



HONG KONG MONETARY AUTHORITY

香港金融管理局

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

**17 November 2023**

**[ 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. The Hong Kong Mortgage Corporation Limited

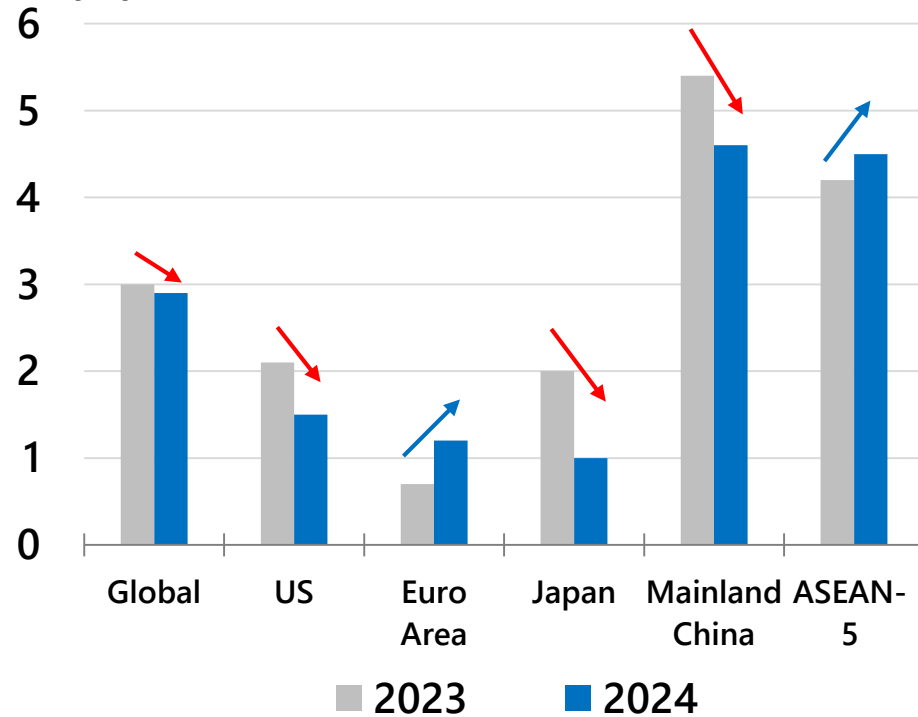
# Global growth and inflation are expected to soften next year



## Growth of Mainland China and the US will decelerate

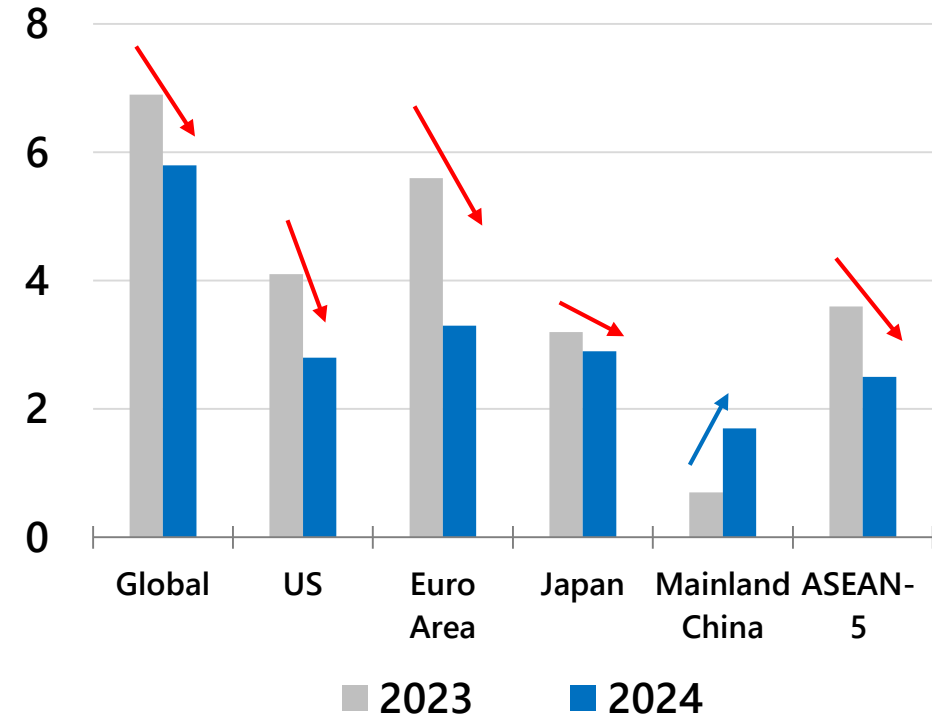
## Inflation in the US and Europe are likely to ease further

Real GDP growth projection  
(% yoy)



Source: IMF

CPI inflation projection  
(% yoy)

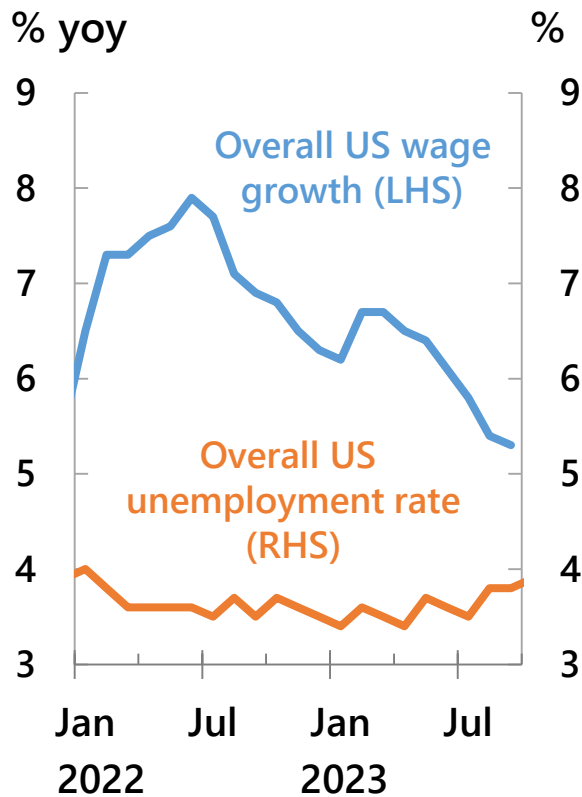


Source: IMF

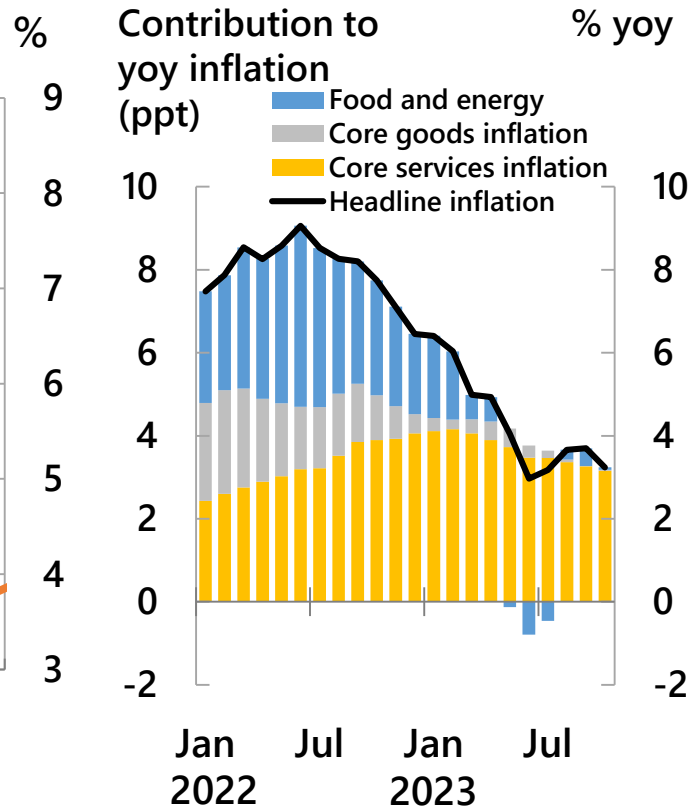
# With US inflation staying above target, the Fed may keep interest rates high for longer



