



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

3 May 2021

[Translation]

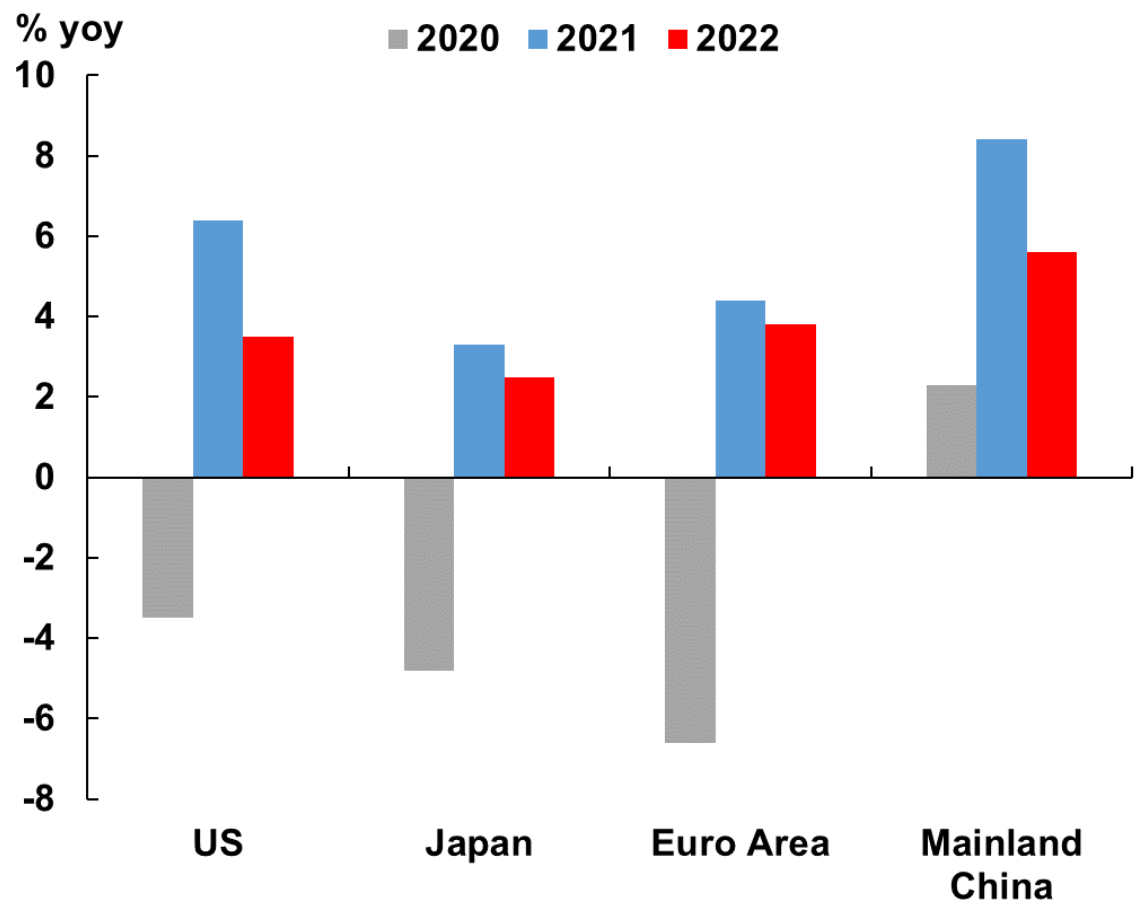


- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
6. Hong Kong Mortgage Corporation



