



HONG KONG MONETARY AUTHORITY

香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

5 February 2024

[Translation]



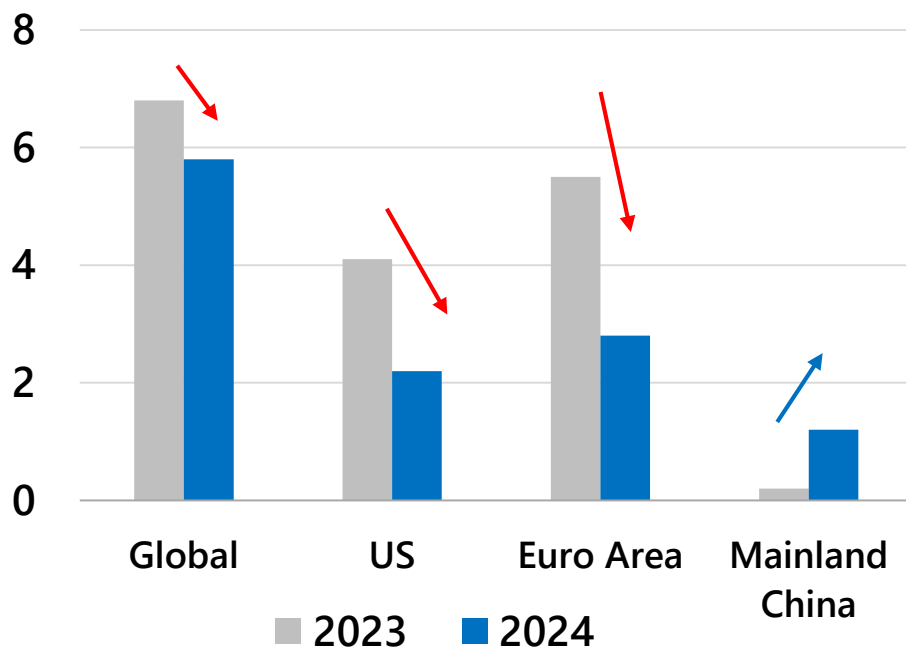
- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
6. The Hong Kong Mortgage Corporation Limited

Inflation in US and Europe expected to ease further while growth in Mainland China holds broadly stable



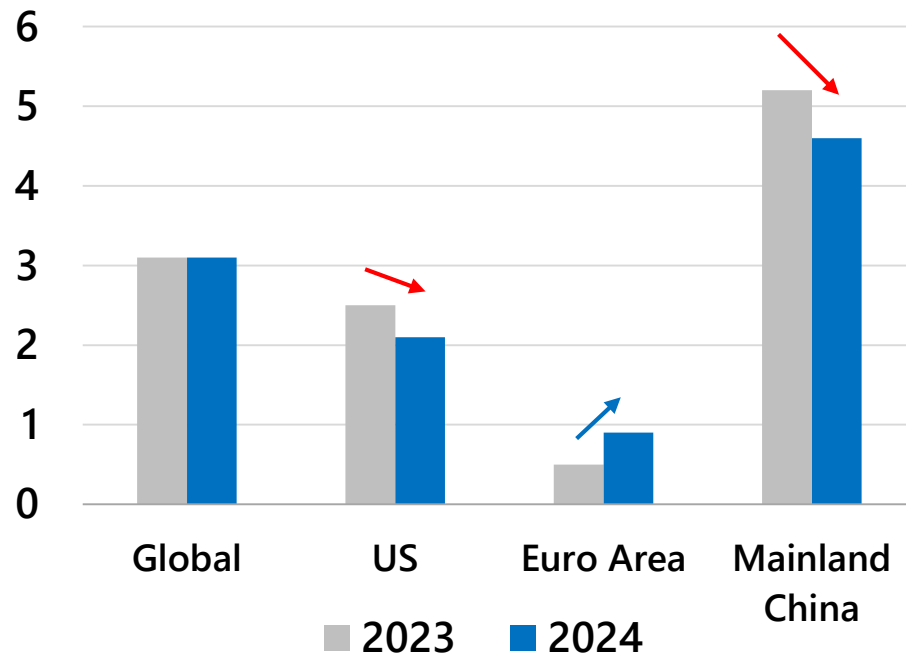
Inflationary pressure in US and Europe likely to ease