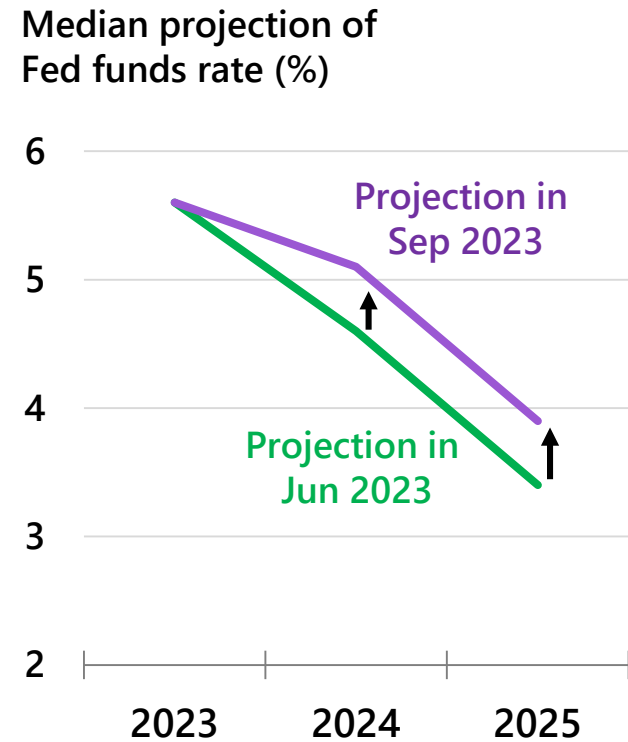
Labour market remains tight



Inflation stays above target



US Fed revised upwards its interest rate projections



Sources: US Bureau of Labour Statistics and Federal Reserve Bank of Atlanta

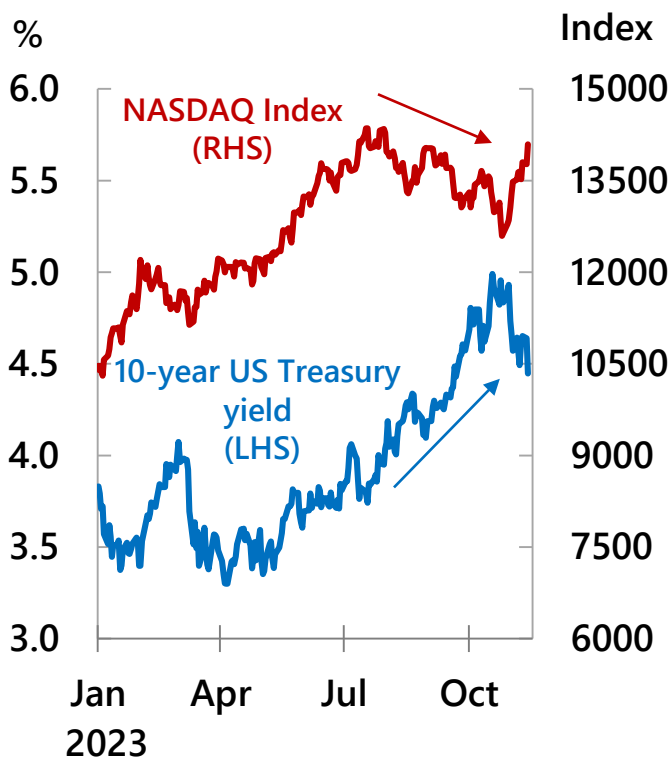
Source: US Bureau of Labour Statistics

Source: US Federal Reserve

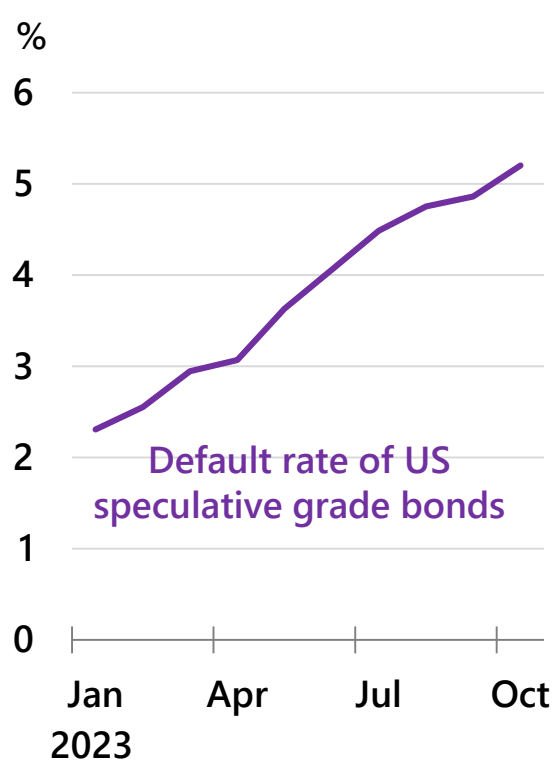
# US interest rate movements continue to influence global financial markets



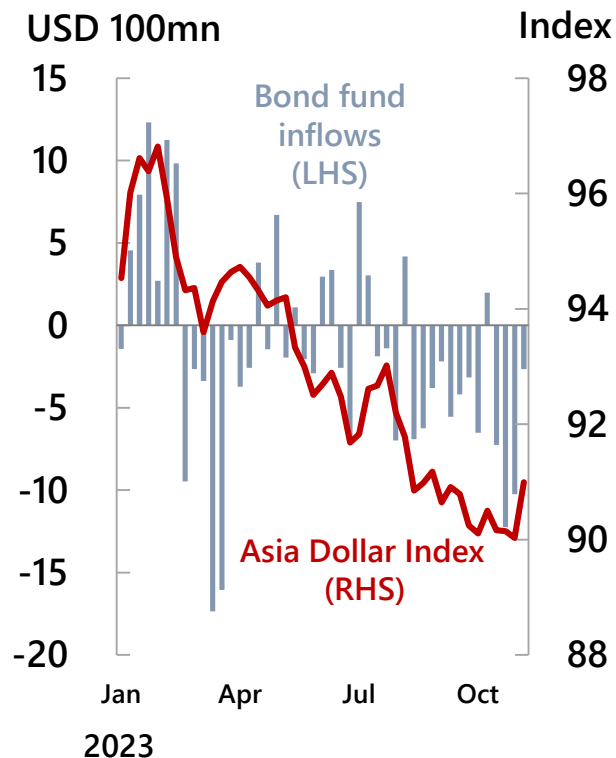
US Treasury yields rise, equity markets under pressure



Credit quality of US corporates deteriorates



Outflow pressure on bond funds emerges in Asia-Pacific region



Note: Bloomberg Asia Dollar Index tracks the performance of 9 Asian currencies against the US dollar, including RMB, KRW, INR, SGD, THB, MYR, IDR, PHP and TWD.

Sources: EPFR and Bloomberg

Source: Bloomberg

Source: Moody's

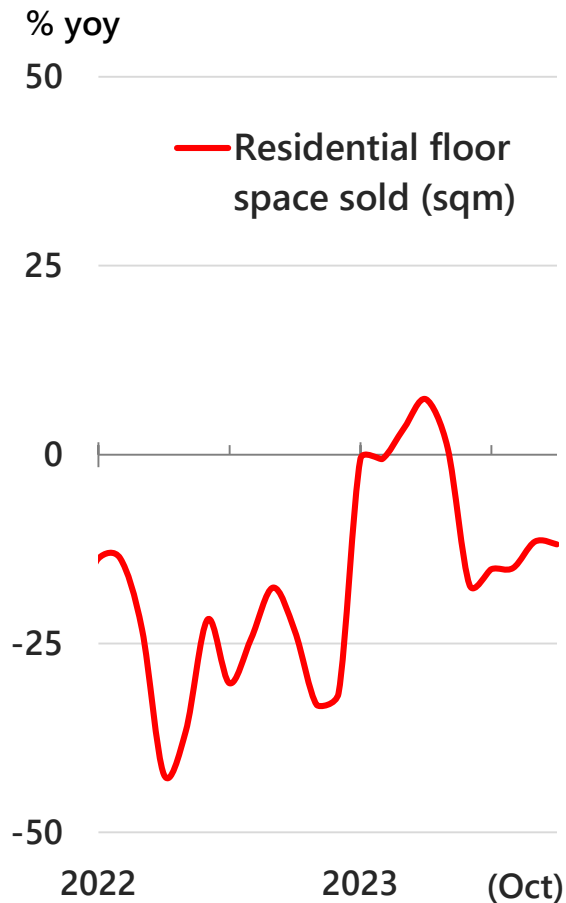
# Mainland economy is regaining momentum under supportive measures while the property market remains soft