GLOBAL ECONOMY, ESPECIALLY MAINLAND & US, SET FOR STRONG RECOVERY THIS YEAR

IMF's Growth Projections

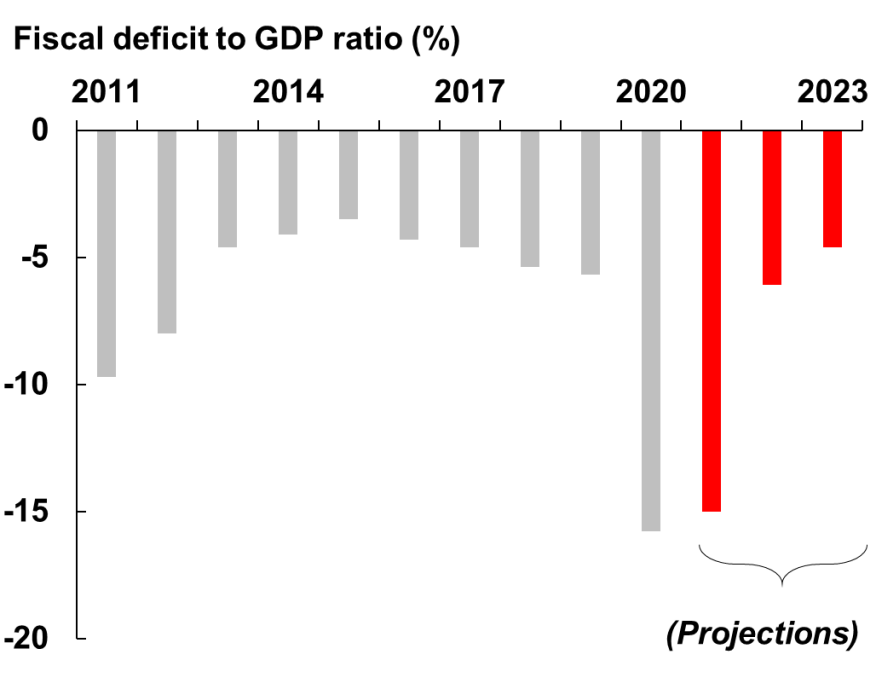


Source: International Monetary Fund



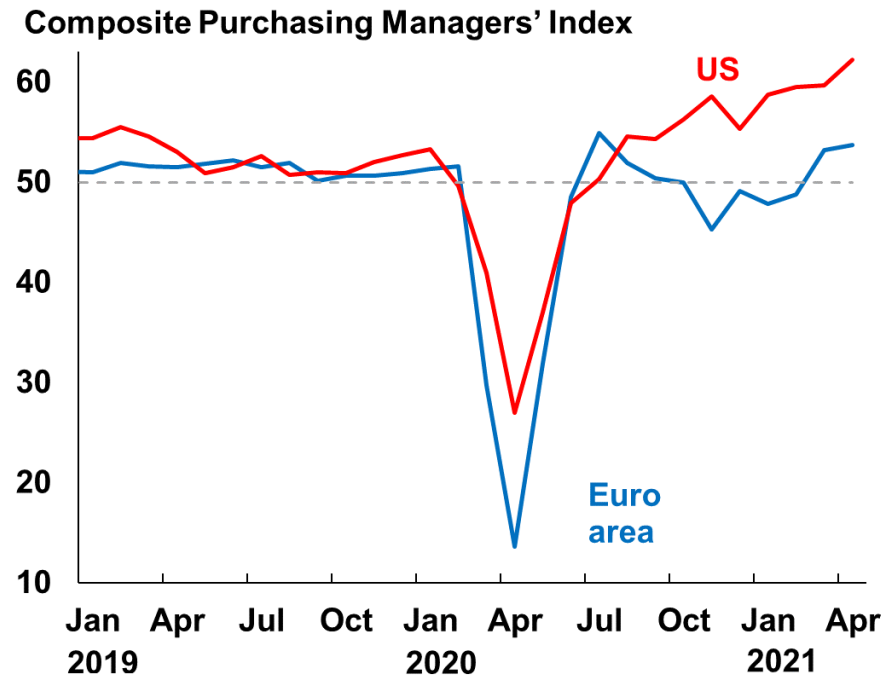
US ECONOMY SUPPORTED BY FISCAL & MONETARY EASING

US continued to roll out sizeable fiscal stimulus



Source: International Monetary Fund

US economic recovery accelerated

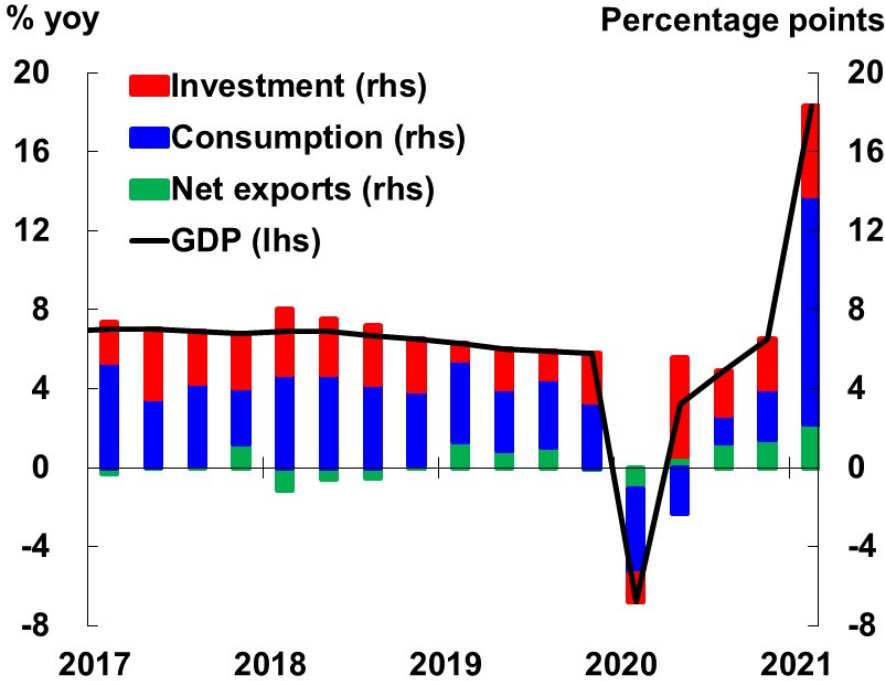


Source: Markit



MAINLAND SHIFTS TO GUARD AGAINST FINANCIAL RISK

Economic recovery continues



Source: National Bureau of Statistics of China

Guarding against financial risk

Recent measures

Real estate market

- Tightening financing for the real estate sector

Local state-owned enterprises

- Stepping up risk management of debts

Small and medium-sized banks

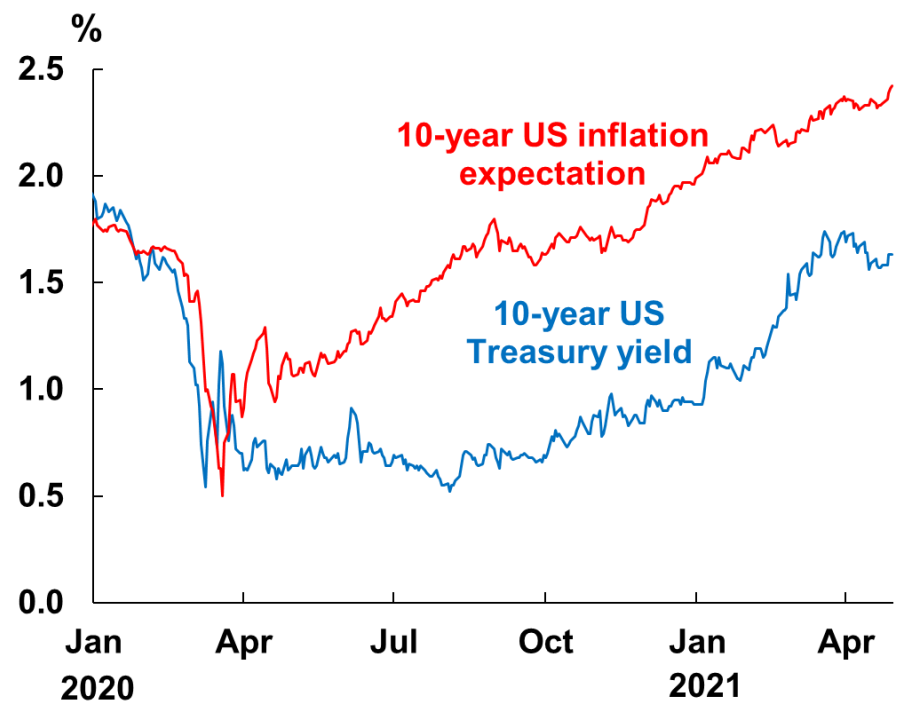
- Continued strengthening of capability to address risks

Sources: The People's Bank of China, China Banking and Insurance Regulatory Commission and State-owned Assets Supervision and Administration Commission of the State Council