CPI inflation projection
(% yoy)



Steady growth expected in Mainland China

Real GDP growth projection
(% yoy)

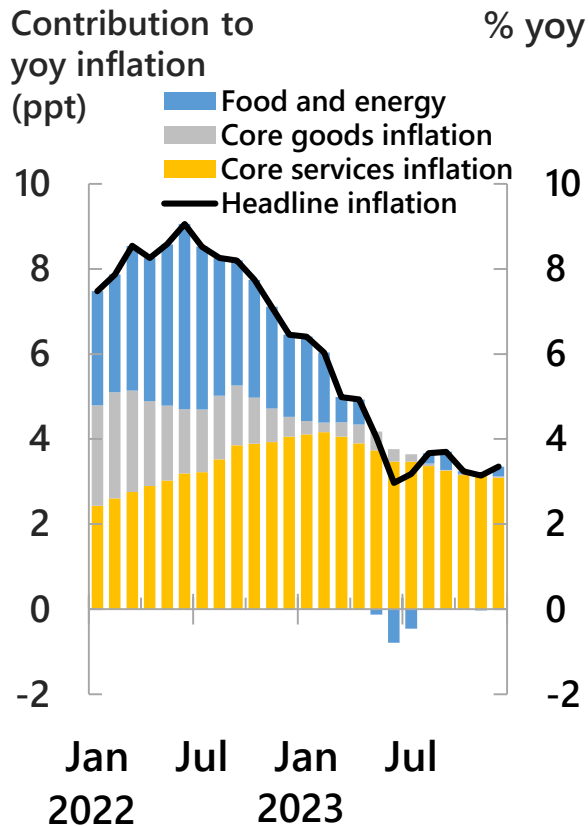


Note: Mainland China's 2024 CPI inflation rate is based on Consensus Forecasts.

US interest rates have likely peaked, but pace of future rate cuts is subject to uncertainties

