



HONG KONG MONETARY AUTHORITY

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

3 May 2022

[Translation]

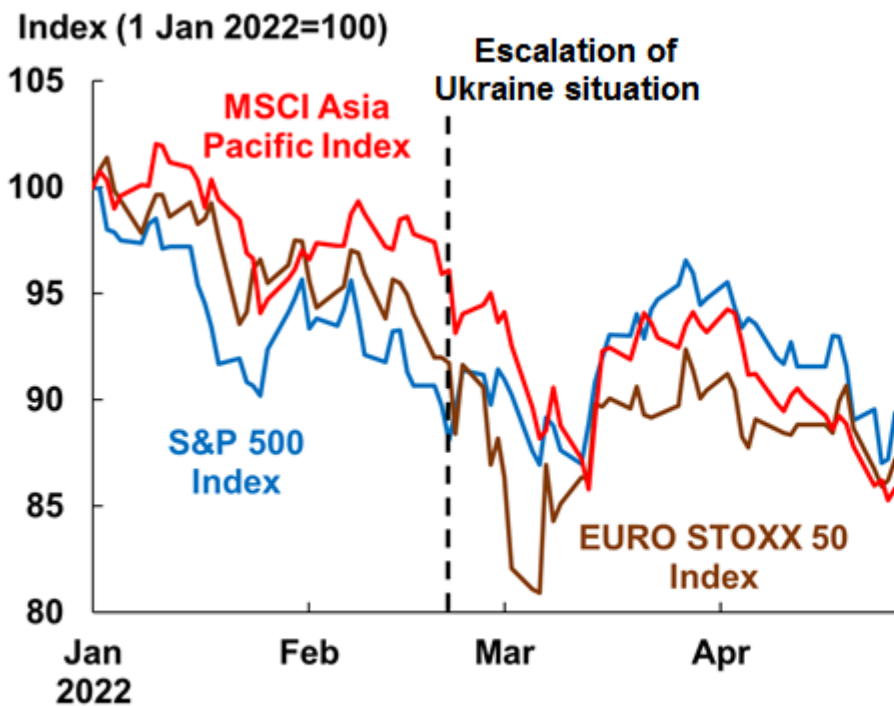


- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
6. Hong Kong Mortgage Corporation



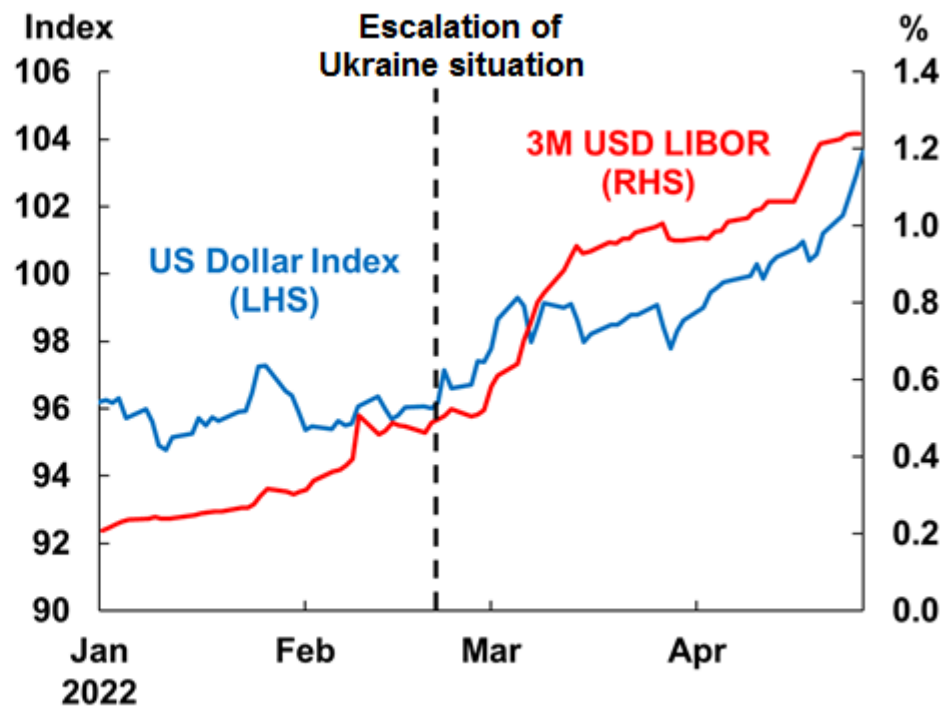
UKRAINE SITUATION AND US FED RATE HIKE EXPECTATIONS TRIGGERED SIGNIFICANT MARKET VOLATILITY

Ukraine situation weighed on equity markets



Source: Datastream

Risk-aversion sentiment and growing US Fed rate hike expectations tightened USD liquidity

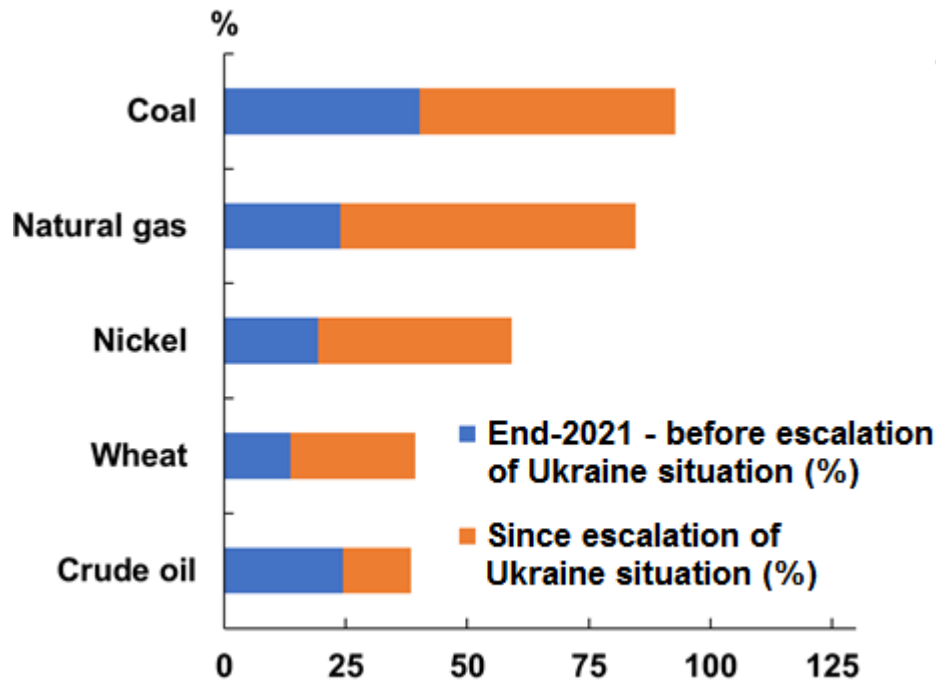


Source: Bloomberg



RISING COMMODITY PRICES INCREASE INFLATION RISK

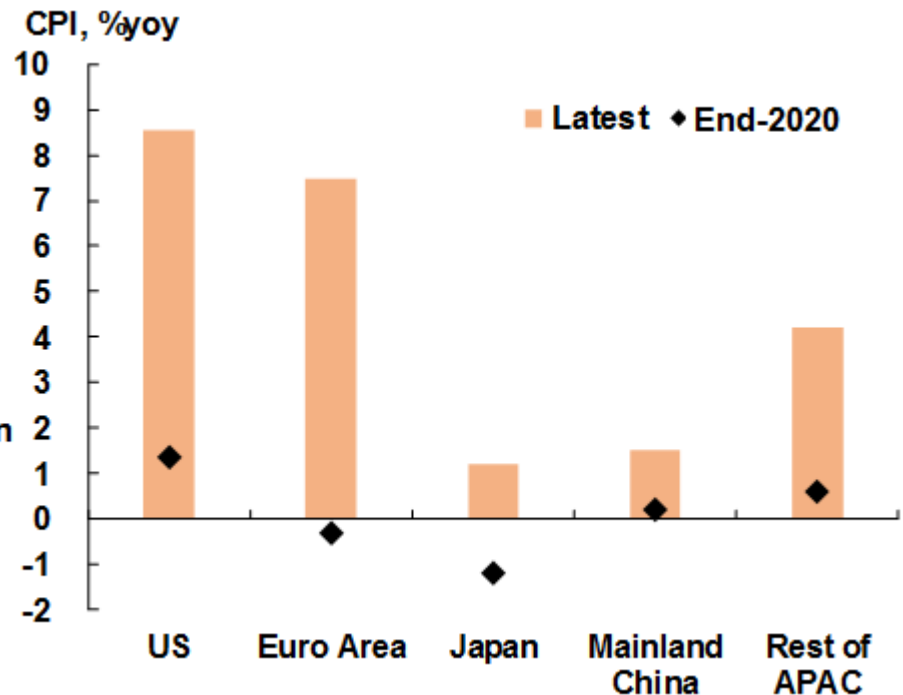
Ukraine situation causes commodity prices to rise



Note: Data for nickel are as of 27 Apr while data for other commodities are as of 28 Apr.