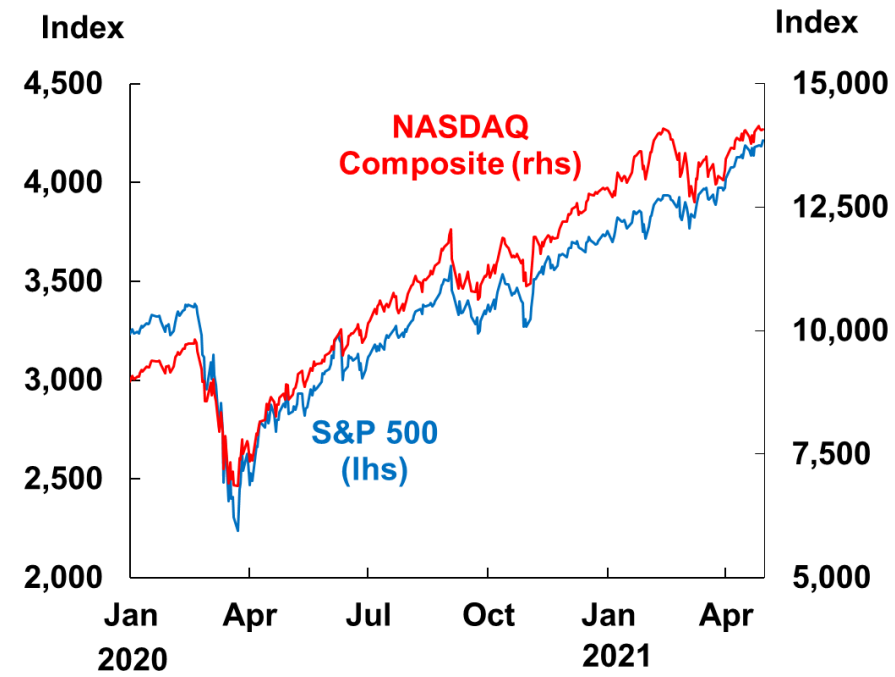
SIZEABLE STIMULUS MEASURES IN US MAY POINT TO POTENTIAL VULNERABILITIES

US bond yields increased alongside rising inflation expectations



Source: Federal Reserve Bank of St Louis

Mixed performance in US stocks

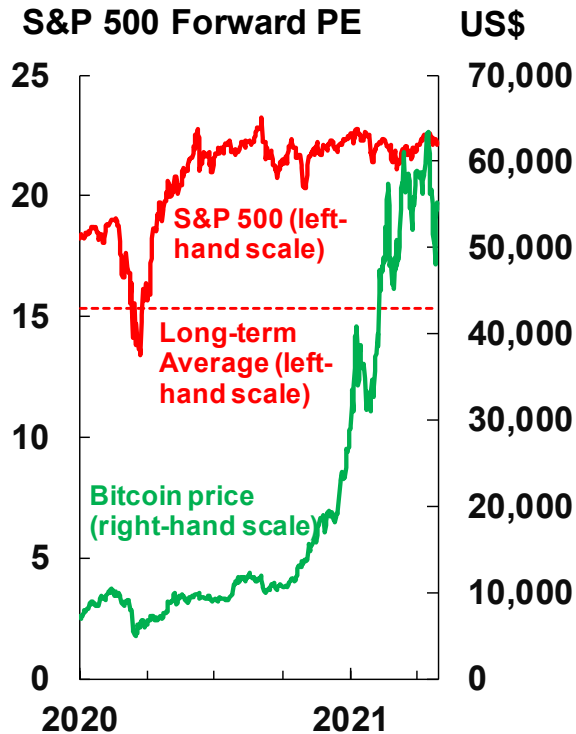


Source: Federal Reserve Bank of St Louis



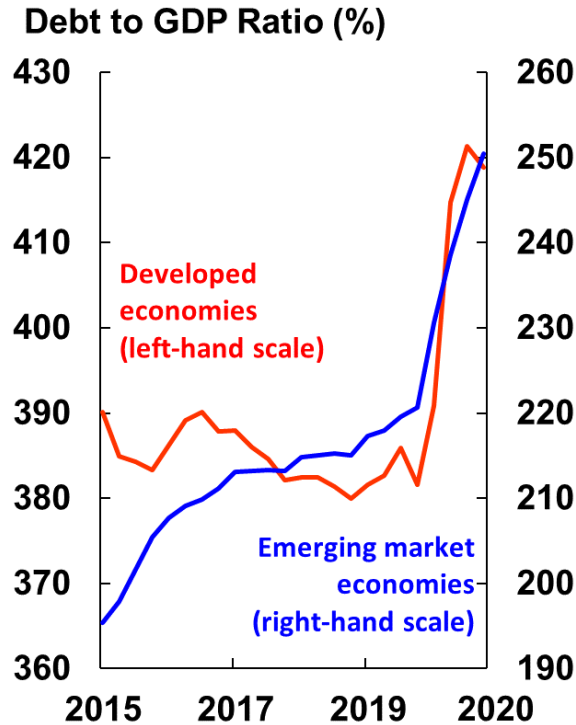
POLICY SHIFTS AMID FINANCIAL IMBALANCE MAY CAUSE SIGNIFICANT MARKET VOLATILITIES