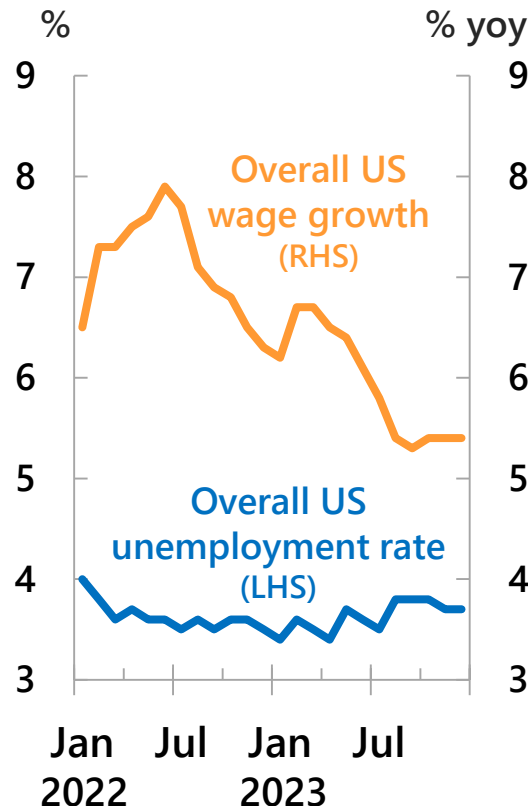


Services inflation remains elevated



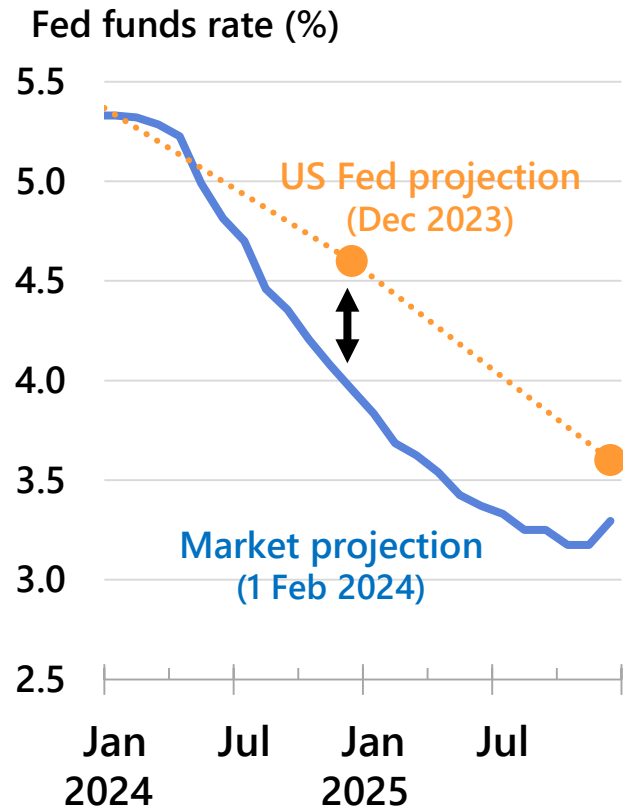
Source: US Bureau of Labour Statistics

Wages may continue to bring inflationary pressure



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

