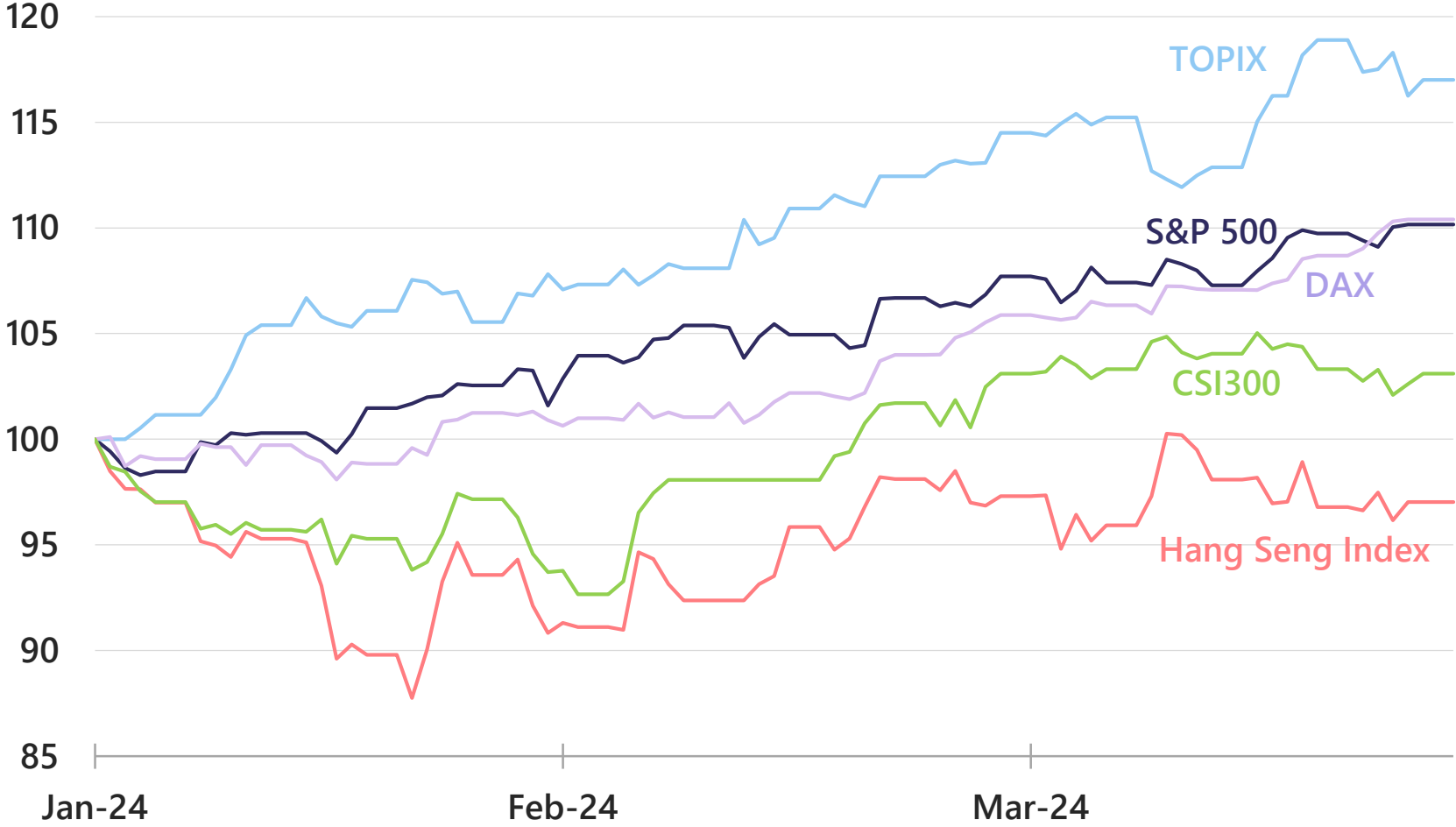
2024 Q1 bond yield change (bps)