Disconnect between financial
asset prices and real economy



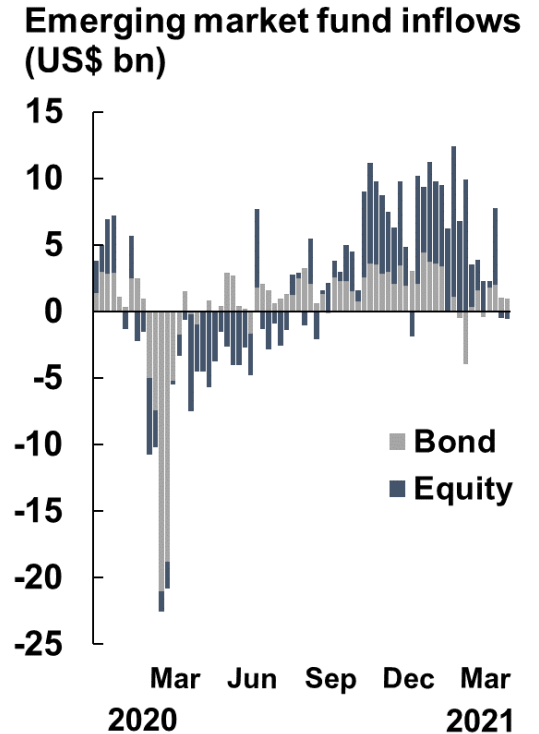
Source: Bloomberg

Global debt on the rise



Source: IIF

Emerging market
fund inflows continue

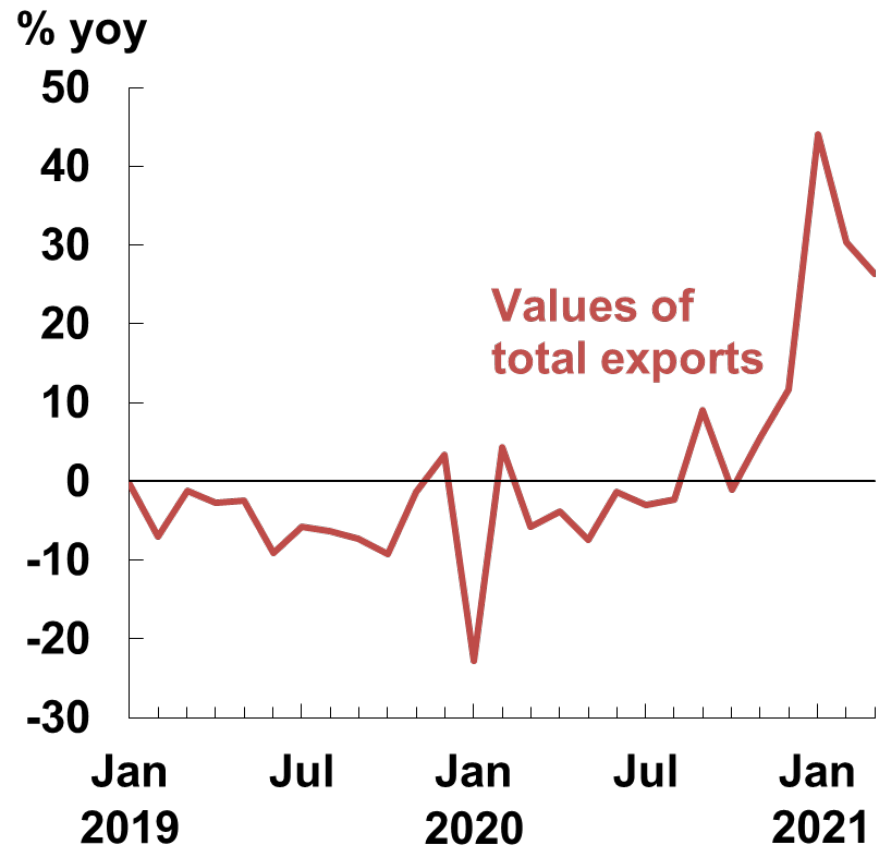


Source: EPFR



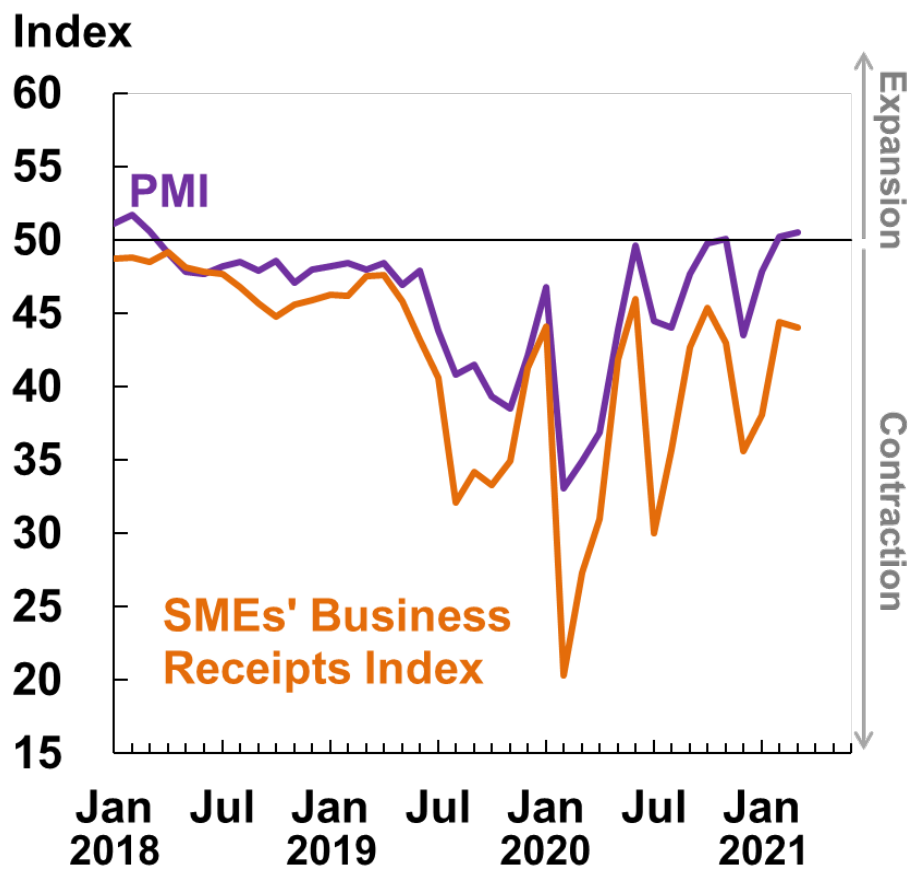
HONG KONG ECONOMY GRADUALLY STABILISES ALONGSIDE EXTERNAL ENVIRONMENT

Exports of goods stabilise



Source: C&SD

Business sentiment revives

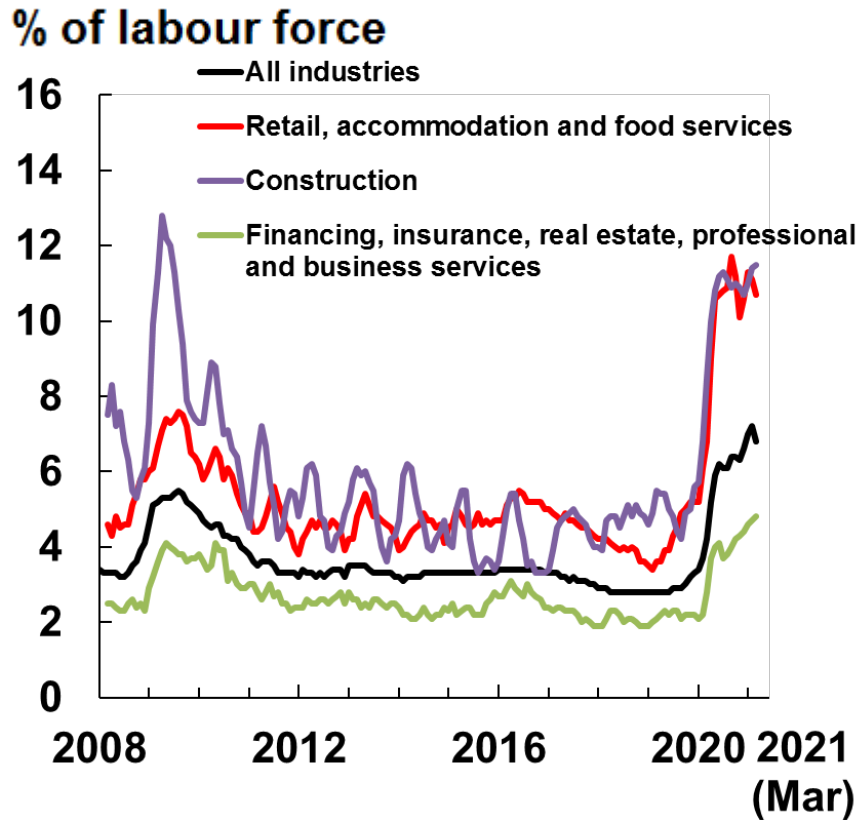


Sources: C&SD and Markit



YET JOB MARKET & RETAIL BUSINESS ENVIRONMENT REMAIN WEAK

Unemployment rate stays high



Source: C&SD

Retail sales remain lacklustre

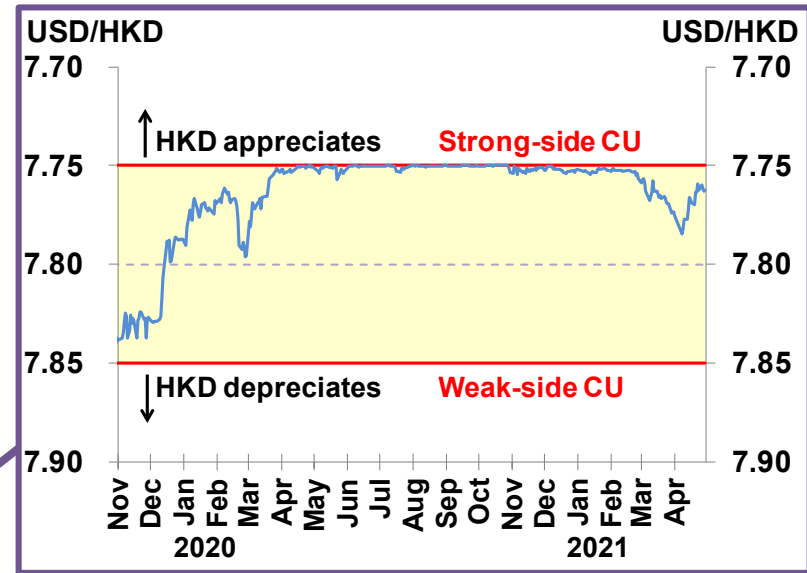
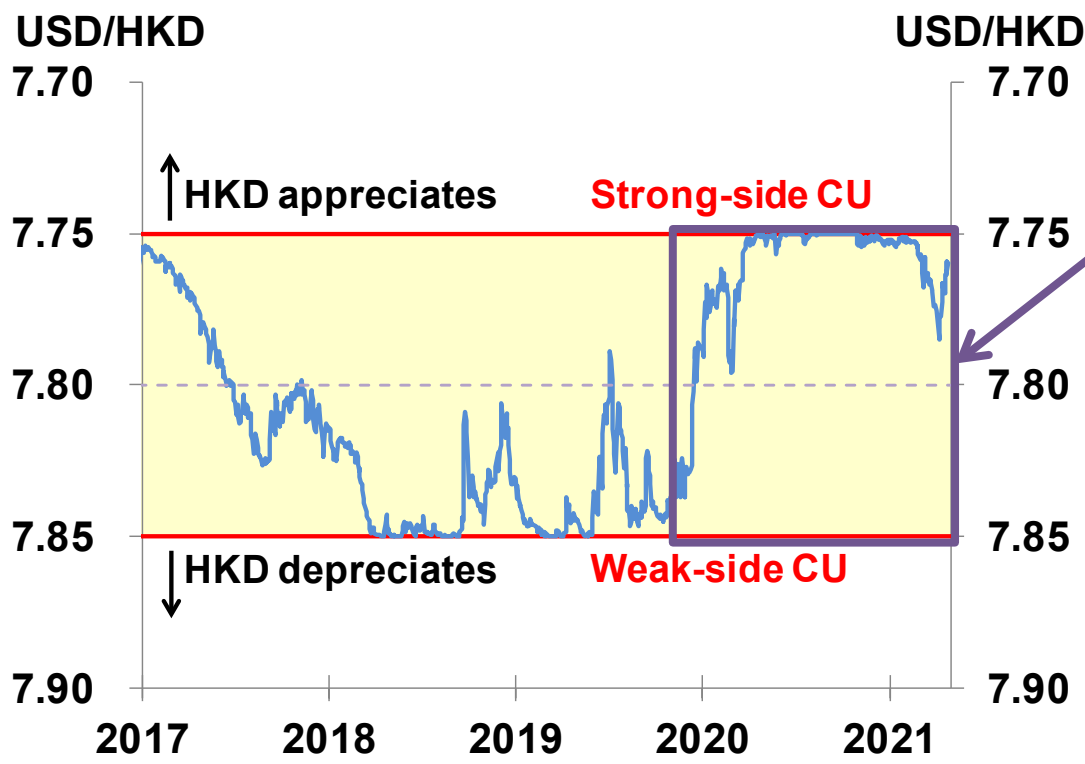