Divergent market and Fed views on interest rate outlook



Sources: US Federal Reserve and Bloomberg

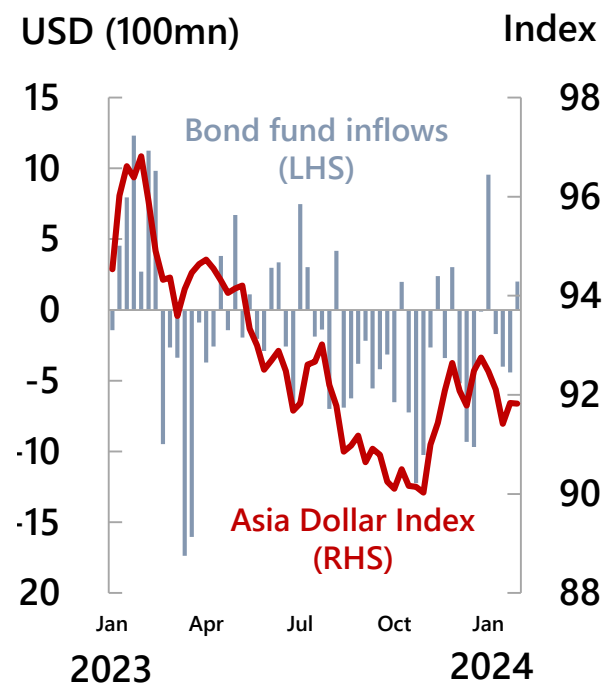
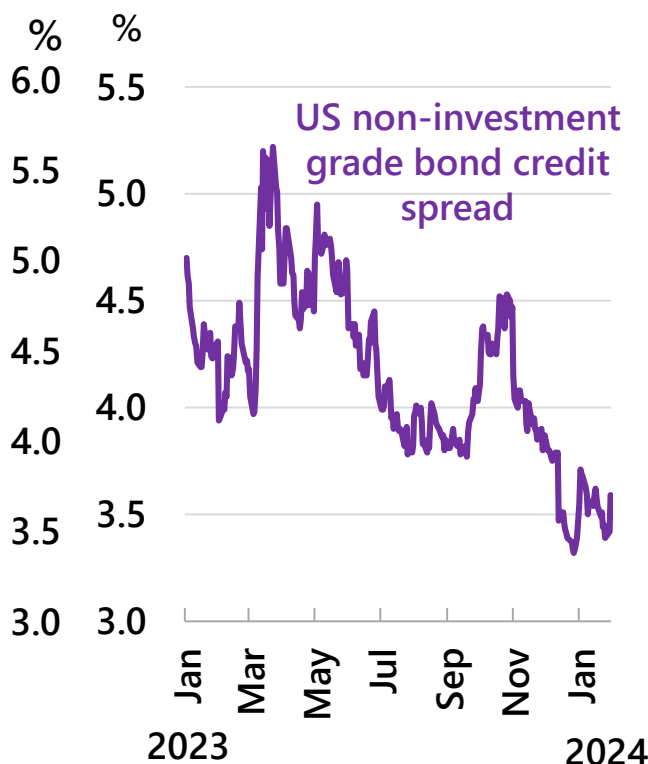
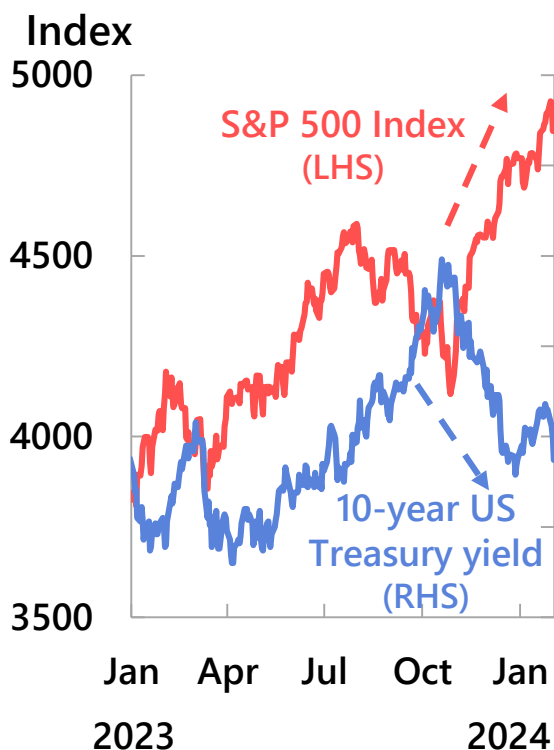
Financial markets may experience some adjustments if rate cut pace falls short of expectations