Sources: CEIC and Refinitiv

Inflation risk goes up further



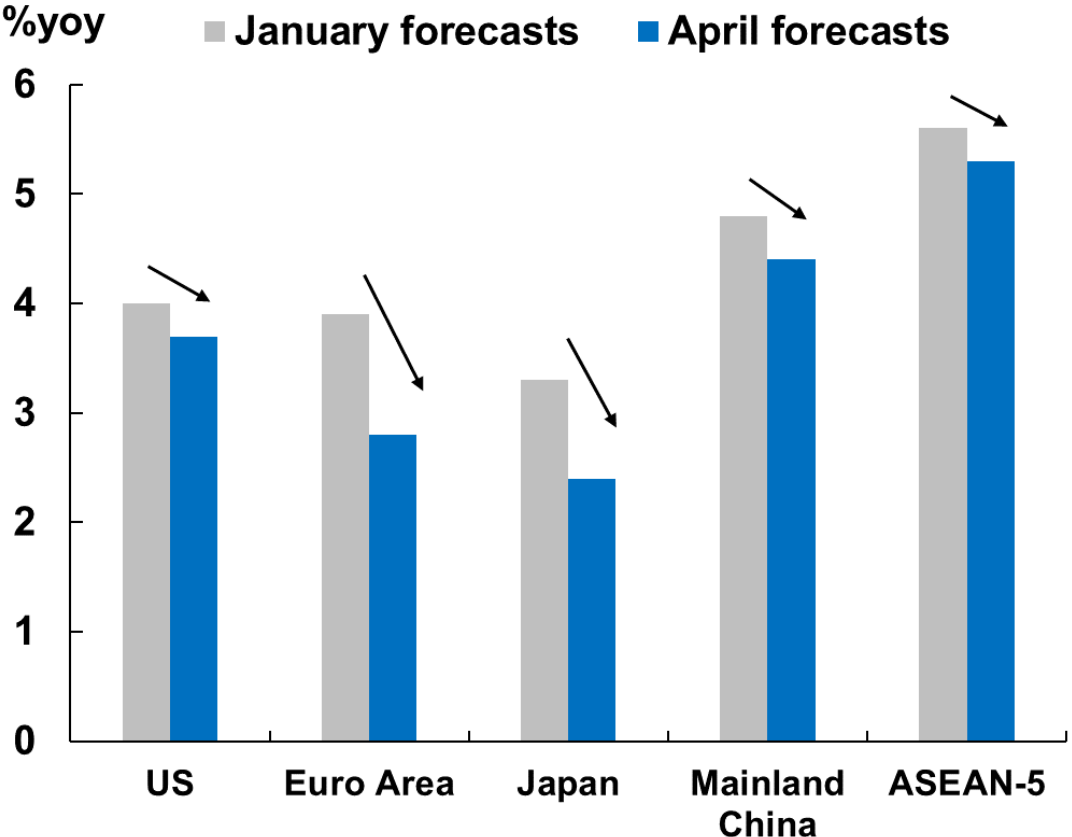
Note: Data for the rest of Asia Pacific (including Australia, Hong Kong, South Korea, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand) are drawn from the simple averages of respective economies.

Source: CEIC



GLOBAL GROWTH PROJECTIONS WERE DOWNGRADED

International Monetary Fund's 2022 growth projections

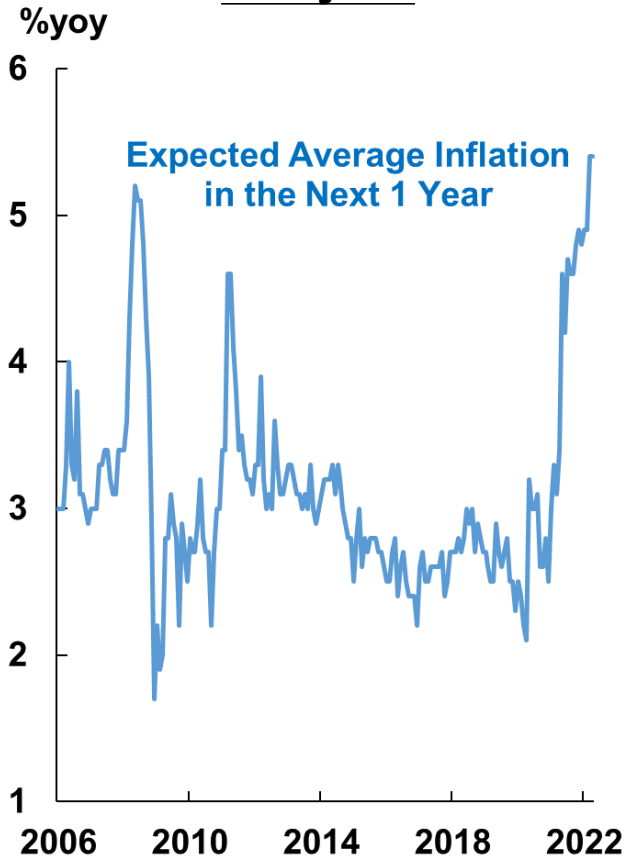


Source: International Monetary Fund



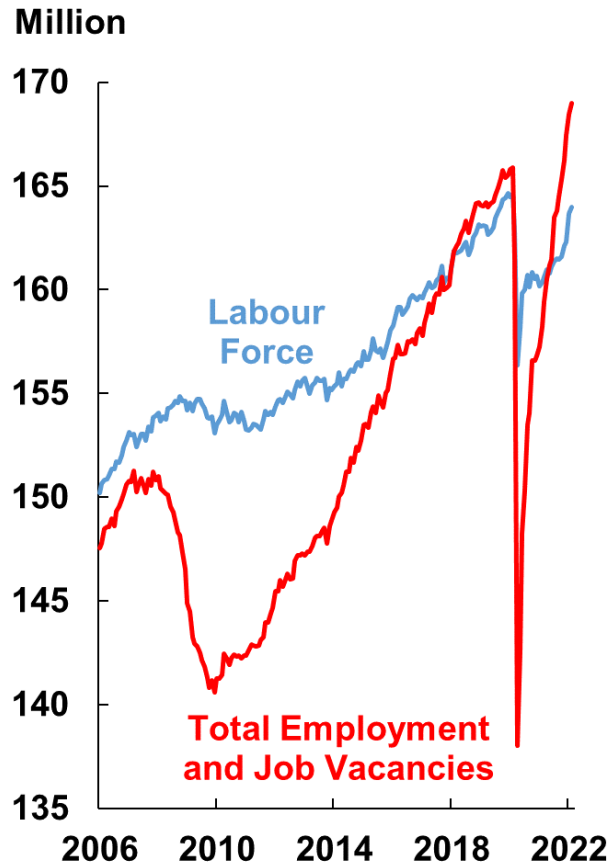
ELEVATED INFLATION PRESSURE IN THE US PROMPTS ACCELERATED MONETARY POLICY TIGHTENING

Inflation expectations have been rising since last year



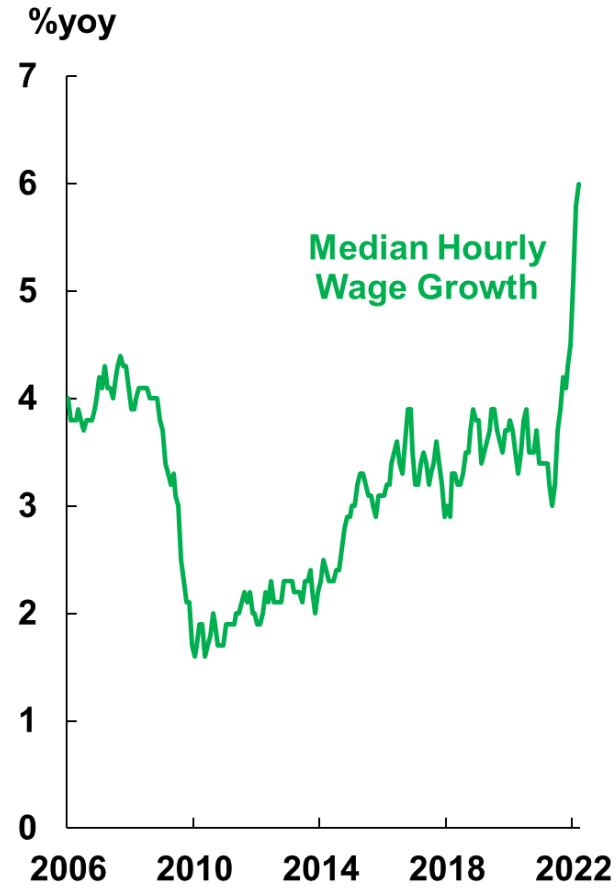
Note: This chart shows the median of expected average inflation.
Source: University of Michigan

Labour demand far exceeds supply...