Major equity markets rose; Mainland & Hong Kong markets adjusted



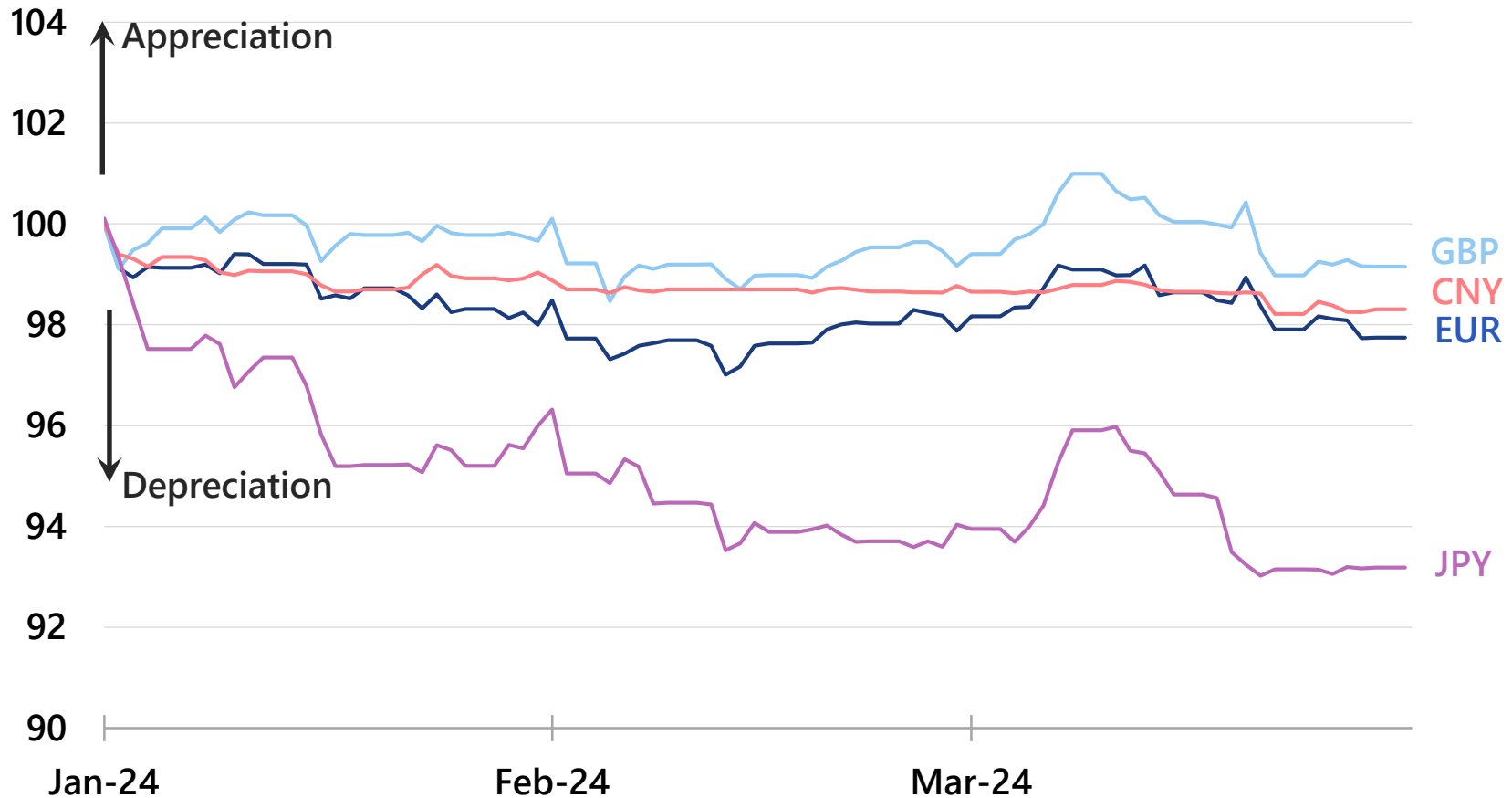
Normalised Index Level (2023 year-end = 100)