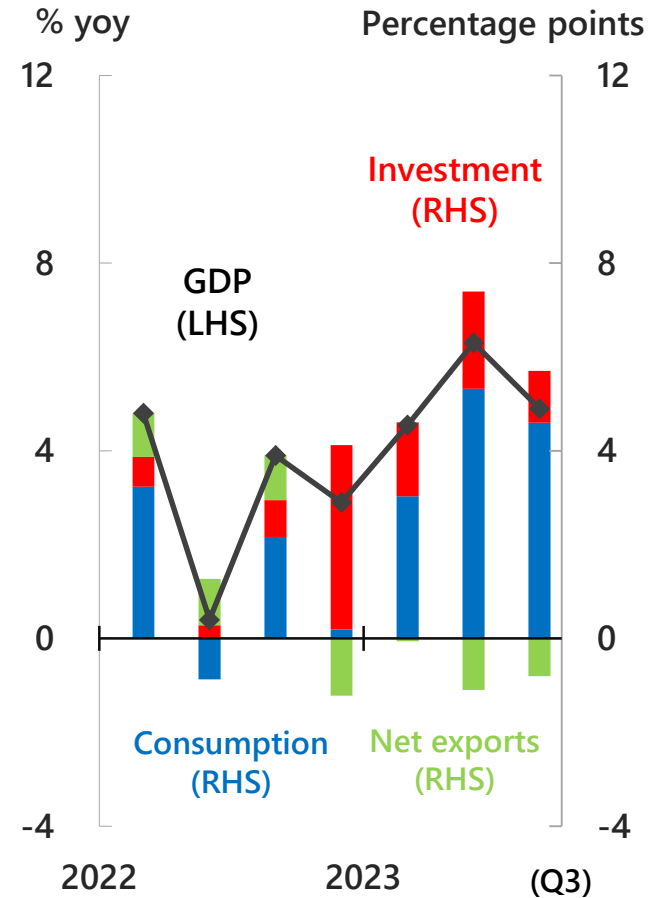
### Retail sector stabilises



### Residential property sales remain soft



### Overall economy continues to recover



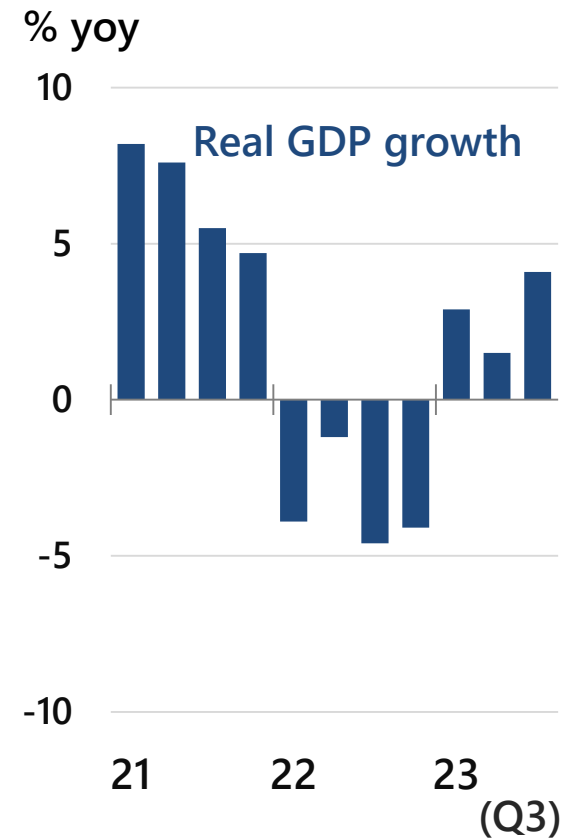
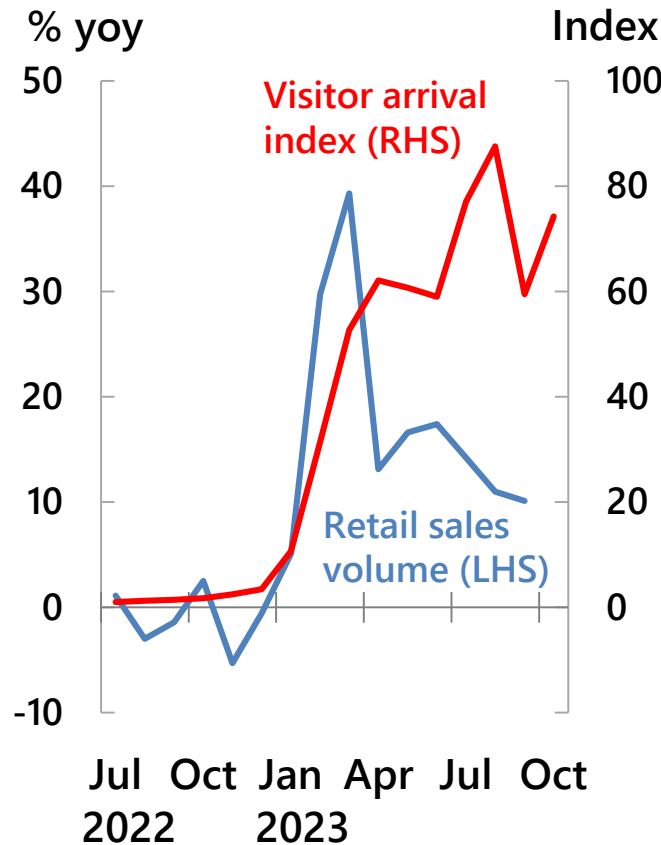
# Hong Kong external trade remains under pressure while consumption spending continues to recover



Merchandise exports remain under pressure

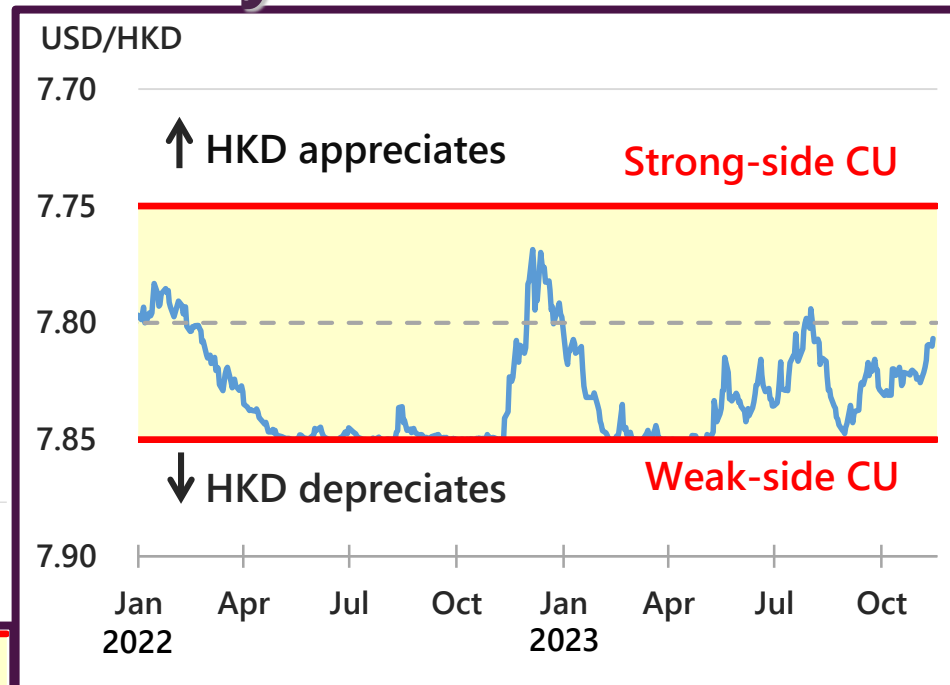
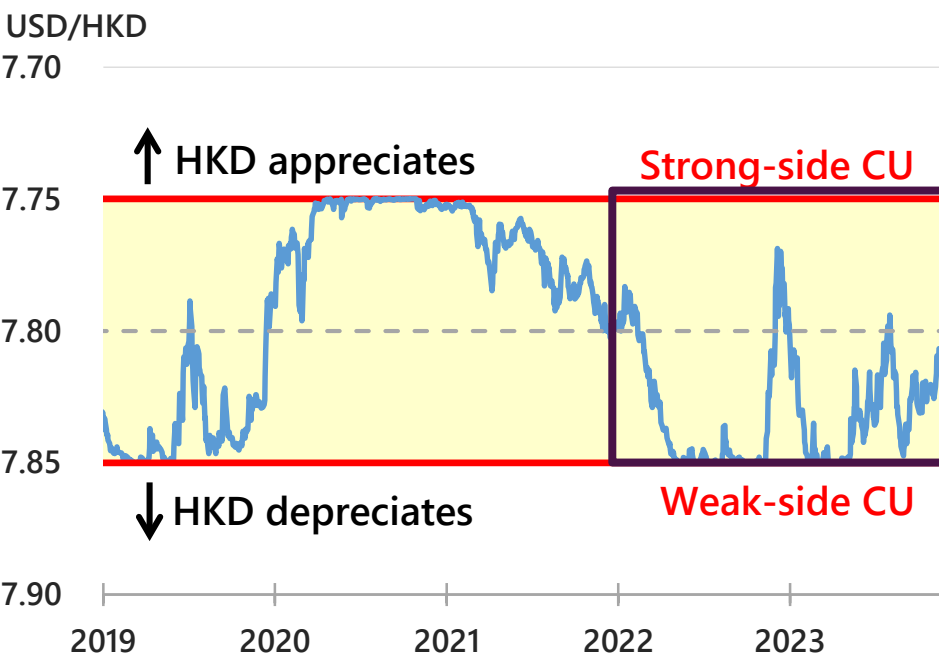
Inbound tourism and retail sector continue to recover