Source: CEIC

... leading to a sharp rise in wages

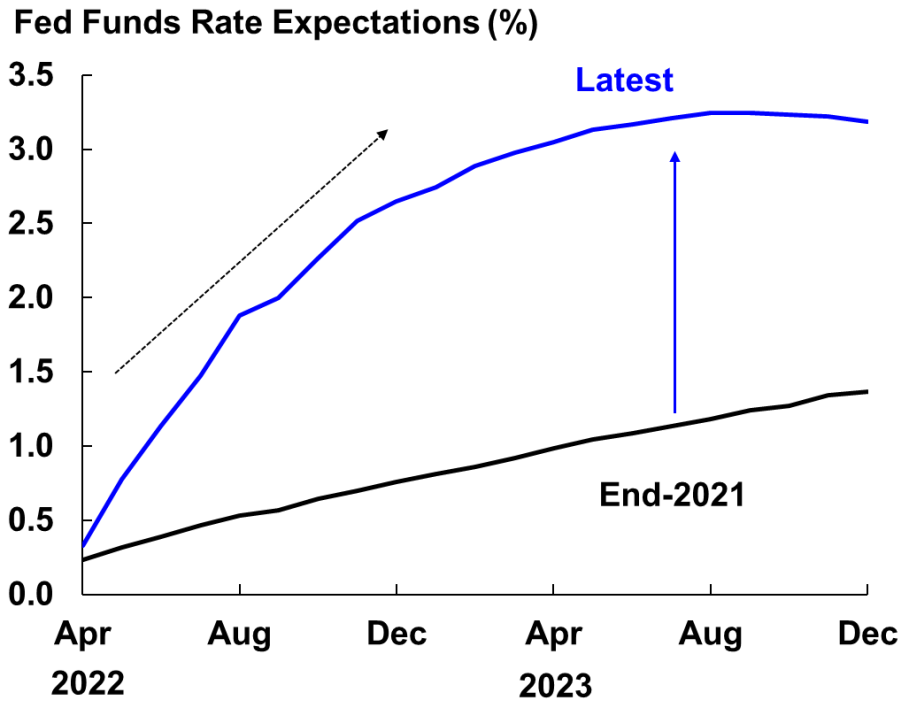


Note: Chart shows 3-month moving average
Source: Federal Reserve Bank of Atlanta

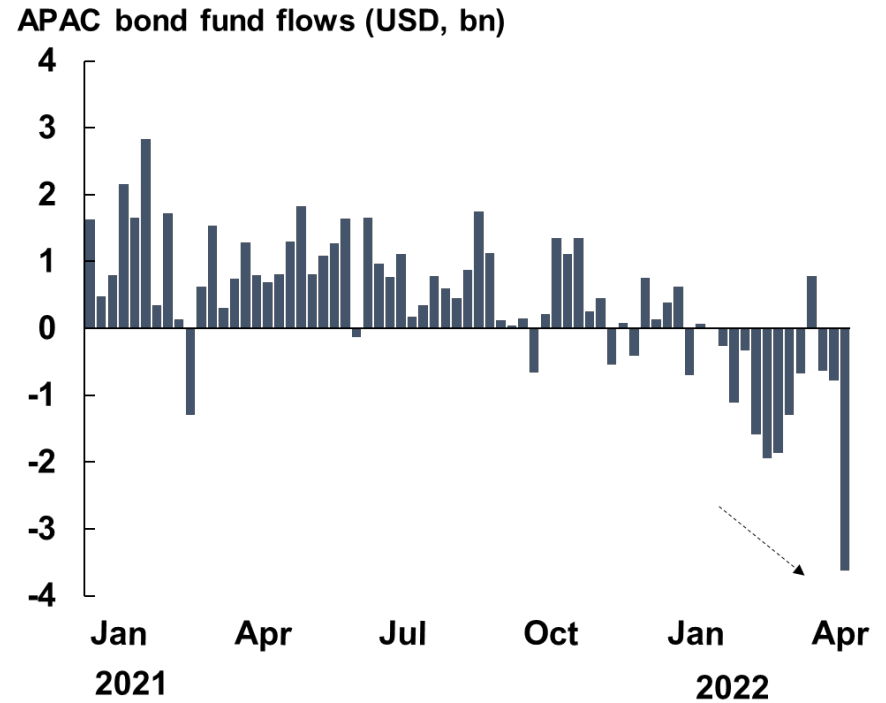


US FED RATE HIKES AND RISK-AVERSION SENTIMENT DRIVE FUND OUTFLOWS FROM ASIA-PACIFIC REGION

Market expects multiple rate hikes by the US Fed in 2022



Bond fund outflows from Asia-Pacific region



Note: Latest market expectations as of 28 Apr.