Note: As figures for January and February 2021 were relatively volatile, subject to the low base effect with the timing of the Chinese New Year and the pandemic, they were combined for analysis.

Source: C&SD



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: HKD REMAINS STABLE

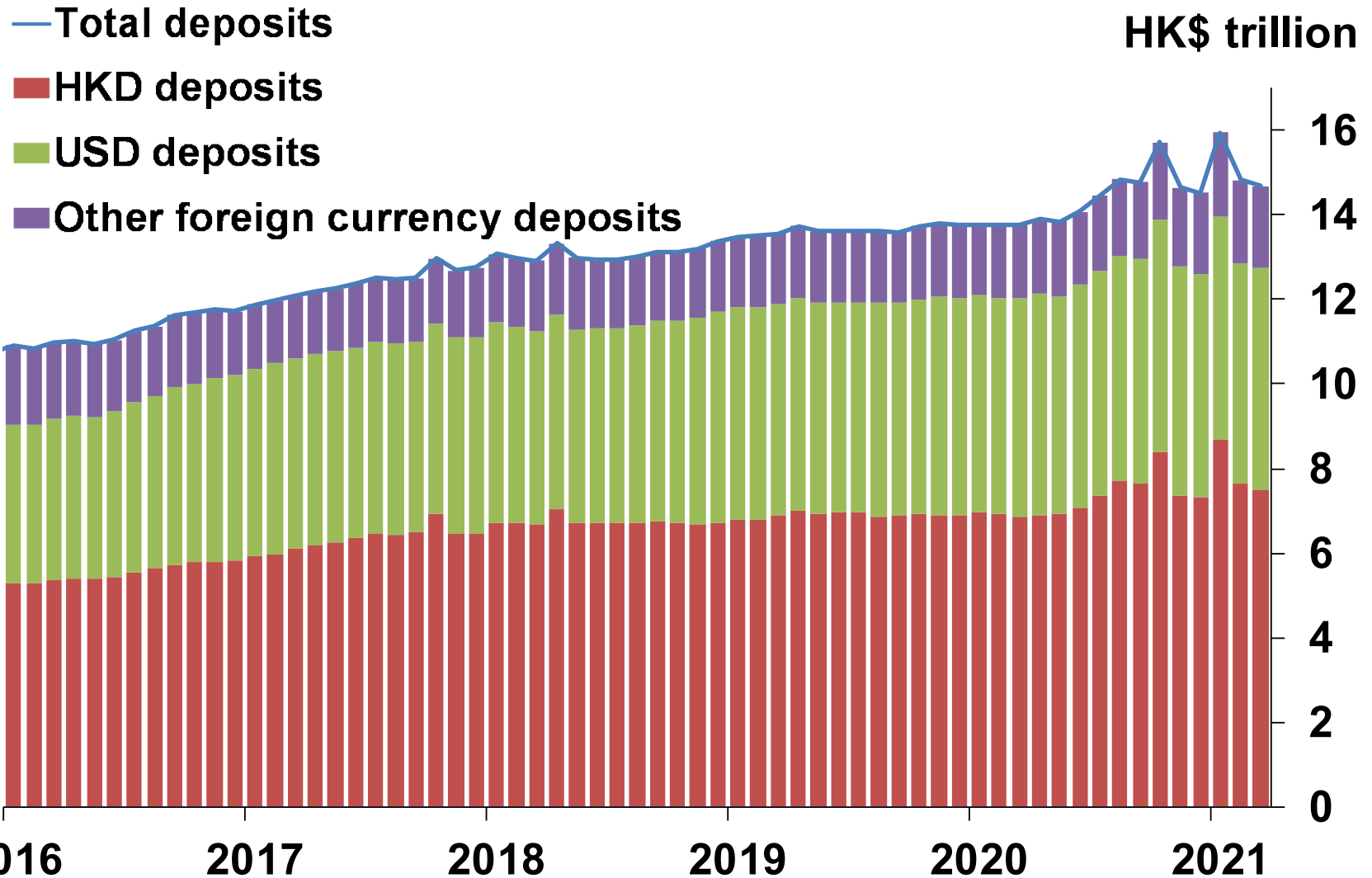


Year	Trigger of Weak-side CU	Outflows from HKD (HK\$ bn)
2018 Apr - Aug	27 times	103.5
2019 Jan - Mar	8 times	22.1

Year	Trigger of Strong-side CU	Inflows into HKD (HK\$ bn)
2020 Apr	6 times	20.7
2020 Jun - Oct	79 times	362.8



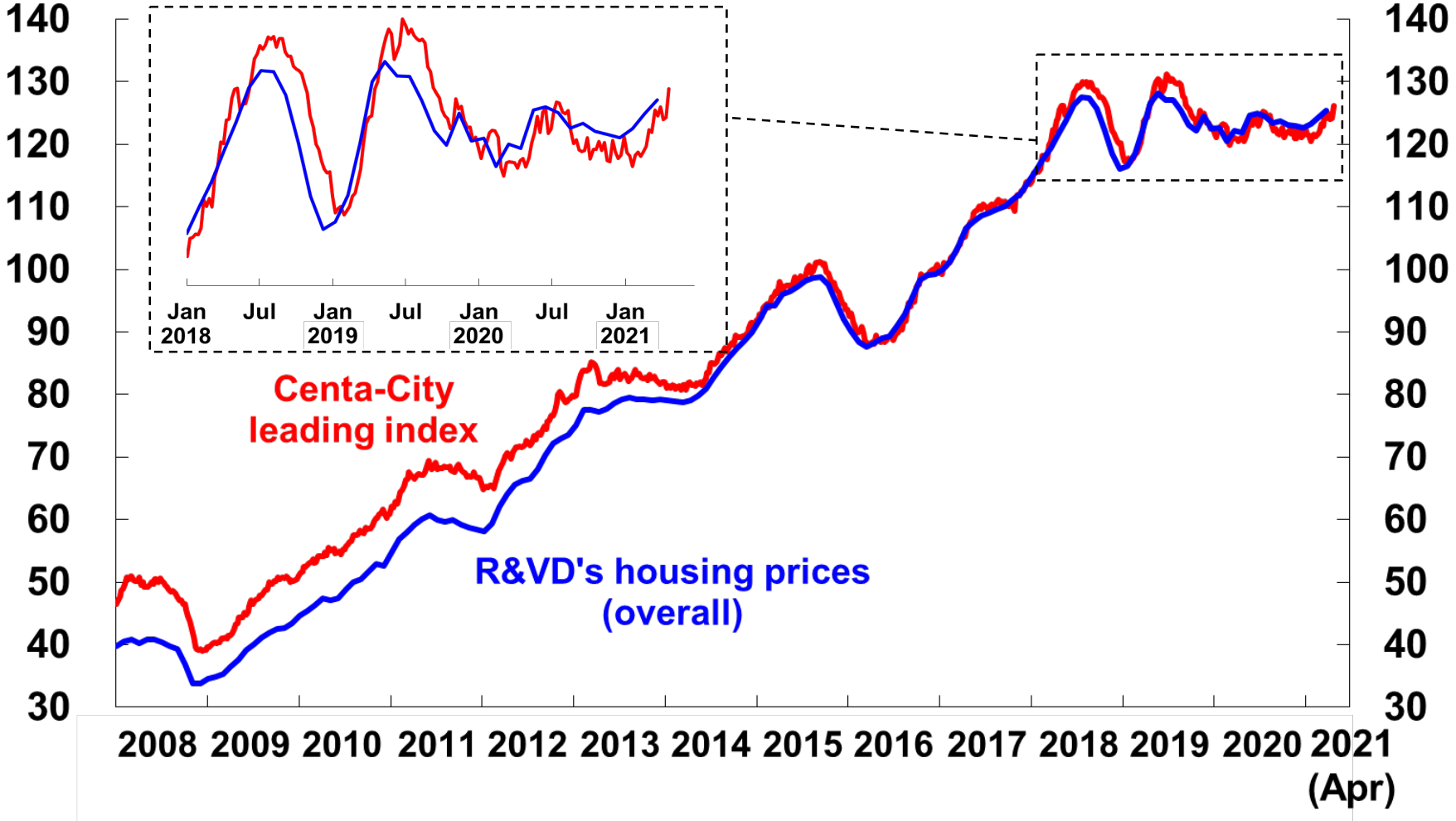
ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: BANK DEPOSITS REMAIN STABLE





ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY PRICES STABILISE

Index
(Jan 2017 = 100)

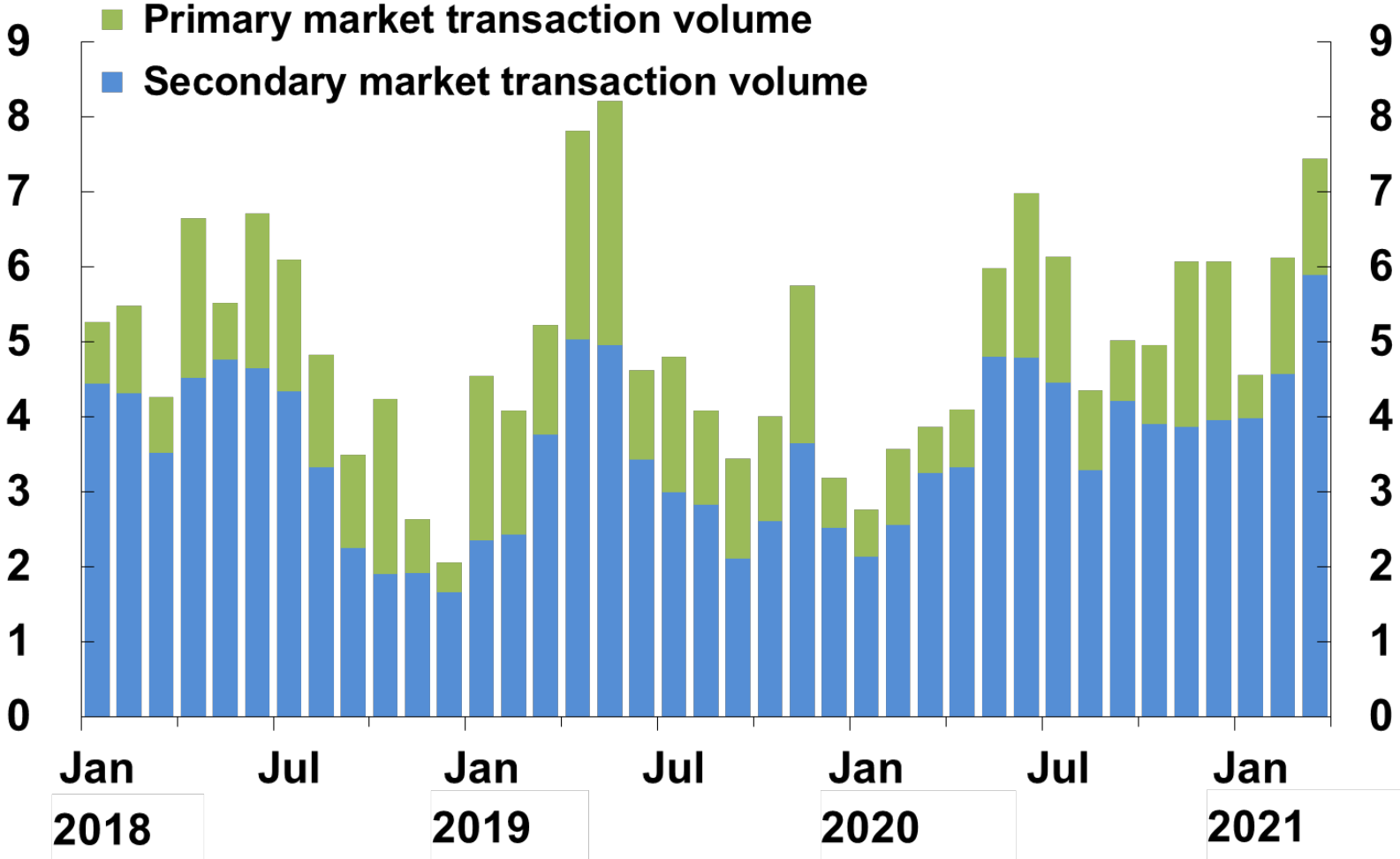


Sources: Rating and Valuation Department and Centaline Property Agency Limited



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY TRANSACTIONS INCREASE

Number of transactions ('000)



Source: Land Registry



HONG KONG'S FINANCIAL SECTOR REMAINS PRUDENT AND ROBUST

- Global economy is expected to recover as vaccinations get under way, while the strength and pace of recovery would depend on factors including vaccine availability and reach
- Amid a sharp rebound in the US economy, the market will keep a close watch on US inflation and US Fed's monetary policy outlook
- Policy shifts may lead to significant volatilities in financial markets and a reversal in emerging market fund flows
- Hong Kong's financial system has strong fundamentals and resilience while the Linked Exchange Rate System continues to operate effectively
- The HKMA will continue to closely monitor market developments. The public should also exercise caution in managing their risk exposures