Overall economy continues to improve



Note: Visitor arrival index is defined as the number of monthly visitor arrivals as a percentage of monthly average in 2019.

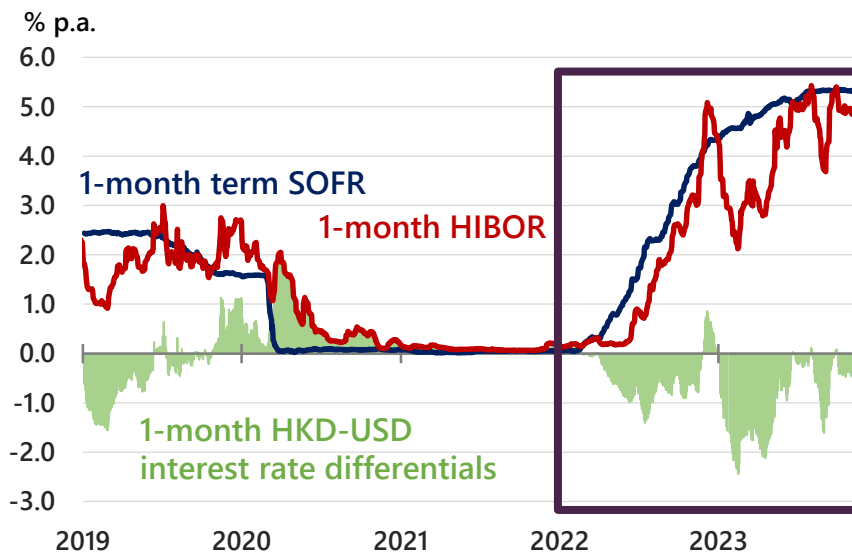
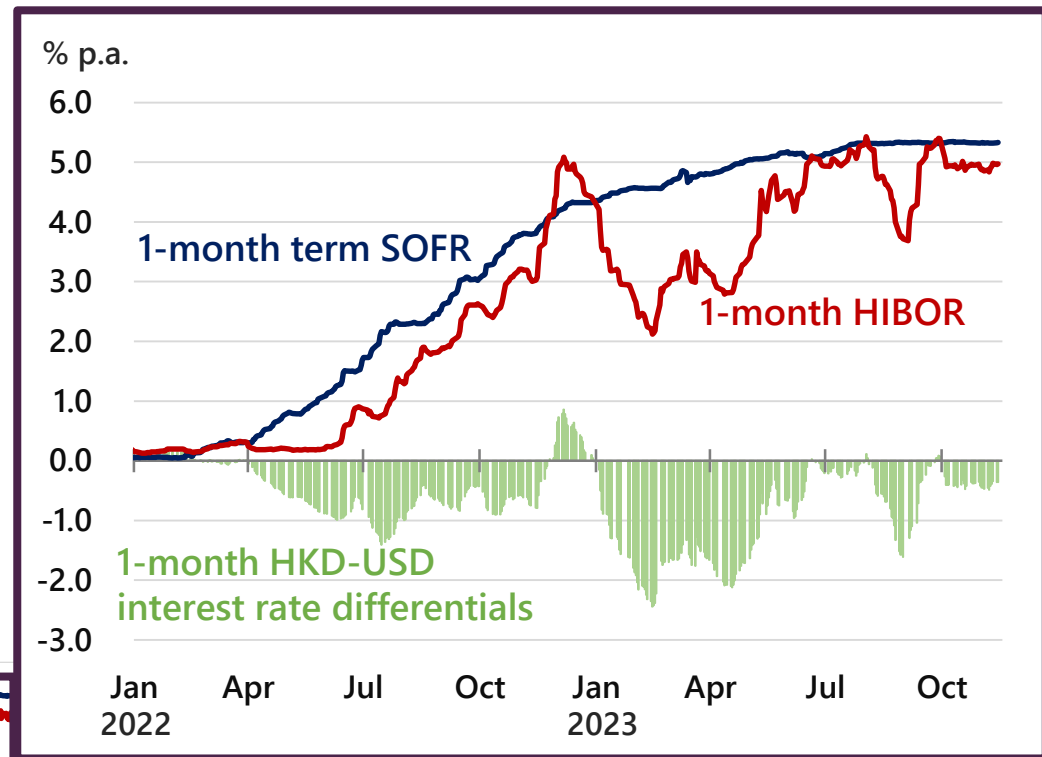
# HKD exchange rate remains stable, and the foreign exchange and money markets continue to trade in a smooth and orderly manner



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 have risen alongside their USD counterparts