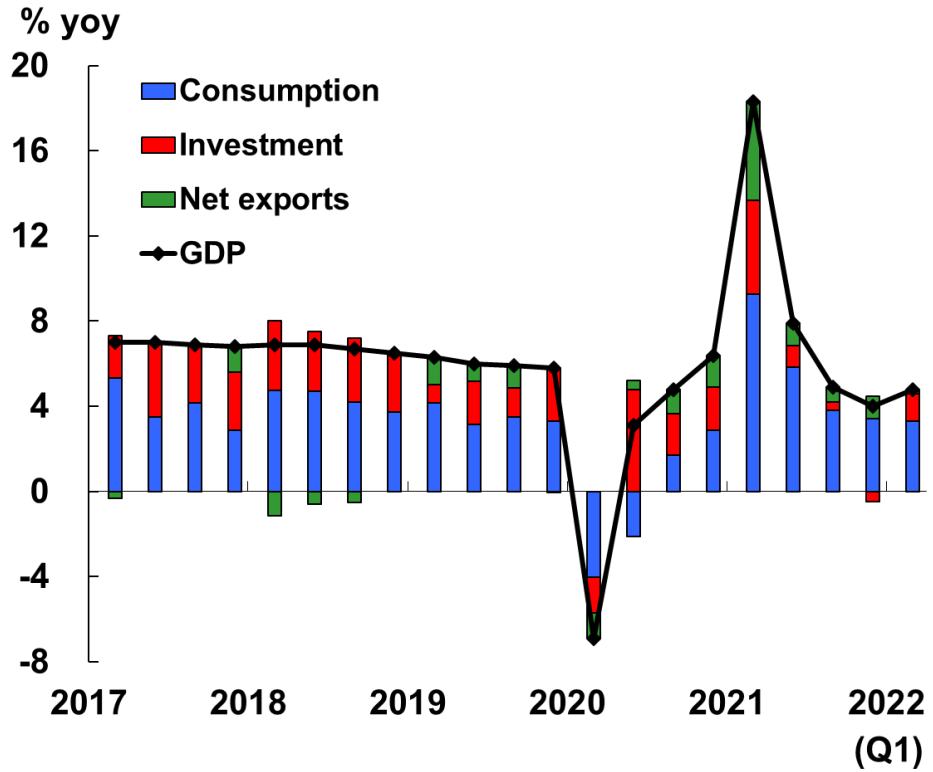
Source: Datastream

Source: EPFR



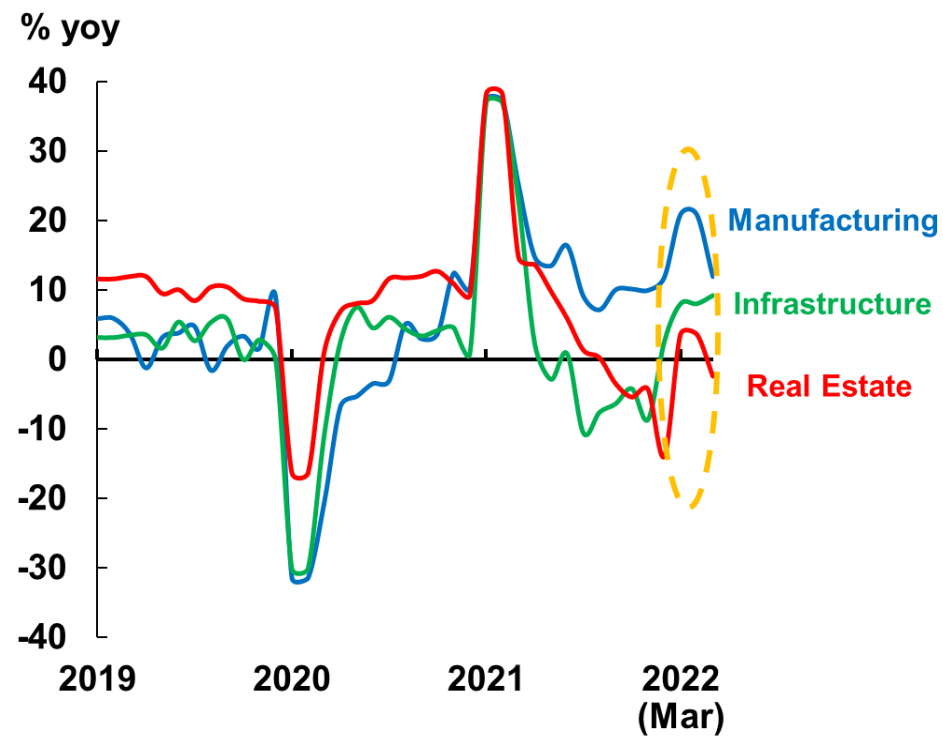
STEADY GROWTH IN MAINLAND ECONOMY WITH A STABLE MEDIUM-TO-LONG TERM TREND

Economic growth gradually stabilises



Source: National Bureau of Statistics

Fixed investment holds with policy support

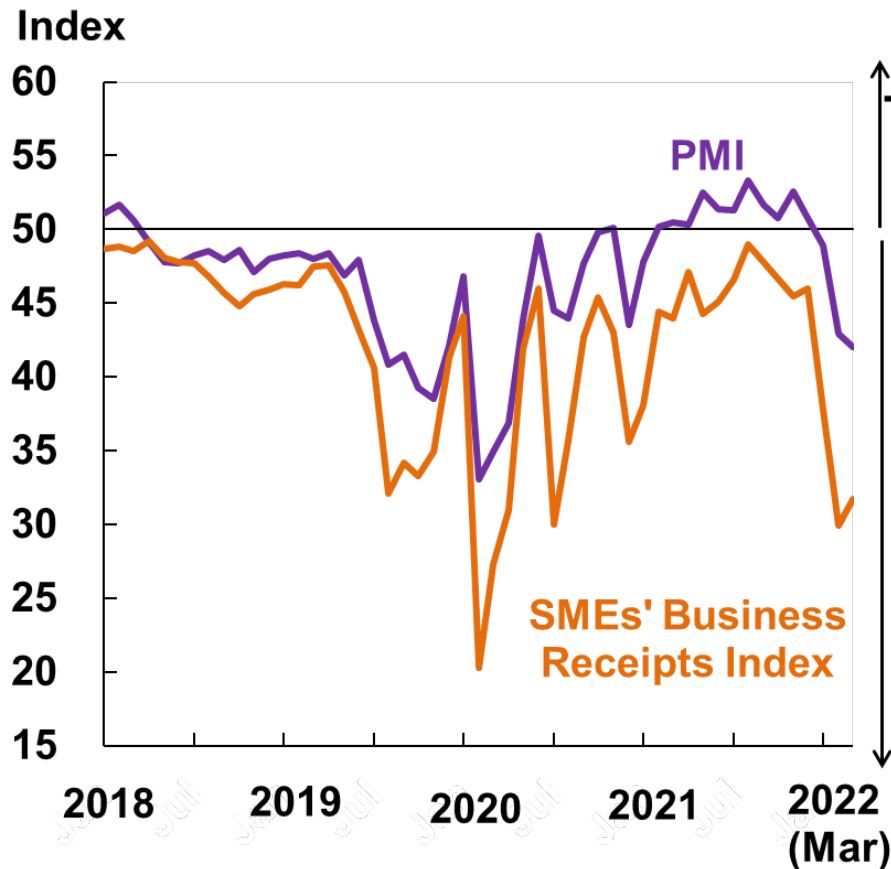


Source: National Bureau of Statistics



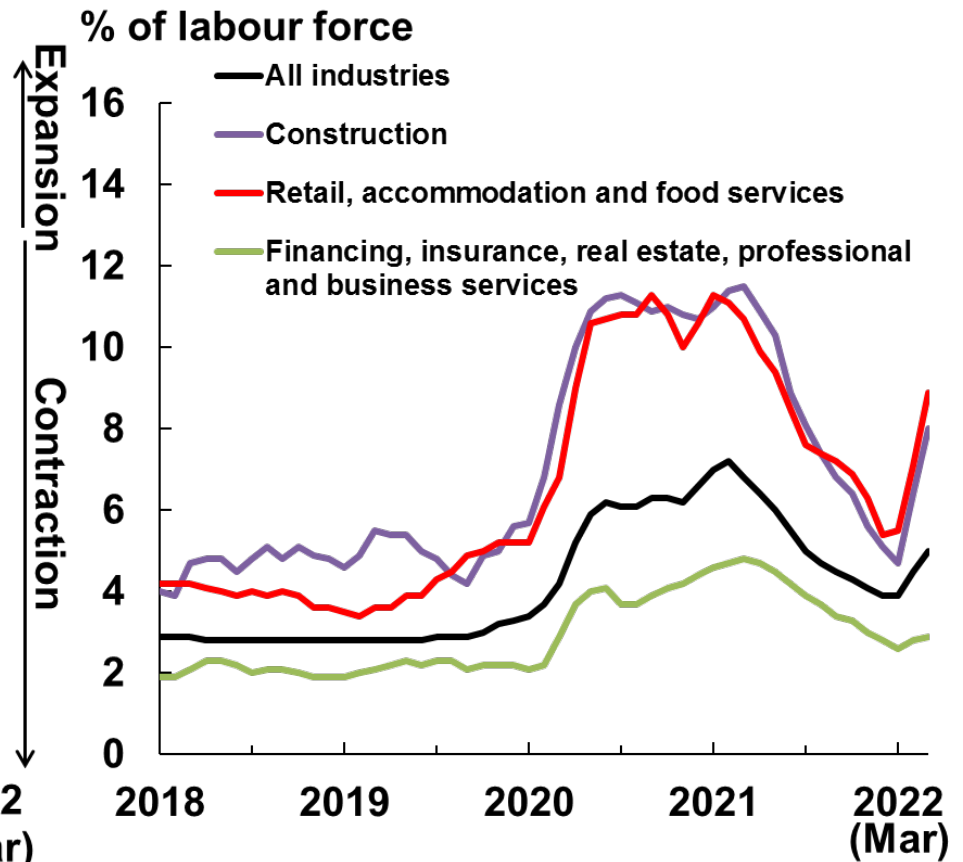
FIFTH WAVE OF THE EPIDEMIC DEALS A BLOW TO HONG KONG ECONOMY...

Weak business sentiment



Sources: C&SD and IHS Markit

Unemployment rate rebounds

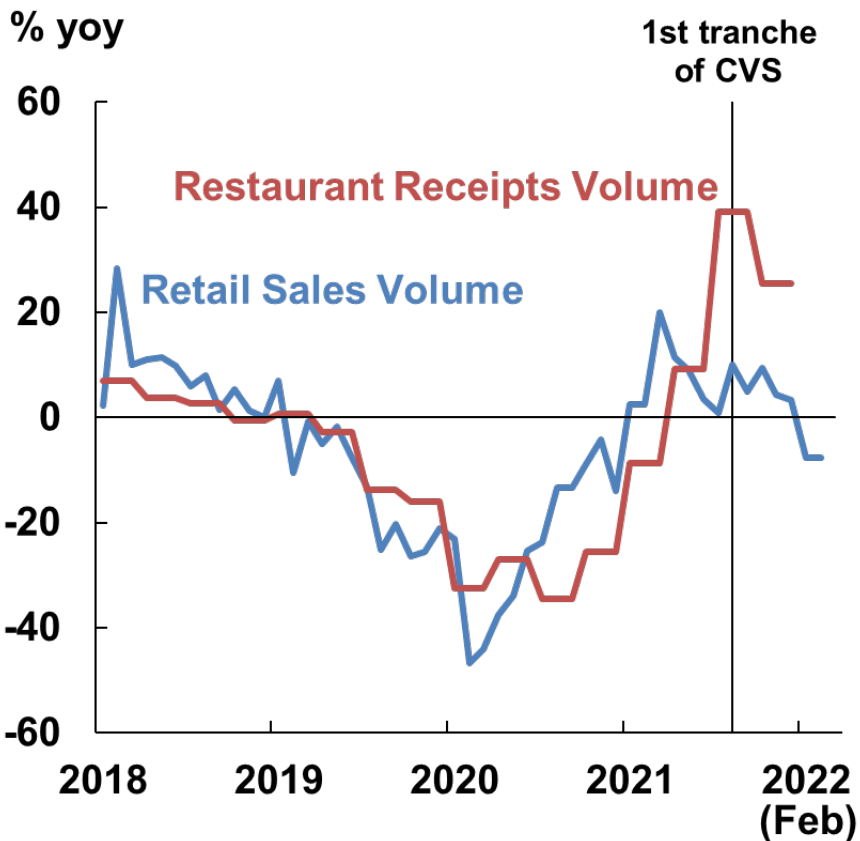


Source: C&SD

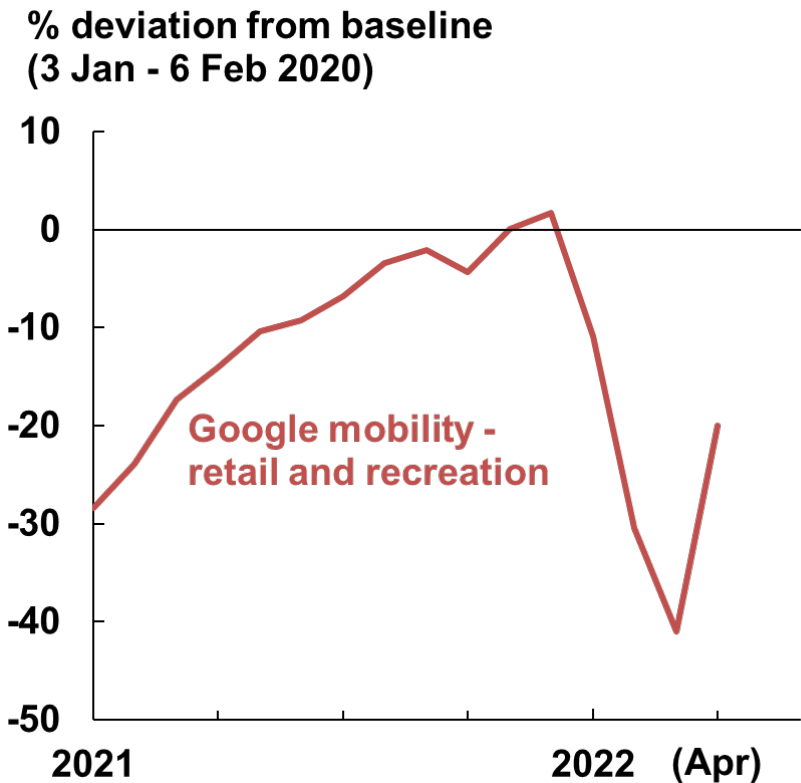


... BUT ECONOMIC ACTIVITIES SHOULD RECOVER AFTER FIFTH WAVE SUBSIDES

Consumption voucher scheme (CVS) will help boost consumption



Increased people flow



Note: Due to the timing of Chinese New Year, January and February 2022 figures were relatively more volatile and therefore have been combined for analysis.