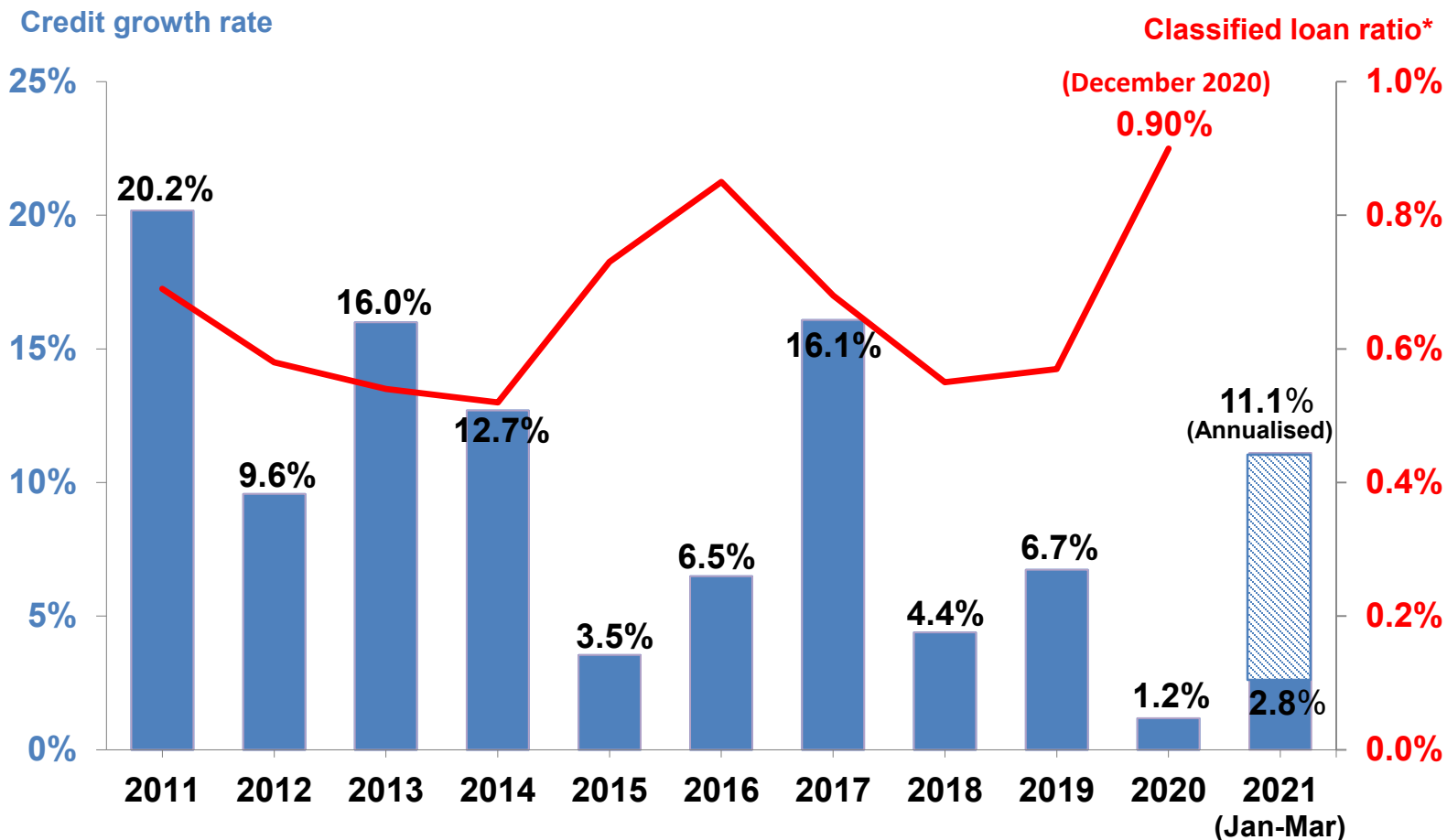


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BANKING SECTOR PERFORMANCE

Credit growth rebounded,
while asset quality remains healthy



Notes: * Classified loan ratio of all AIs

Source: HKMA



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

Extended Pre-approved Principal Payment Holiday Scheme

- As announced in March, principal payments of eligible small and medium-sized enterprises (SMEs) to be deferred by another 6 months till October 2021

Enhanced SME Financing Guarantee Scheme

- Enhanced the Special 100% Loan Guarantee Scheme
- Principal moratorium for 80% and 90% Guarantee Products deferred till end-2021

- Aggregate number of cases involving credit relief (up to March 2021):
 - Corporate customers: 62,000 cases (HK\$770 billion)
 - Individual customers: 34,000 cases (HK\$47 billion)



LEGISLATIVE WORK

International Standards

2021

- Amendments to Banking (Capital) Rules – revised capital treatment on banks' equity investments in funds
- Amendments to Banking (Exposure Limits) Rules – technical refinements

2022

- Amendments to Banking (Capital) Rules – Basel III final reform package

Resolution Regime

- Industry consultation on draft text of the rules to be made under the Financial Institutions (Resolution) Ordinance on contractual stays (Stay Rules) closed in January 2021. The plan is to introduce the Stay Rules into the Legislative Council for negative vetting in the current Legislative Session



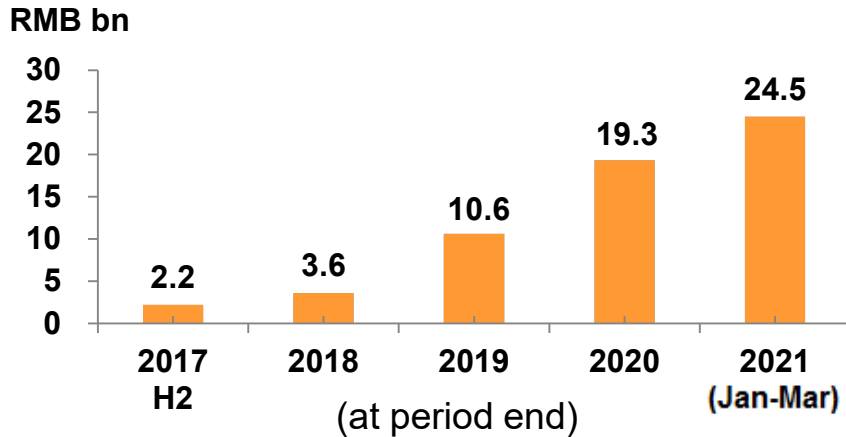
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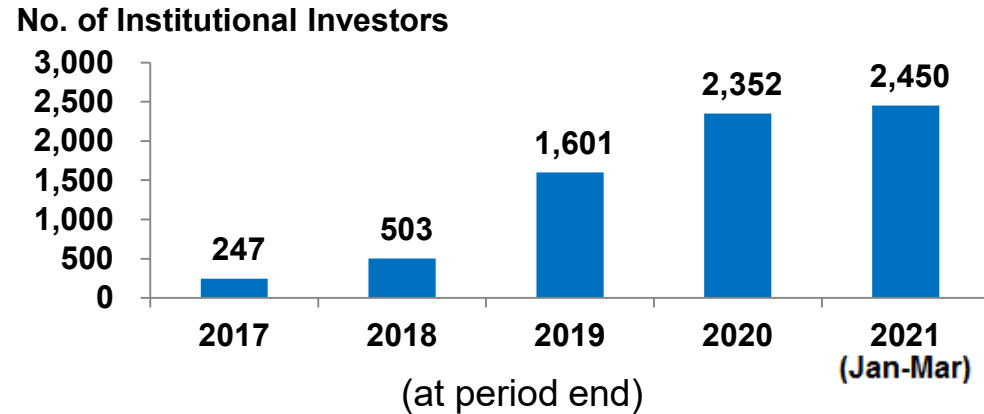
MUTUAL MARKET ACCESS SCHEMES OPERATE SMOOTHLY

- Trading under Bond Connect continued to thrive against increasing inclusion of RMB assets in global financial indexes

Average Daily Turnover



Number of Registered Institutional Investors



- The HKMA and the People's Bank of China are studying the framework of Southbound Bond Connect
- Following two rounds of industry consultation on the implementation arrangements of Wealth Management Connect, the HKMA has been finalising implementation details with other regulators. A Memorandum of Understanding on supervisory cooperation was signed in February 2021