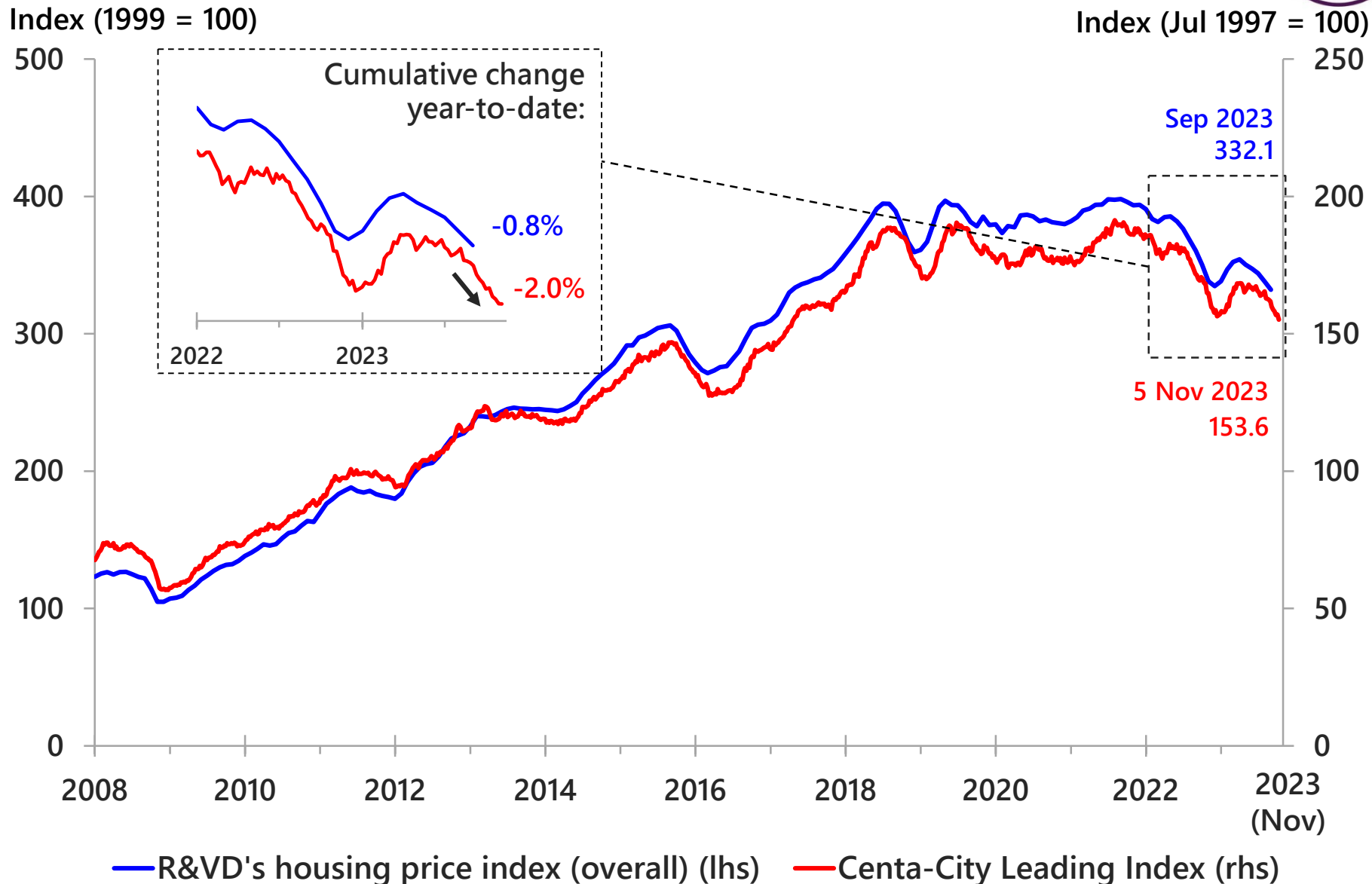


# Bank deposits increase slightly

Change during the period (%)

	<b>Total deposits</b>	<b>HKD deposits</b>
<b>First-half of 2023</b>	+0.2%	+1.7%
<b>2023 July</b>	+1.2%	-0.2%
<b>August</b>	+0.6%	+0.4%
<b>September</b>	+0.2%	-0.3%
<b>Year to September</b>	+2.3%	+1.6%

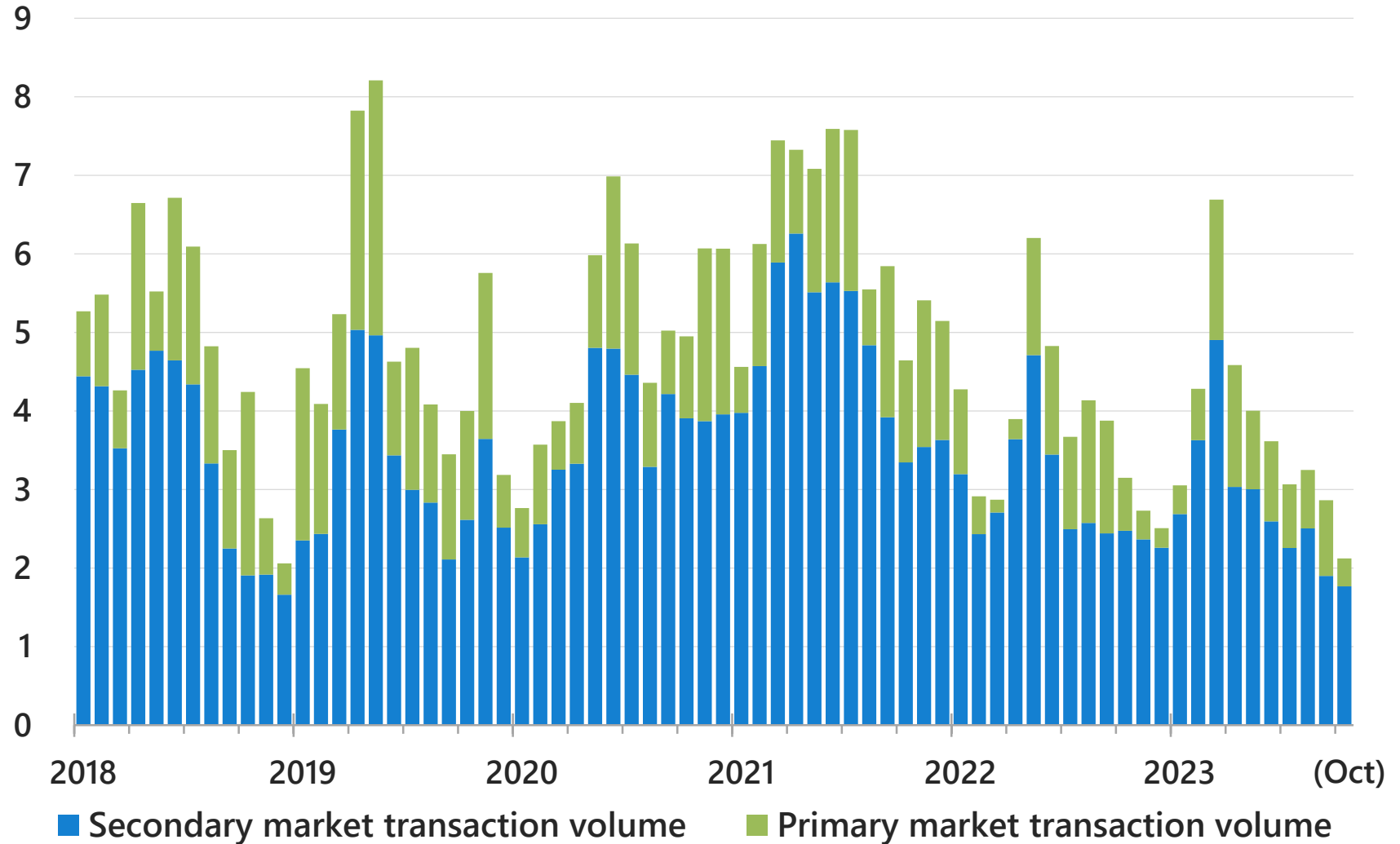
# Property market sentiment remains soft





# Property transactions decrease

Number of transactions ('000)



# The Hong Kong economy continues to recover, and risks to the financial sector remains manageable



- While inflation in the US eases, labour market remains tight. Therefore, the market expects the US interest rates to be nearing their peaks, but will remain high for some time
- The high interest rate environment, coupled with geopolitical tensions in the Middle East and other regions, may trigger volatilities in global financial and energy markets
- Hong Kong's merchandise exports are expected to remain sluggish but inbound tourism would continue to recover alongside the improvement in handling capacity, providing growth impetus to the Hong Kong economy
- Amid global market volatilities, the Hong Kong financial sector remains robust, and the HKD exchange rate and interbank markets continue to trade in a smooth and orderly manner
- Under the Linked Exchange Rate system, while local interest rates will track their USD counterparts, they are also influenced by the supply and demand in the local market for HKD funding. The public should prudently manage the relevant risks when making borrowing decisions