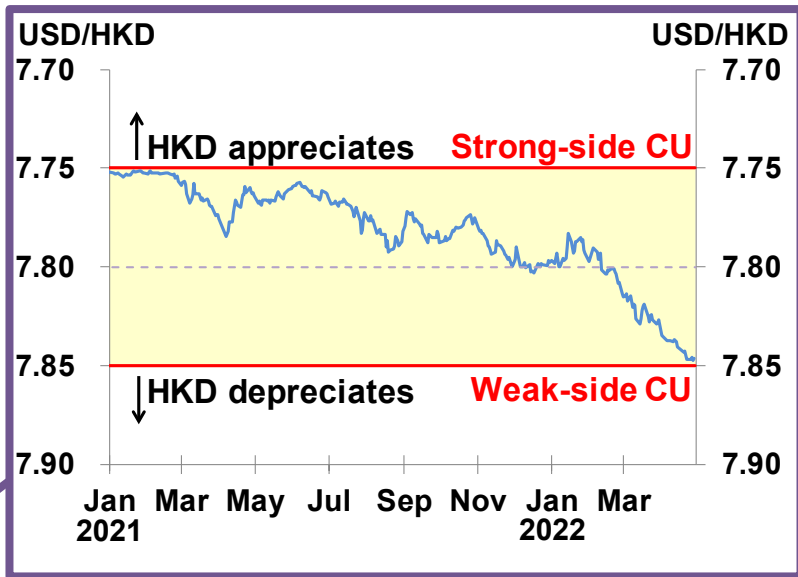
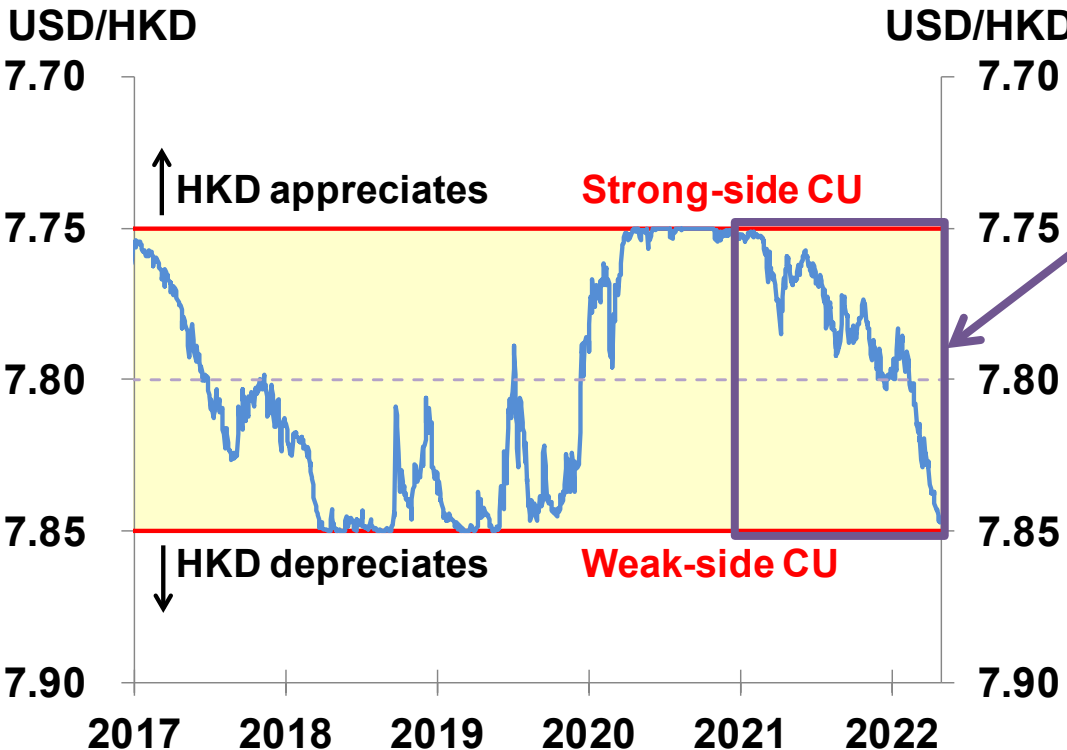
Source: C&SD

Note: Data up to 25 April 2022.

Source: Google



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



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

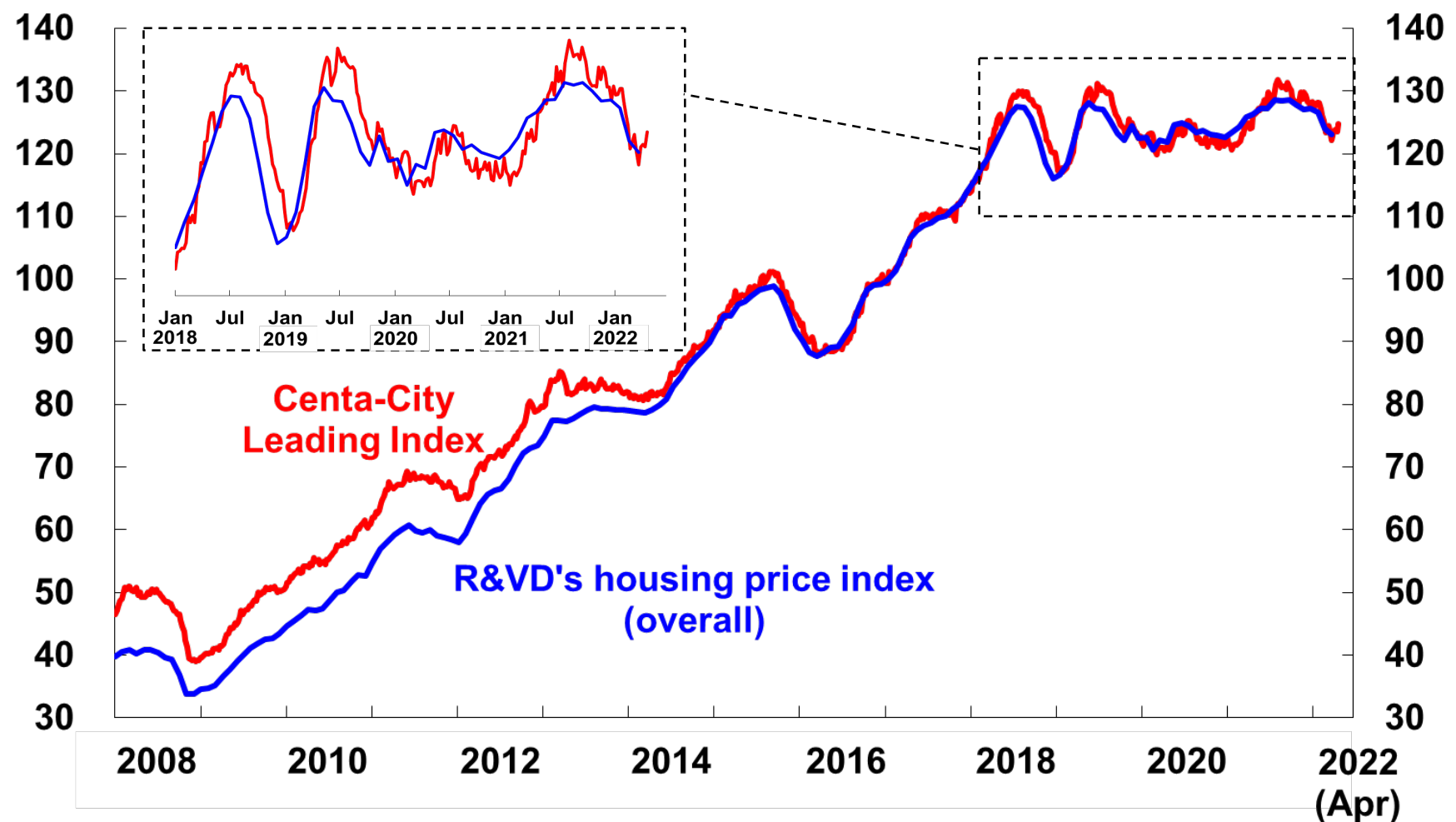
Change during the period (%)

	Total deposits	HKD deposits
Full year 2021	+4.6%	+1.4%
First quarter of 2022	+1.1%	+2.2%
January	+2.6%	+1.3%
February	-1.1%	+0.5%
March	-0.3%	+0.4%



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

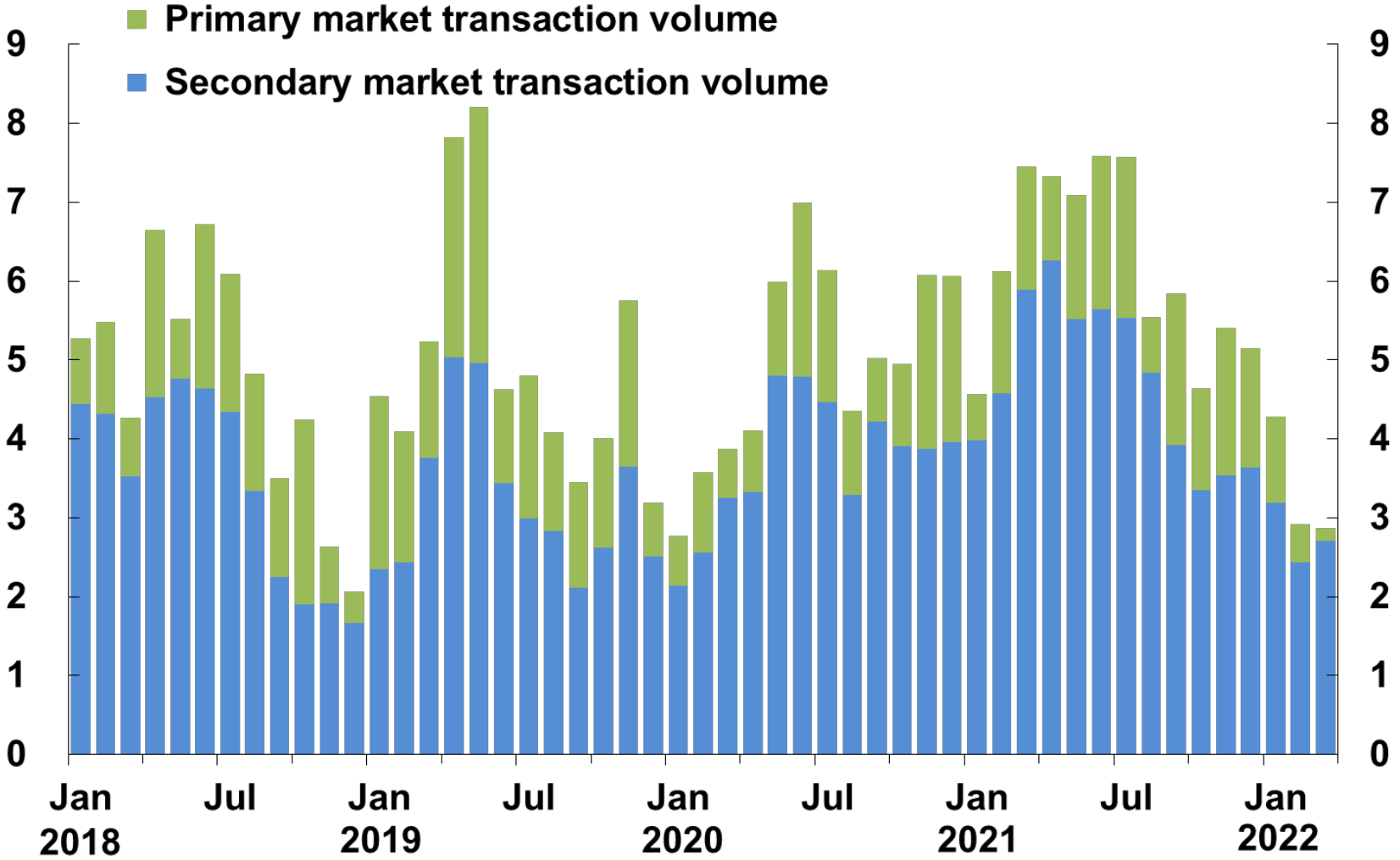
Index
(Jan 2017 = 100)