Rate cut expectations drive financial market rallies

Corporate credit spreads remain tight

Easing outflow pressures on Asia-Pacific bonds



Source: Bloomberg

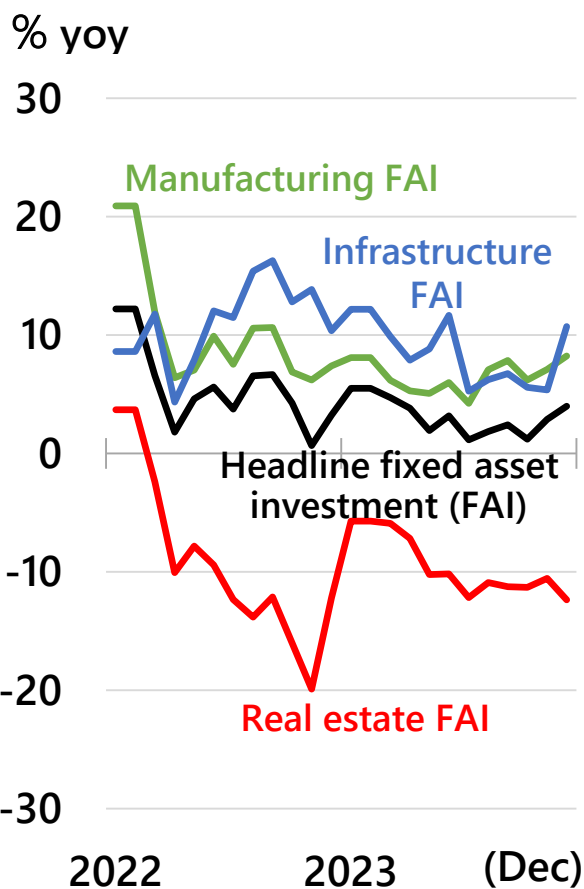
Source: St Louis Fed

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

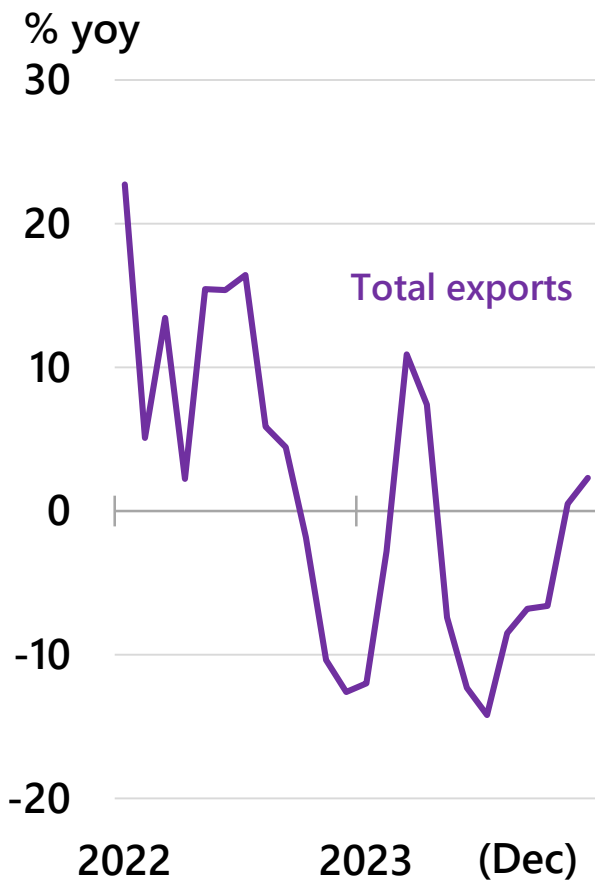
Major trend in Mainland economy holds steady although softness in property market continues