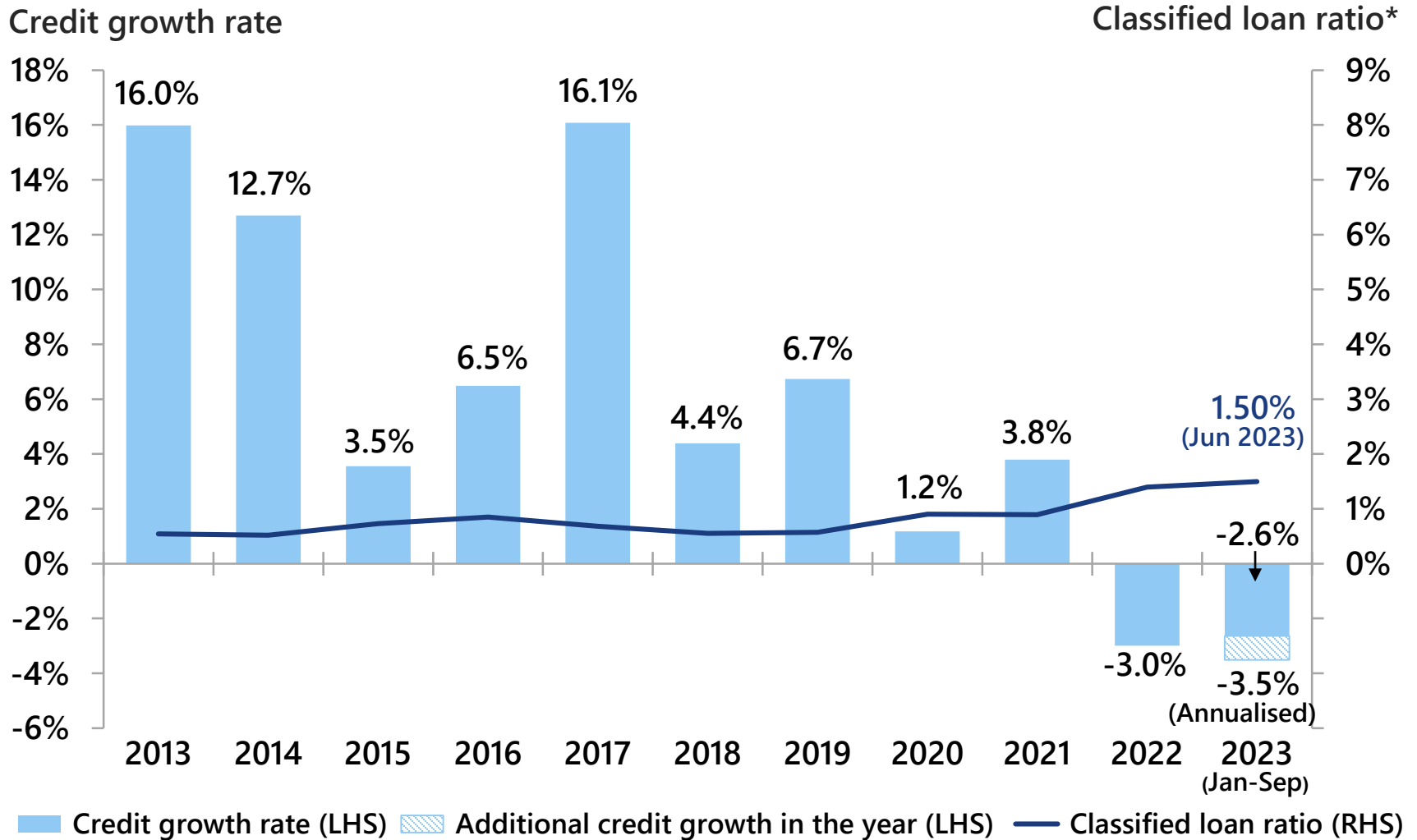


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# Banking sector performance

## Loan demand weakened while asset quality stays healthy



\* Classified loan ratio of all authorized institutions.

Source: HKMA



# Supporting SMEs

## **Pre-approved Principal Payment Holiday Scheme**

- With COVID-19 out of the way, exiting the Scheme in an orderly manner
  - Partial principal repayment options enhanced to facilitate return to normal repayment
  - Continue to offer principal moratorium to corporates still in need of support on a case by case basis





# 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

## Target timetable

- Submission to LegCo: December 2023
- Implementation: 1 January 2025



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# Solid growth momentum of Hong Kong's offshore renminbi (RMB) business



- Offshore RMB business recorded broad-based expansion in the past year. In particular, dim sum bond issuance, RMB bank lending and trade settlement saw notable growth

(RMB bn)	Sep 2023	Sep 2022	Growth
RMB deposits (incl. outstanding certificates of deposit)	1,071.8	1,008.9	6%
Outstanding RMB loans	383.0	177.9	115%
RMB bond issuance*	405.9	243.1	67%
RMB Real Time Gross Settlement System turnover (daily average)*	1,784.4	1,638.9	9%
RMB trade settlement*	8,250.1	6,770.7	22%

\* Figures of Jan-Sep period



# Mutual market connect schemes

- **Northbound Trading under Bond Connect** remained active. In the first three quarters of 2023, average daily turnover amounted to RMB40.5 billion (26% year-on-year growth). **Southbound Trading** has been in order, contributing to the growth in dim sum bond issuance and trading. Nine additional financial institutions were designated as market makers in September 2023 to further enhance secondary liquidity under Southbound Trading
- **Cross-boundary Wealth Management Connect** has been operating in an orderly manner. Following the announcement of the enhancement plan in end-September 2023 (incl. enhancements in product scope, participating institutions, sales arrangements and personal quota), regulators in Hong Kong, Macao and on the Mainland are revising relevant implementation details with a view to implementing the measures as soon as practicable
- Northbound Trading of **Swap Connect** has been operating in an orderly manner since launch in May, with 41 global investors onboarded

# Developing Hong Kong's financial platform (1)



## Outreach

- The Global Financial Leaders' Investment Summit 2023 was held successfully in early November, attracting more than 300 leaders from the world's top financial institutions
- Preparing for the HKMA-BIS High-Level Conference (jointly organised with the Bank for International Settlements) to be held on 27-28 November 2023
- The HKMA delegation visited the United Arab Emirates and Saudi Arabia in May and July 2023, respectively. Both visits have laid a solid foundation for long-term financial collaboration between Hong Kong and the Middle East. The central banks will maintain close communication and foster collaboration
- The HKMA plans to visit ASEAN countries in 2024 and look for new growth opportunities for Hong Kong's financial sector

# Developing Hong Kong's financial platform (2)



## **Green finance**

- The HKMA assisted the Government to issue institutional green bonds in June 2023 and retail green bonds in October 2023, and publish the Green Bond Report 2023 in August 2023
- The HKMA released a report in August 2023 on the Government's inaugural tokenised green bond issuance with a view to providing a blueprint for future similar issuances in Hong Kong, and is exploring further use cases of distributed ledger technology in capital markets including a second tokenised issuance

## **Asset and wealth management**

- The family office tax concession bill has taken effect, with tax concession treatment applying retrospectively from 1 April 2022
- The HKMA and SFC issued a joint circular on streamlined selling processes for sophisticated professional investors

## **Stablecoin**

- The FSTB and HKMA will conduct public consultation on the proposed regulatory regime for stablecoin issuers, and are aiming to introduce the bill into the LegCo in 2024



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# Financial infrastructures and fintech initiatives (1)



## Financial infrastructures

- Operation of all financial infrastructures remains safe and efficient
- The Faster Payment System (FPS) marked its fifth anniversary in September 2023. Number of registrations and turnover of the FPS grew steadily over the past five years. The linkage between Hong Kong's FPS and Thailand's PromptPay is scheduled for launch on 4 December 2023
- Enhancement work of the Central Moneymarkets Unit in good progress

## Fintech initiatives

- By the end of 2023, the Government's Consented Data Exchange Gateway will connect to Commercial Data Interchange (CDI), and the Companies Registry will be the first government data source of CDI
- When more government departments share their digital data with financial institutions via the connection, the development of Hong Kong's digital economy will be greatly enhanced