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

Number of transactions ('000)



Source: Land Registry



HONG KONG'S FINANCIAL SECTOR IS WELL-EQUIPPED AGAINST SHOCKS

- As the fifth wave of the epidemic subsides, the Hong Kong economy can be expected to gradually recover and the unemployment rate will likely drop. Nevertheless, the economic outlook is still subject to considerable uncertainties in the external environment
- The Ukraine situation has worsened the outlook for the global economy (especially for Europe) and fuelled inflationary pressures. A further deterioration of the situation could portend renewed financial market volatilities
- Faced with risk of elevated inflation, the US Fed may deliver larger rate hikes and begin to reduce the size of its balance sheet in the near term, increasing the pressure of capital outflows from emerging markets
- Considerable differences between the USD and HKD interbank rates should induce carry trades, causing the HKD exchange rate to trigger the weak-side Convertibility Undertaking (CU) at 7.85, and fund outflows from the HKD market. The interest rate automatic adjustment mechanism under the Linked Exchange Rate System (LERS) will then kick in and operate, contributing to stabilising the HKD within the zone of 7.75 to 7.85. Such operation is normal and in accordance with the design of the LERS
- Hong Kong's financial system has a robust foundation, with resilience to counter market shocks. The HKMA will continue to closely monitor market conditions to safeguard the monetary and financial stability of Hong Kong

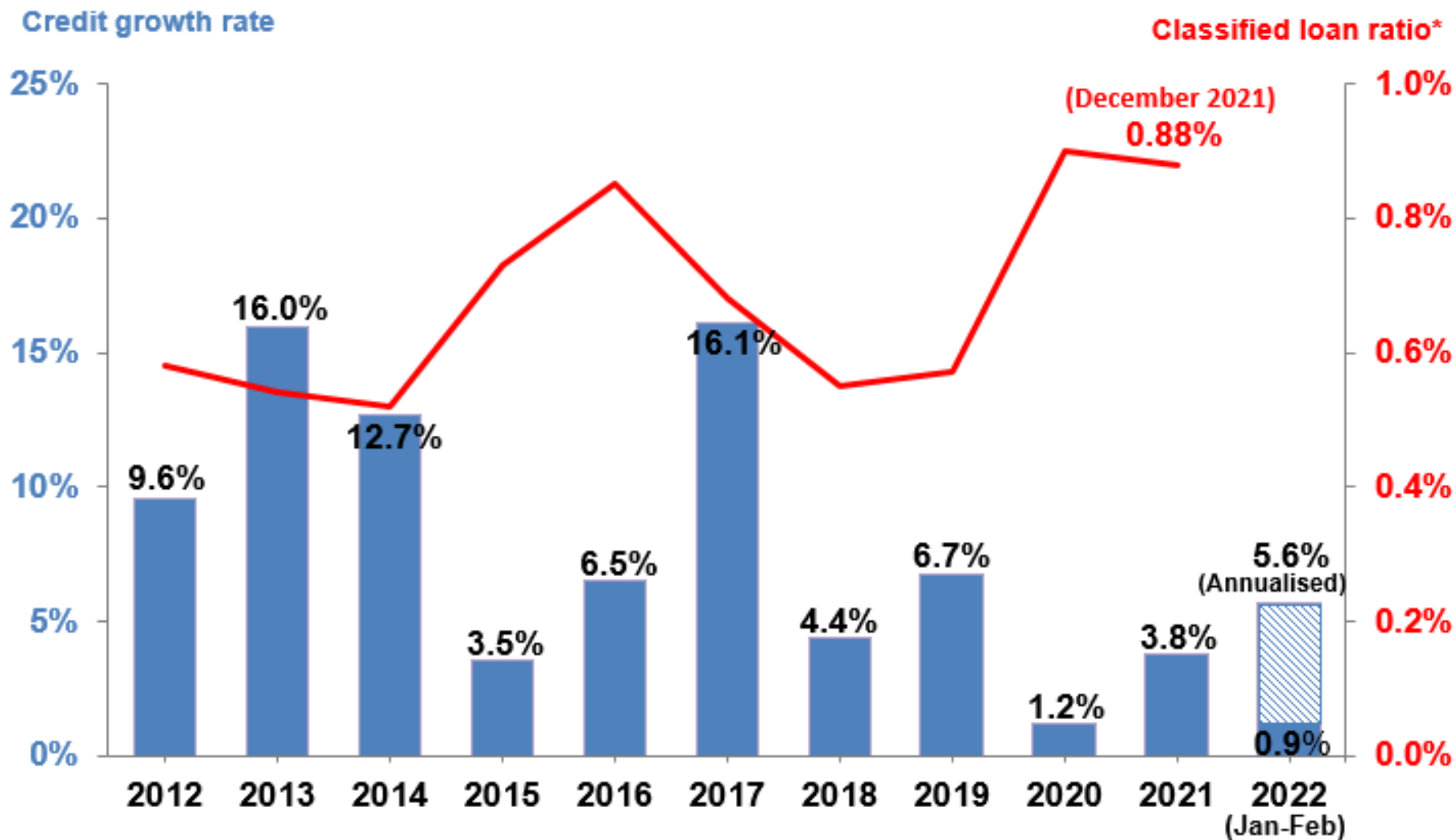


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BANKING SECTOR PERFORMANCE

Credit grew at a moderate pace,
while asset quality remains healthy



Notes: * Classified loan ratio of all authorized institutions

Source: HKMA



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

- Pre-approved Principal Payment Holiday Scheme
 - Extended the Scheme for another six months to end-October 2022
 - Offering an option for corporates which are financially capable and willing to repay 20% of the original principal repayment amount over a period of 1 year on a voluntary basis
 - The take-up rate of the Scheme stayed at around 3%
- Aggregate number of cases involving credit relief (up to March 2022):
 - Corporate customers: 88,000 cases (HK\$940 billion)
 - Individual customers: 53,000 cases (HK\$55 billion)



INTERNATIONAL STANDARDS IMPLEMENTATION

Basel revised capital treatment on banks' equity investments in funds

- Negative vetting in progress: Amendments to Banking (Capital) Rules

Basel III final reforms

- Q1 2023: Amendments to Banking (Capital) Rules and Banking (Disclosure) Rules

Consequential and other technical updates

- Q1 2023: Amendments to Banking (Exposure Limits) Rules



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MUTUAL MARKET CONNECT SCHEMES

- **Northbound Trading under Bond Connect** continued to see active trading. In Q1 2022, average daily turnover amounted to RMB 32.8 billion, up 34% year-on-year. **Southbound Trading** has been well received by the market and operations have been smooth since launch
- **Cross-boundary Wealth Management Connect** has been operating smoothly. To date, 24 eligible Hong Kong banks have successfully commenced services with their Mainland partner banks
- The HKMA liaises closely with Mainland regulatory authorities, with a view to exploring feasible measures to further enhance the various mutual market access schemes and Hong Kong's status as an offshore renminbi business hub. These include expansion in investible products and eligible investor space and strengthening market liquidity and risk management



DEVELOPING HONG KONG'S FINANCIAL PLATFORM

Green finance

- Total green and sustainable bonds and loans issued in Hong Kong quadrupled from a year ago to reach US\$57 billion in 2021*
- The Green and Sustainable Finance Cross-Agency Steering Group has set up the Centre for Green and Sustainable Finance to strengthen the talent and data related work with a view to enhancing the capacity building on green finance
- The HKMA is assisting the Government in the launch of the inaugural retail green bond. Public response has been enthusiastic
- The HKMA continues to assist the Government in administering the Green and Sustainable Finance Grant Scheme to attract more green and sustainable financing activities to Hong Kong. By April 2022, around 70 applications have been approved