DEVELOPING HONG KONG'S FINANCIAL PLATFORM – PRIVATE EQUITY (PE) FUND PLATFORM

- The new limited partnership regime for PE funds came into operation on 31 August 2020. Over 200 funds had been registered under the new regime as of end-April 2021. In February 2021, the Government consulted the Financial Affairs Panel on the legislative proposal to allow foreign investment funds to re-domicile to Hong Kong and plans to introduce a bill within the current legislative session
- The HKMA has also been working with the Administration on the legislative proposal to provide tax concession for PE carried interest. The Legislative Council passed the relevant bill on 28 April 2021



DEVELOPING HONG KONG'S FINANCIAL PLATFORM – GREEN FINANCE

- The HKMA successfully supported the Government in issuing US\$2.5 billion green bonds in February 2021, comprising 5-year, 10-year and 30-year tranches. The green bonds saw strong demand from investors, attracting orders more than five times the issuance size. The HKMA will assist the Government in additional green bonds issuances including retail green bonds, to promote the development of green finance in Hong Kong
- The Green and Sustainable Finance Grant Scheme will commence operations in mid-May to cover eligible bond issuers and loan borrowers' expenses on bond issuance and external review services. The Scheme will last for three years and the HKMA will be the administrator



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FASTER PAYMENT SYSTEM (FPS)

March 2021

7.72 million
No. of Registrations



FPS ID



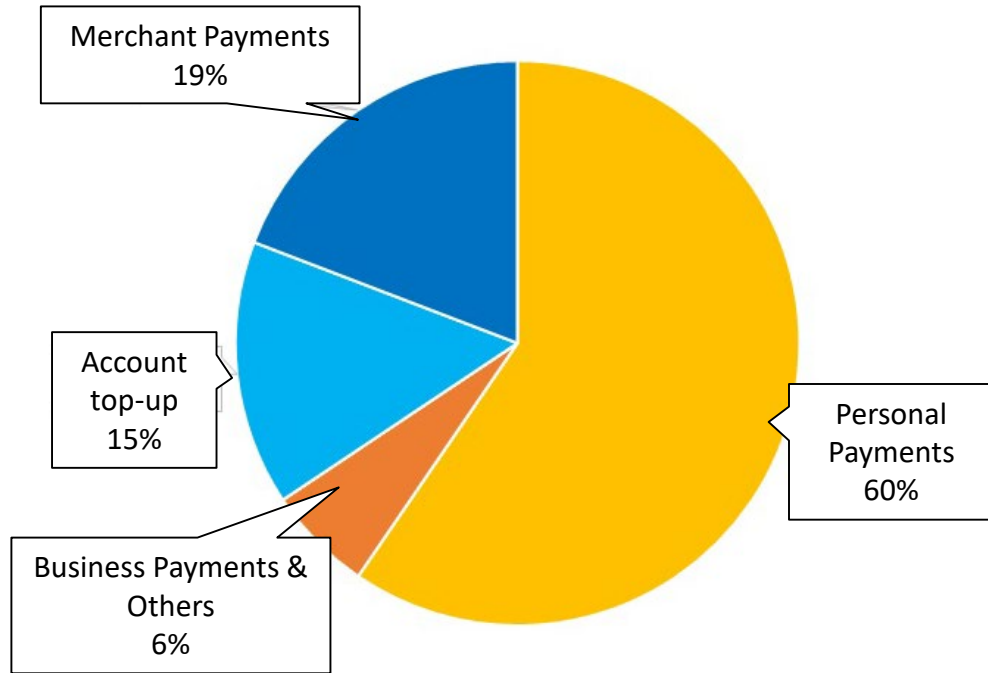
4.84mn

1.23mn

1.36mn

0.29mn

No. of HKD transactions



595K
Average daily volume of
HKD transactions

123% (yoy)



HK\$5.4 bn
Average daily value of
HKD transactions

70% (yoy)



LATEST FINTECH INITIATIVES

- In partnership with the Bank for International Settlements Innovation Hub, expanded the Central Bank Digital Currency research project initiated by the HKMA and Bank of Thailand, and included two additional central banking institutions:
 - Digital Currency Institute of the People's Bank of China
 - Central Bank of the United Arab Emirates
- Launched Cross-border Testing (CBT) with the Global Financial Innovation Network (GFIN) and received 26 applications



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INVESTMENT INCOME

	2021		2020	2019	2018
	(unaudited)				
(HK\$ billion)	Q1	Full Year	Full Year	Full Year	
Hong Kong equities*	7.6	4.0	22.1	(20.7)	
Other equities	18.8	69.9	100.7	(38.7)	
Bonds	(16.0)	92.7	114.5	57.4	
Foreign exchange#	1.2	9.6	(13.0)	(9.0)	
Other investments@	-	59.6	37.9	21.9	
Investment income	11.6	235.8	262.2	10.9	

* 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. Valuations of these investments for the first quarter of 2021 are not yet available.



INCOME AND EXPENDITURE

	2021	2020	2019	2018
	(unaudited)			
(HK\$ billion)	Q1	Full Year	Full Year	Full Year
Investment income	11.6	235.8	262.2	10.9
Other income	-	0.2	0.2	0.2
Interest and other expenses	<u>(1.3)</u>	<u>(14.6)</u>	<u>(24.8)</u>	<u>(17.9)</u>
Net income/(loss)	10.3	221.4	237.6	(6.8)
Fee payment to Fiscal Reserves [#]	(9.2)	(69.8)	(53.8)	(60.2)
Fee payment to HKSAR government funds and statutory bodies [*]	(3.9)	(11.5)	(9.0)	(13.8)

* The rate of fee payment is 4.7% for 2021, 3.7% for 2020, 2.9% for 2019 and 4.6% for 2018.

This does not include the 2021 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2021 is available.

(The composite rate was 12.3% for 2020, 8.7% for 2019 and 6.1% for 2018. Fee payable to the Future Fund was HK\$37.2 billion for 2020, HK\$24.4 billion for 2019 and HK\$16.4 billion for 2018.)



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SME FINANCING GUARANTEE SCHEME

- Special 100% Loan Guarantee:
 - Application period extended to 31 December 2021 with enhancement measures introduced, which include increasing the maximum loan amount per enterprise, extending the repayment period and principal moratorium period
 - As of 15 April 2021, over 30,300 applications were approved, amounting to about HK\$49.2 billion. Around 19,100 applications have chosen the principal moratorium option
- 80% and 90% Guarantee Products:
 - In 2021, as of 15 April, over 1,200 applications were approved, with total loan amount of about HK\$4.1 billion
 - Application period for principal moratorium is extended to 31 December 2021



PERSONAL LOAN GUARANTEE SCHEME

- The Financial Secretary proposed in the 2021-22 Budget to introduce the 100% Personal Loan Guarantee Scheme for unemployed persons:
 - Eligible borrowers should be Hong Kong permanent residents aged 18 or above, who have been unemployed for at least two months at the time of loan application and can demonstrate cessation of main recurrent incomes from employment in Hong Kong
 - Maximum loan amount is six times the average monthly income for any three months within specified period, with an upper limit of HK\$80,000
 - Maximum repayment period is six years, with an option of principal moratorium for the first 12 months
 - Effective fixed interest rate is 1% p.a.; interests will be refunded after the loans are fully repaid by the end of the repayment period
 - Application period lasts for six months from the launch of the scheme



MORTGAGE INSURANCE PROGRAMME (MIP)

- In 2021, as of 15 April 2021, around 17,000 applications have been approved year-to-date, of which over 12,800 are under the new coverage after the MIP revisions in October 2019. Over 90% of approved applications are from the first-time homebuyers
- Principal moratorium or extension of repayment schedules is available to borrowers to help reduce their repayment burden