# Financial infrastructures and fintech initiatives (2)



## Central Bank Digital Currency (CBDC)

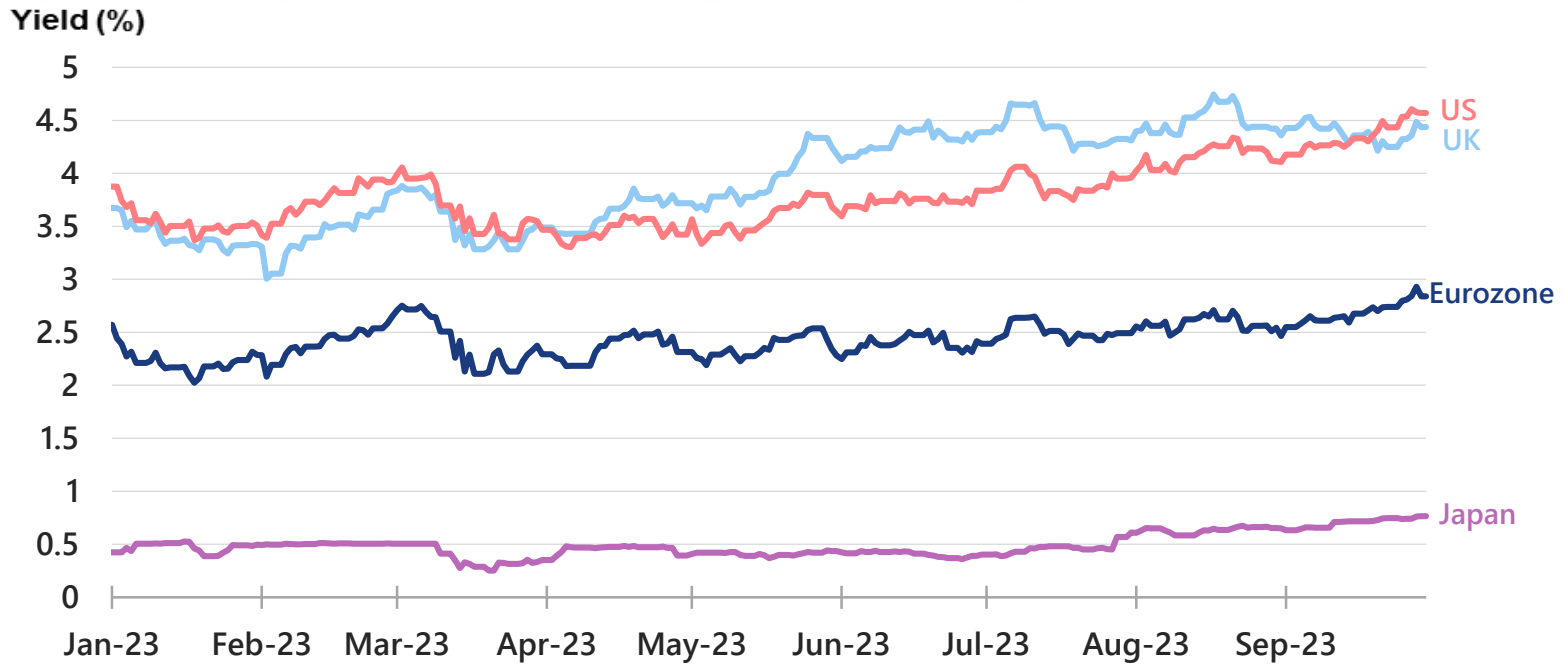
- For wholesale CBDC (mBridge): at the Minimum Viable Product development phase; published a brochure highlighting the key achievements and future roadmap in October 2023
- For retail CBDC (e-HKD): paving the way for possible implementation of e-HKD by adopting a three-rail approach; established a CBDC Expert Group; published a report on the overall assessment of the pilots conducted under Phase 1 of the e-HKD Pilot Programme and the way forward in October 2023



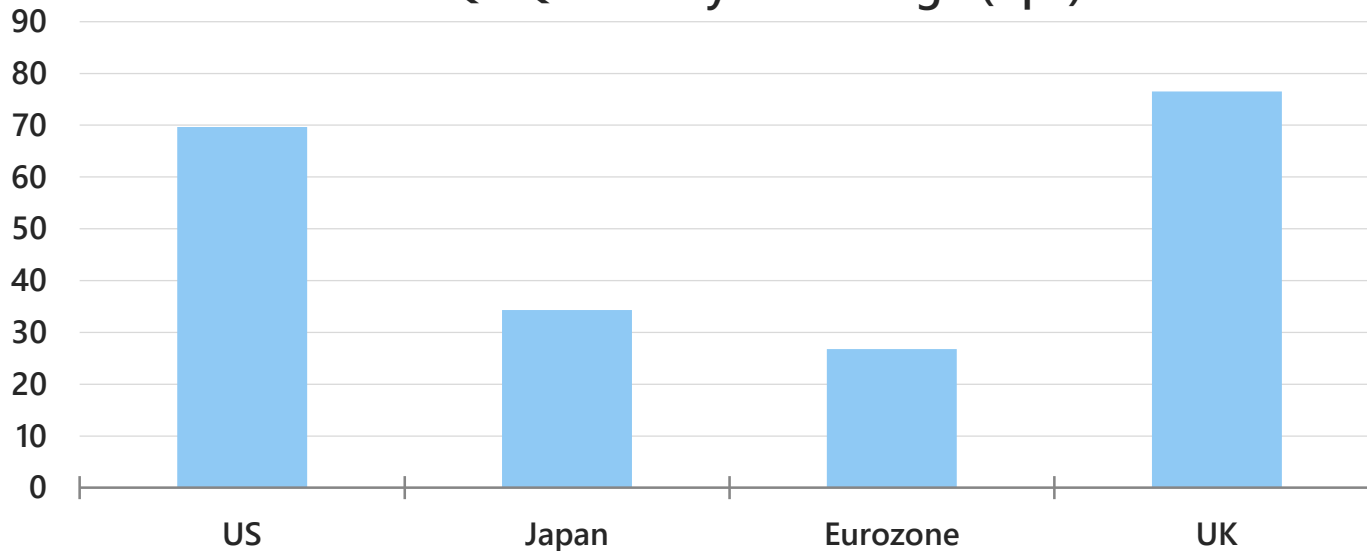
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# Major 10-year sovereign bond yields rose



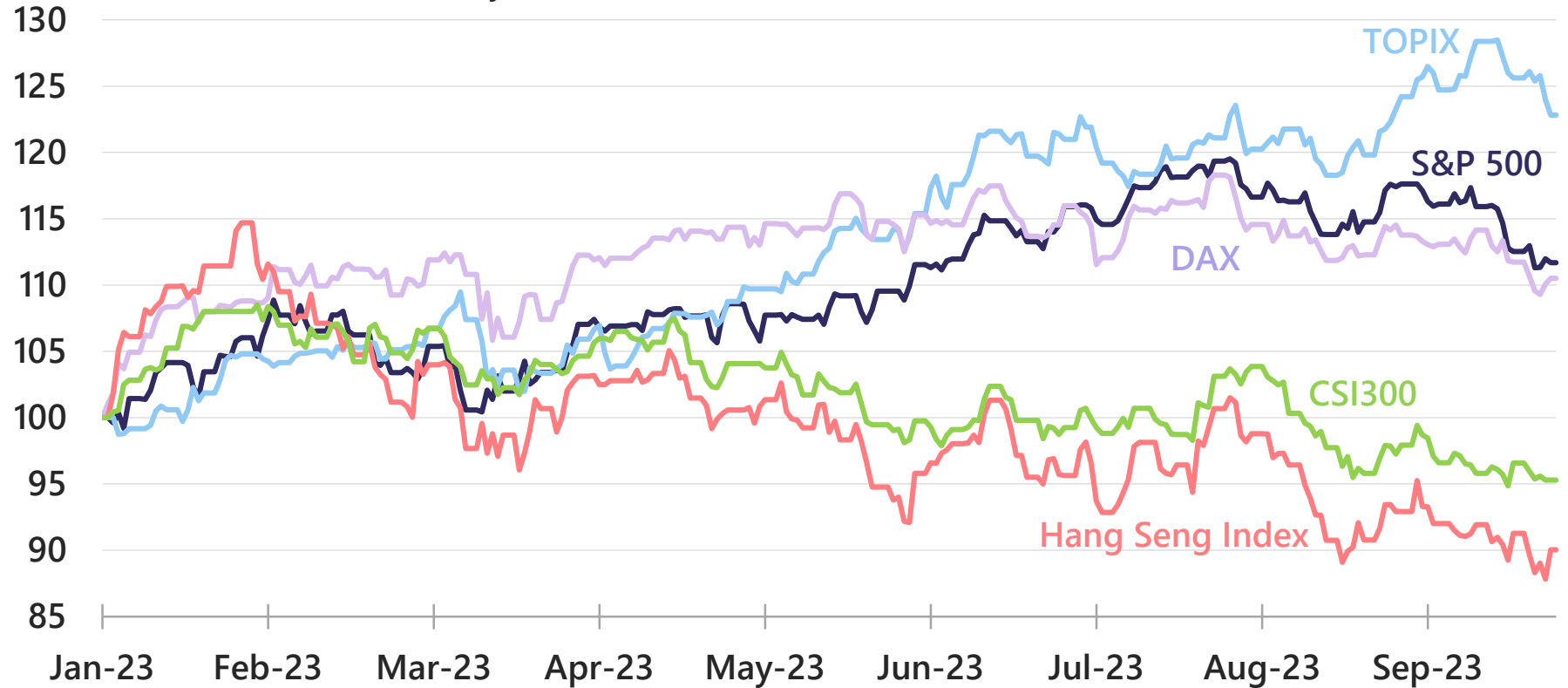
### 2023 Q1-Q3 bond yield change (bps)