Bond market development

- According to the International Capital Market Association, Hong Kong has been the largest hub for arranging Asian international bond issuance for 6 consecutive years, with a 34% market share (US\$207 billion) in 2021

Asset and wealth management

- The HKMA has been working with the Task Force led by FSTB to develop a proposal to provide tax concession for family offices. Industry consultation was conducted between March and April 2022, and indicated general support for the proposal



CRYPTO-ASSETS AND STABLECOINS

- On 12 January, the HKMA issued a discussion paper on crypto-assets and stablecoins, setting out the HKMA's thinking on the proposed regulatory framework for payment-related stablecoins
- The HKMA is reviewing the feedback received from the consultation period which recently closed on 31 March. Comments gathered from engagement so far demonstrated broad support for the HKMA to adopt a risk-based, pragmatic and agile regulatory approach
- The HKMA will issue the consultation conclusion and announce our next steps in due course



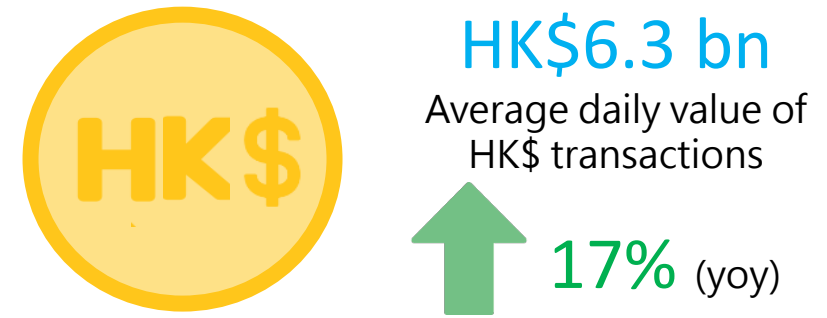
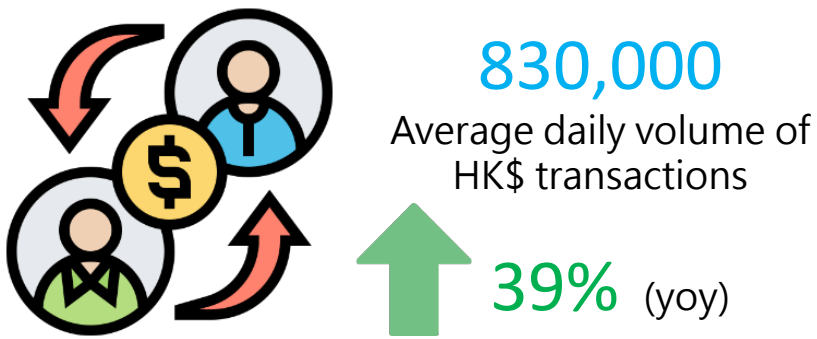
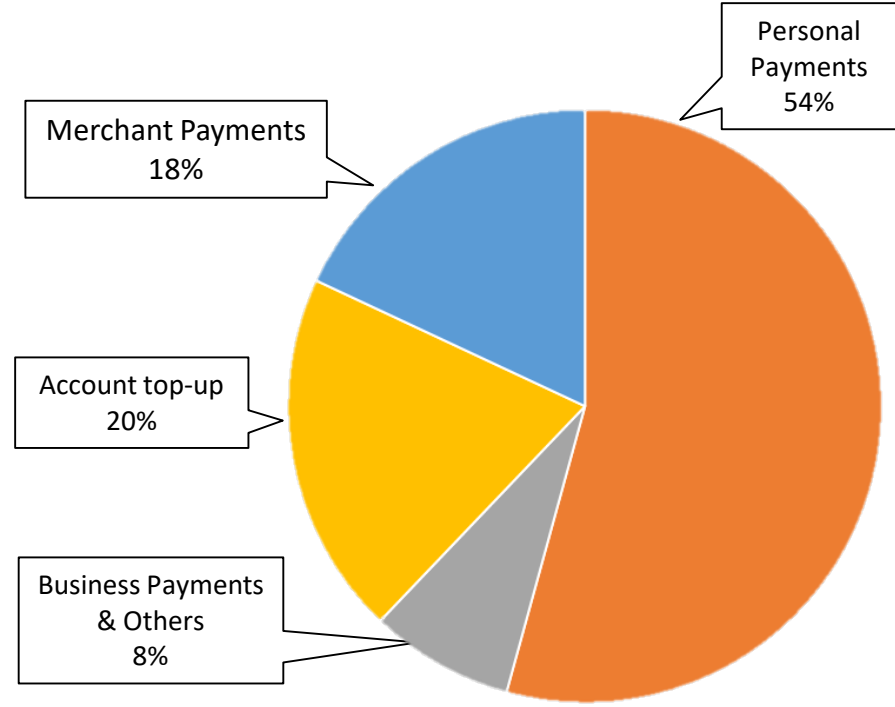
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FASTER PAYMENT SYSTEM (FPS)

March 2022

No. of HK\$ transactions





DEVELOPMENT OF CENTRAL MONEYMARKETS UNIT (CMU)

- To help Hong Kong grasp the emerging opportunities from the further opening up of the Mainland financial markets, the CMU has reviewed its strategic position and has commenced enhancements on both system and business fronts:
 - System enhancement (to increase CMU's capability, functions and efficiency to cope with growing demand)
 - Introduction of new services (to better support market participants to grasp new opportunities)
- Some of the enhancements and services have been launched, like those for Southbound Bond Connect and collateralised lending service for primary issuance, and the rest would be rolled out by phases over next few years
- The long-term objective is to establish the CMU as a major international central securities depository in Asia



LATEST FINTECH INITIATIVES

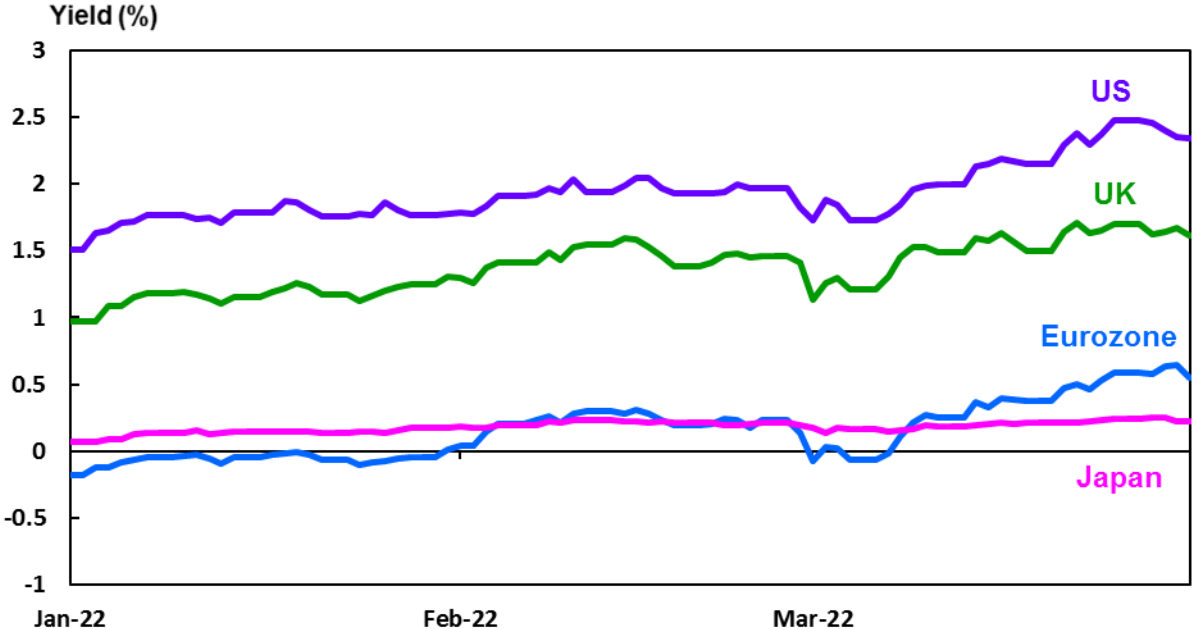
- Launch of the Guangdong-Hong Kong-Macao Greater Bay Area Fintech Pilot Trial Facility
- Research on retail Central Bank Digital Currency:
 - Issued a discussion paper in April 2022 to invite views from the public and the industry on key policy and design issues for introducing “e-HKD”
 - To offer initial thoughts on “e-HKD” by mid-2022
- Development of Commercial Data Interchange:
 - Currently in pilot launch stage, with official launch expected by the end of 2022
 - Contemplating new Proof-of-Concept studies to explore new use cases
- Implementation of Open Application Programming Interface for the banking sector:
 - Phase IV (Transactions) launched from end-December 2021
 - Phase III (Account information) launched for corporate and small and medium-sized enterprises customers from end-March 2022; launch for retail customers expected from end-June