USD strengthened broadly against major currencies



Normalised FX Level Against USD (2023 year-end=100)





Investment Income

| | 2024 | 2023 | 2022 | 2021 |
|--------------------------------------|--------------|---------------|----------------|---------------|
| | (unaudited) | | | |
| (HK\$ billion) | Q1 | Full year | Full year | Full year |
| Bonds | 25.1 | 144.7 | (53.2) | 12.6 |
| Hong Kong equities* | (2.3) | (15.5) | (19.5) | (21.0) |
| Other equities | 36.3 | 73.6 | (61.0) | 68.8 |
| Foreign exchange[#] | (4.8) | (0.5) | (40.0) | 16.8 |
| Other investments[@] | - | 23.7 | (31.7) | 114.7 |
| Investment income/(loss) | 54.3 | 226.0 | (205.4) | 191.9 |

* Excluding valuation changes of the Strategic Portfolio.

This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. Valuation changes of these investments for the first quarter of 2024 are not yet available.



Income and Expenditure

| | 2024 | 2023 | 2022 | 2021 |
|---|---------------|---------------|----------------|--------------|
| | (unaudited) | | | |
| (HK\$ billion) | Q1 | Full year | Full year | Full year |
| Investment income/(loss) | 54.3 | 226.0 | (205.4) | 191.9 |
| Other income | - | 0.2 | 0.2 | 0.2 |
| Interest and other expenses | <u>(15.5)</u> | <u>(54.5)</u> | <u>(18.8)</u> | <u>(6.1)</u> |
| Net income/(loss) | 38.8 | 171.7 | (224.0) | 186.0 |
| Fee payment to Fiscal Reserves*# | (3.9) | (35.5) | (26.0) | (93.0) |
| Fee payment to HKSAR Government funds and statutory bodies* | (4.3) | (16.5) | (22.1) | (16.8) |

* The rate of fee payment is 3.7% for 2024, 3.7% for 2023, 5.6% for 2022 and 4.7% for 2021.

This does not include the 2024 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2024 is available.

The composite rate was 4.8% for 2023, -3.0% for 2022 and 17.8% for 2021. Fee payable to/(reversed from) the Future Fund was HK\$18.0 billion for 2023, HK\$(9.0) billion for 2022 and HK\$58.6 billion for 2021.



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Mortgage Insurance Programme (MIP)

- In 2024, as of 15 April, around 7,000 applications were approved, of which 781 were under the new coverage after the MIP revisions in July and September 2023. Over 90% of approved applications were from first-time homebuyers.
- Special premium concession for properties valued up to HK\$15 million has been provided to first-time homebuyers, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum loan-to-value ratio for banks

SME Financing Guarantee Scheme (SFGS)



- The Financial Secretary announced in the 2024-25 Budget that the application period of the 80% Guarantee Product and the 90% Guarantee Product of the SFGS be extended for two years to end-March 2026
- As of 15 April 2024, around 37,700 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$134.8 billion; over 66,500 applications were approved under the Special 100% Loan Guarantee, amounting to about HK\$142.2 billion
- Partial principal repayment options are available under the scheme, enabling the eligible enterprises to gradually switch from principal moratorium to normal repayments



Dedicated 100% Loan Guarantee Schemes

- The schemes for the cross-boundary passenger transport trade and the travel sector were launched on 29 April 2023 to support their business resumption. As of 15 April 2024, 217 applications were approved, amounting to about HK\$200 million. The application period of the schemes has been extended to 28 October 2024
- The scheme for battery electric taxis was launched on 4 September 2023 to encourage taxi owners to replace their existing taxis with battery electric taxis. As of 15 April 2024, four applications were approved, amounting to about HK\$1.3 million