# Major equity markets recorded mixed performance



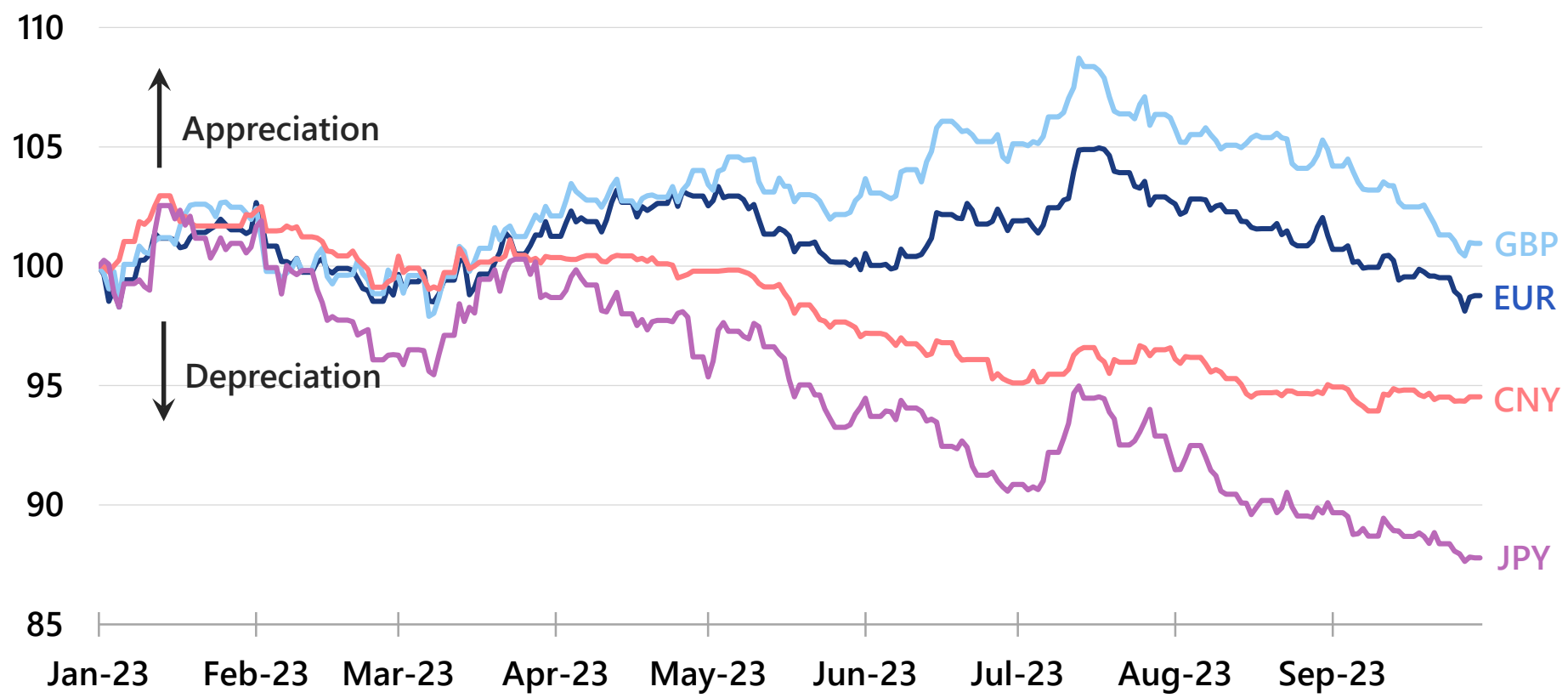
Normalised Index Level (2022 year-end = 100)



# Major currencies generally weakened against USD



Normalised FX Level Against USD (2022 year-end=100)





# Investment income

	← 2023 →		2022	2021
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
<b>Bonds</b>	<b>73.7</b>	<b>15.7</b>	<b>(53.2)</b>	<b>12.6</b>
<b>Hong Kong equities*</b>	<b>(10.5)</b>	<b>(5.7)</b>	<b>(19.5)</b>	<b>(21.0)</b>
<b>Other equities</b>	<b>40.5</b>	<b>(8.0)</b>	<b>(61.0)</b>	<b>68.8</b>
<b>Foreign exchange<sup>#</sup></b>	<b>(9.3)</b>	<b>(7.5)</b>	<b>(40.0)</b>	<b>16.8</b>
<b>Other investments<sup>@</sup></b>	<b>16.5</b>	<b>-</b>	<b>(31.7)</b>	<b>114.7</b>
<b>Investment income/(loss)</b>	<b>110.9</b>	<b>(5.5)</b>	<b>(205.4)</b>	<b>191.9</b>

\* 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.

This figure reflects the valuations at the end of June 2023. Valuation changes of these investments from July to September are not yet available.



# Income and expenditure

	← 2023 →		2022	2021
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
<b>Investment income/(loss)</b>	<b>110.9</b>	<b>(5.5)</b>	<b>(205.4)</b>	<b>191.9</b>
Other income	0.1	-	0.2	0.2
Interest and other expenses	<u>(38.1)</u>	<u>(14.4)</u>	<u>(18.8)</u>	<u>(6.1)</u>
Net income/(loss)	72.9	(19.9)	(224.0)	186.0
Fee payment to Fiscal Reserves*#	(14.0)	(4.0)	(26.0)	(93.0)
Fee payment to HKSAR Government funds and statutory bodies*	(12.1)	(4.2)	(22.1)	(16.8)

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

# This does not include the 2023 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2023 is available.

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



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# Mortgage Insurance Programme (MIP)

- Amendments have been made to the MIP since 7 July 2023:
  - For eligible properties with property value up to HK\$10 million, the maximum loan-to-value (LTV) ratio remains at 90%;
  - For eligible properties with property value above HK\$10 million and up to HK\$15 million, the maximum LTV ratio is 80% or an LTV ratio derived from a mortgage loan cap of HK\$9 million, whichever the higher; and
  - For eligible properties with property value above HK\$15 million and up to HK\$30 million, the maximum LTV ratio is 70% or an LTV ratio derived from a mortgage loan cap of HK\$12 million, whichever the higher
- Applicable eligibility criteria for residential properties under construction have been aligned with those for completed residential properties since 22 September 2023
- Special premium concession for properties valued up to HK\$15 million have been provided to the first-time homebuyers, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks
- In 2023, as of 31 October, around 31,500 applications were approved, of which 152 were under the new coverage after the MIP revisions in July and September 2023. Over 90% of approved applications were from first-time homebuyers



# SME Financing Guarantee Scheme (SFGS)

- As of 31 October 2023, over 65,000 applications were approved under the Special 100% Loan Guarantee, amounting to about HK\$136.9 billion. The average loan amount per application was HK\$2.10 million, and the average approved loan amount per borrower was HK\$3.53 million. Over 45,900 applications (around 70%) have chosen the principal moratorium option
- As of 31 October 2023, around 35,400 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$129.2 billion. Over 3,100 applications have chosen the principal moratorium option
- As the principal moratorium arrangement gradually expires over the coming year, banks will discuss with borrowing enterprises in difficulty possible repayment arrangements, including the partial principal repayment options under the scheme



## Other loan guarantee schemes

- **Dedicated 100% Loan Guarantee Schemes:** The schemes for the cross-boundary passenger transport and the travel industries were launched on 29 April 2023 to support their business resumption. As of 31 October 2023, 165 applications were approved, amounting to about HK\$166 million. Separately, 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
- **100% Personal Loan Guarantee Scheme:** Since its launch in April 2021, around 67,000 applications were approved, amounting to about HK\$4.7 billion. The application period of the scheme expired in end-April 2023