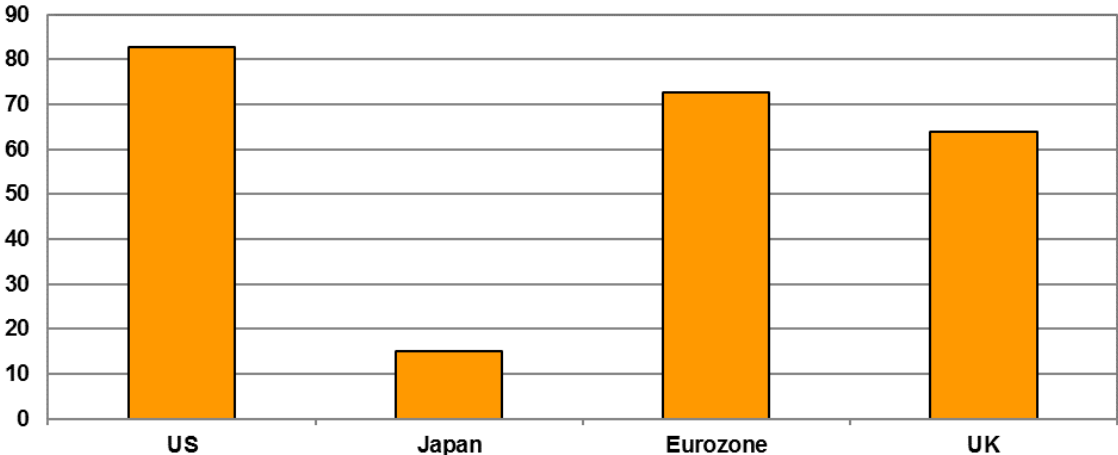
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MAJOR DEVELOPED MARKET SOVEREIGN BOND YIELDS ROSE



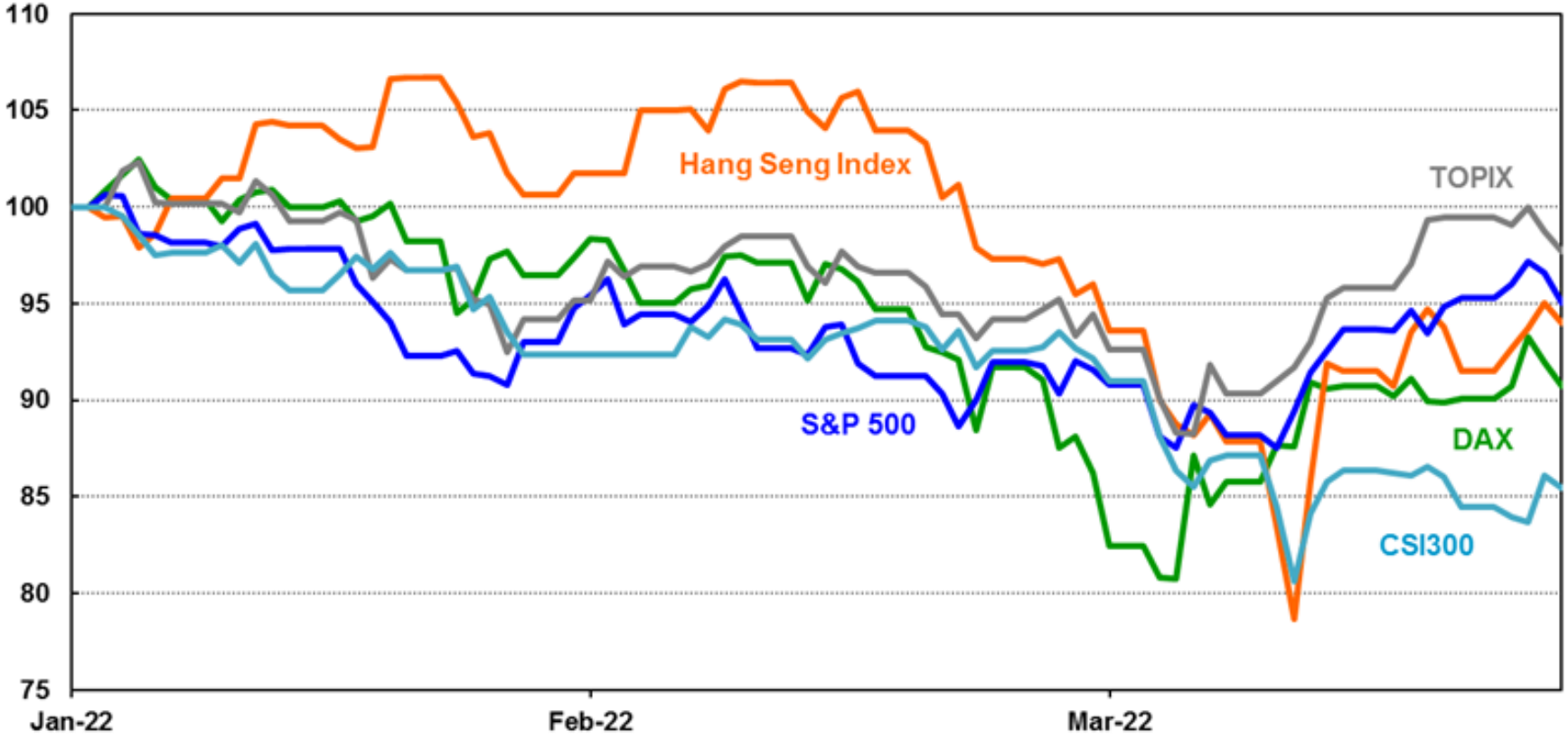
2022 Q1 bond yield change (bps)





MAJOR EQUITY MARKETS FAILED TO PERFORM

Normalised Index Level (2021 year-end = 100)





INVESTMENT INCOME

	2022	2021	2020	2019
	←(unaudited)→			
(HK\$ billion)	Q1	Full Year	Full Year	Full Year
Hong Kong equities*	(9.4)	(21.0)	4.0	22.1
Other equities	(24.6)	68.4	69.9	100.7
Bonds	(34.7)	12.4	92.7	114.5
Foreign exchange#	13.7	16.8	9.6	(13.0)
Other investments@	-	114.7	59.6	37.9
Investment (loss)/income	(55.0)	191.3	235.8	262.2

* 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 2022 are not yet available.



INCOME AND EXPENDITURE

	2022	2021	2020	2019
	←(unaudited)→			
(HK\$ billion)	Q1	Full Year	Full Year	Full Year
Investment (loss)/income	(55.0)	191.3	235.8	262.2
Other income	-	0.2	0.2	0.2
Interest and other expenses	<u>(1.6)</u>	<u>(6.1)</u>	<u>(14.6)</u>	<u>(24.8)</u>
Net (loss)/income	(56.6)	185.4	221.4	237.6
Fee payment to Fiscal Reserves ^{*#}	(11.0)	(34.4)	(69.8)	(53.8)
Fee payment to HKSAR government funds and statutory bodies [*]	(5.3)	(16.8)	(11.5)	(9.0)

* The rate of fee payment is 5.6% for 2022, 4.7% for 2021, 3.7% for 2020 and 2.9% for 2019.

This does not include the 2022 and 2021 fee payments to the Future Fund because such amounts will only be disclosed when the respective composite rates for 2022 and 2021 are available.

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



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MORTGAGE INSURANCE PROGRAMME (MIP)

- Enhancements announced in 2022-23 Budget have taken effect since 23 February 2022:
 - Maximum property value amended to HK\$10 million (originally HK\$8 million) for mortgage loans up to 90% loan-to-value (LTV) ratio applicable to first-time homebuyers
 - Maximum property value amended to HK\$12 million (originally HK\$10 million) for mortgage loans up to 80% LTV ratio
 - MIP coverage extended to properties valued from above HK\$12 million and up to HK\$19.2 million, subject to a mortgage loan cap of HK\$9.6 million
- In 2022, as of 20 April, around 12,500 applications were approved, of which 1,160 were under the new coverage after the MIP revisions in February 2022. Over 90% of approved applications were from first-time homebuyers
- Principal moratorium or extension of repayment schedules is available to borrowers to help reduce their repayment burden



SME FINANCING GUARANTEE SCHEME (SFGS)

- Enhancements announced in 2022-23 Budget have taken effect since 1 April 2022:
 - Application period for all three guarantee products extended to 30 June 2023
 - Principal moratorium arrangement extended by six months to a total maximum of 30 months. An option to resume making partial principal repayment for one year will be provided
 - For Special 100% Loan Guarantee, maximum loan amount per enterprise raised to total amount of employee wages and rents for 27 months (originally 18 months), subject to a ceiling of HK\$9 million (originally HK\$6 million); maximum repayment period extended to 10 years (originally eight years)
- Special 100% Loan Guarantee:
 - As of 20 April 2022, over 49,200 applications were approved, amounting to about HK\$87.0 billion. Over 32,700 applications have chosen the principal moratorium option
- 80% and 90% Guarantee Products:
 - As of 20 April 2022, around 28,200 applications were approved, amounting to about HK\$107.2 billion. Over 2,000 applications have chosen the principal moratorium option



100% PERSONAL LOAN GUARANTEE SCHEME (PLGS)

- Enhancements announced in 2022-23 Budget have taken effect since 19 April 2022:
 - Application period extended to end-April 2023
 - Maximum loan amount per borrower increased to nine times (originally six times) the average monthly income during employment, subject to a ceiling of HK\$100,000 (originally HK\$80,000)
 - Maximum repayment period extended to 10 years (originally six years)
 - Principal moratorium arrangement extended to 18 months (originally 12 months)
- As of 20 April 2022, around 39,200 applications were approved, amounting to about HK\$2.72 billion. Average loan size was about HK\$69,000



PREVENTION OF LOAN APPLICATIONS INVOLVING UNLAWFUL ACTS

- In respect of SFGS's Special 100% Loan Guarantee and PLGS, HKMC Insurance Limited has been:
 - communicating closely with banks on the analyses and handling of suspicious cases, as well as enhanced checking of some applications as needed (e.g. in respect of applications involving suspected fraudulent documents, inconsistent information, submission through third parties)
 - maintaining close dialogues with law enforcement agencies, and reporting suspected unlawful acts
 - reminding applicants they need not make applications via a third party
- With the support of relevant parties, law enforcement agencies have taken enforcement actions including arresting persons suspected of obtaining concessionary loans by deception