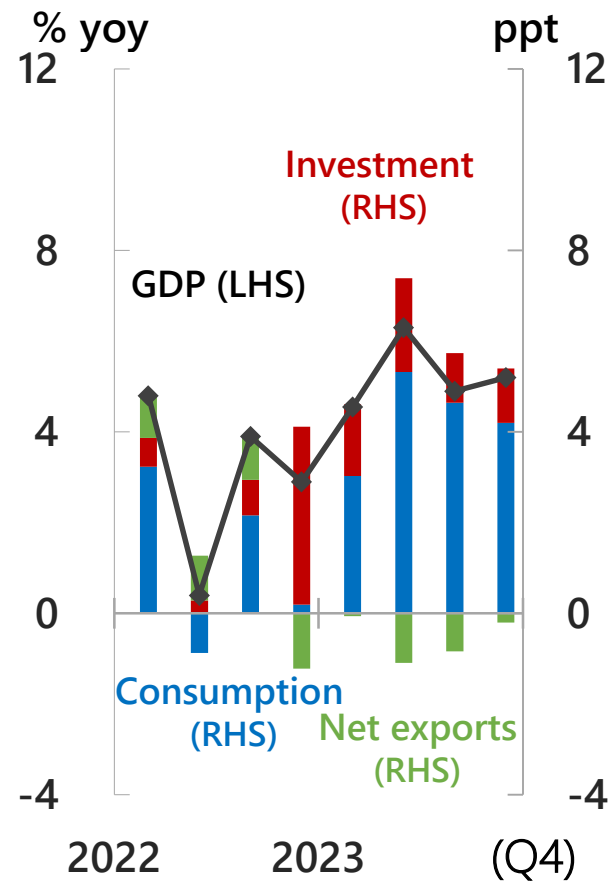
Investment growth stabilises



Exports improve



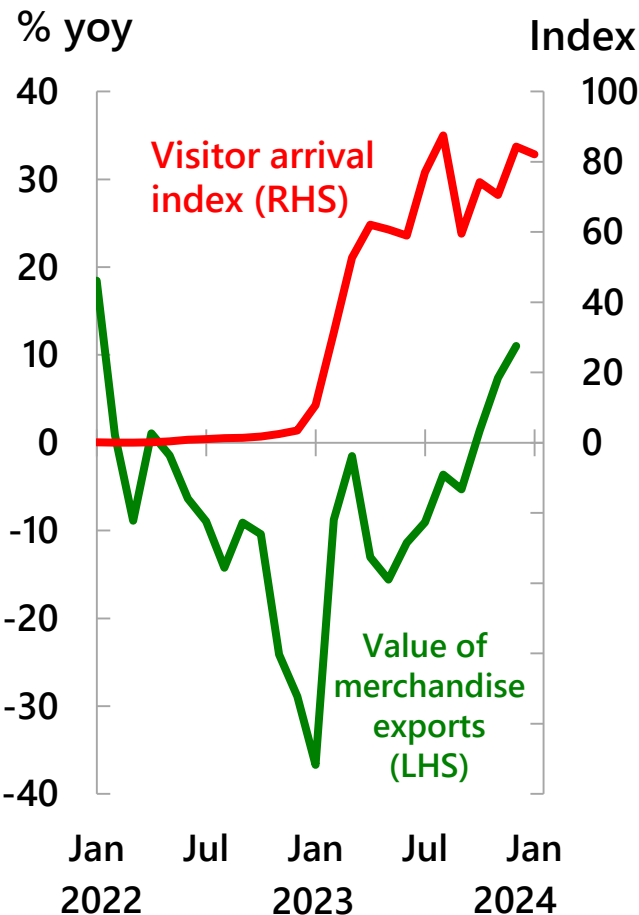
Overall economy stays steady



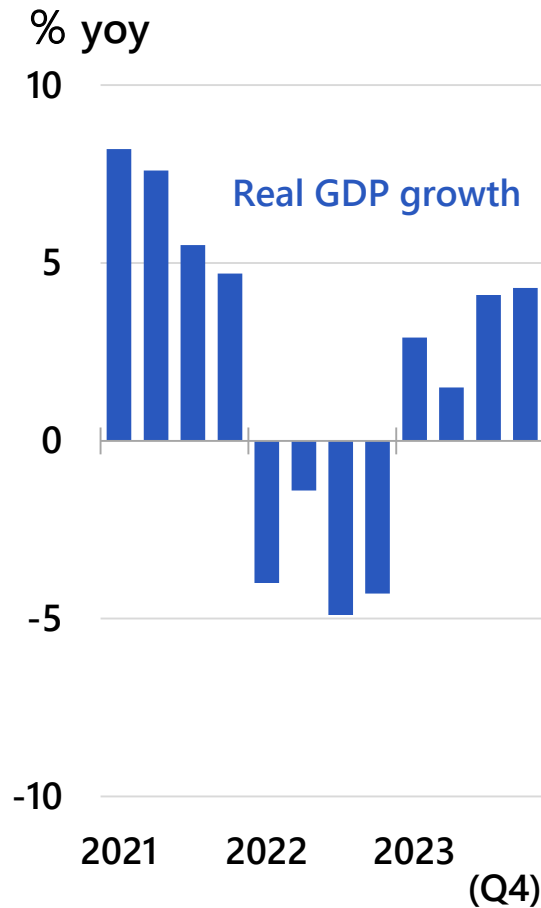
Hong Kong's economic outlook is cautiously optimistic, but various uncertainties remain in the external environment



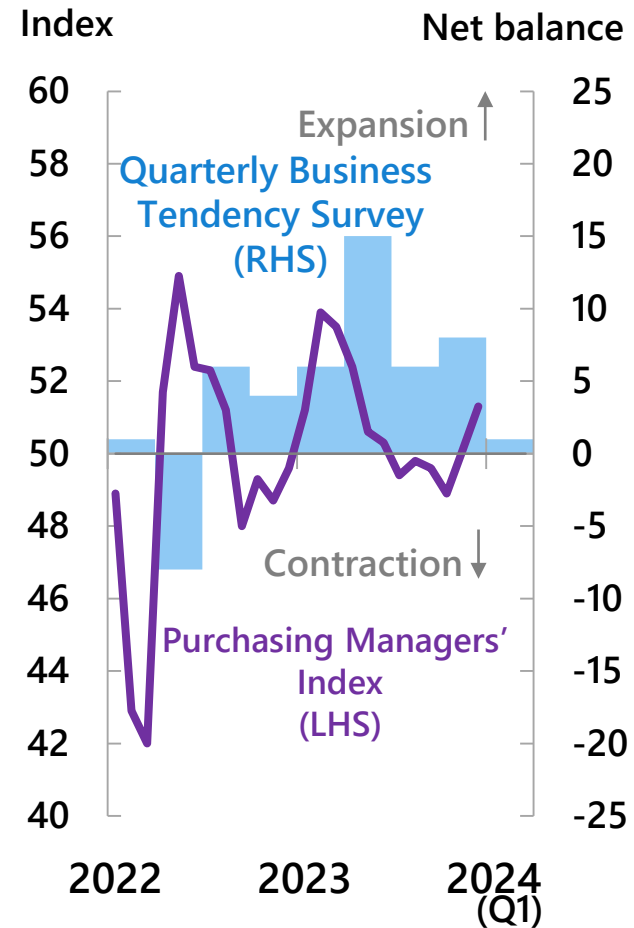
Merchandise exports and inbound tourism recover steadily



Overall economic activities continue to revive



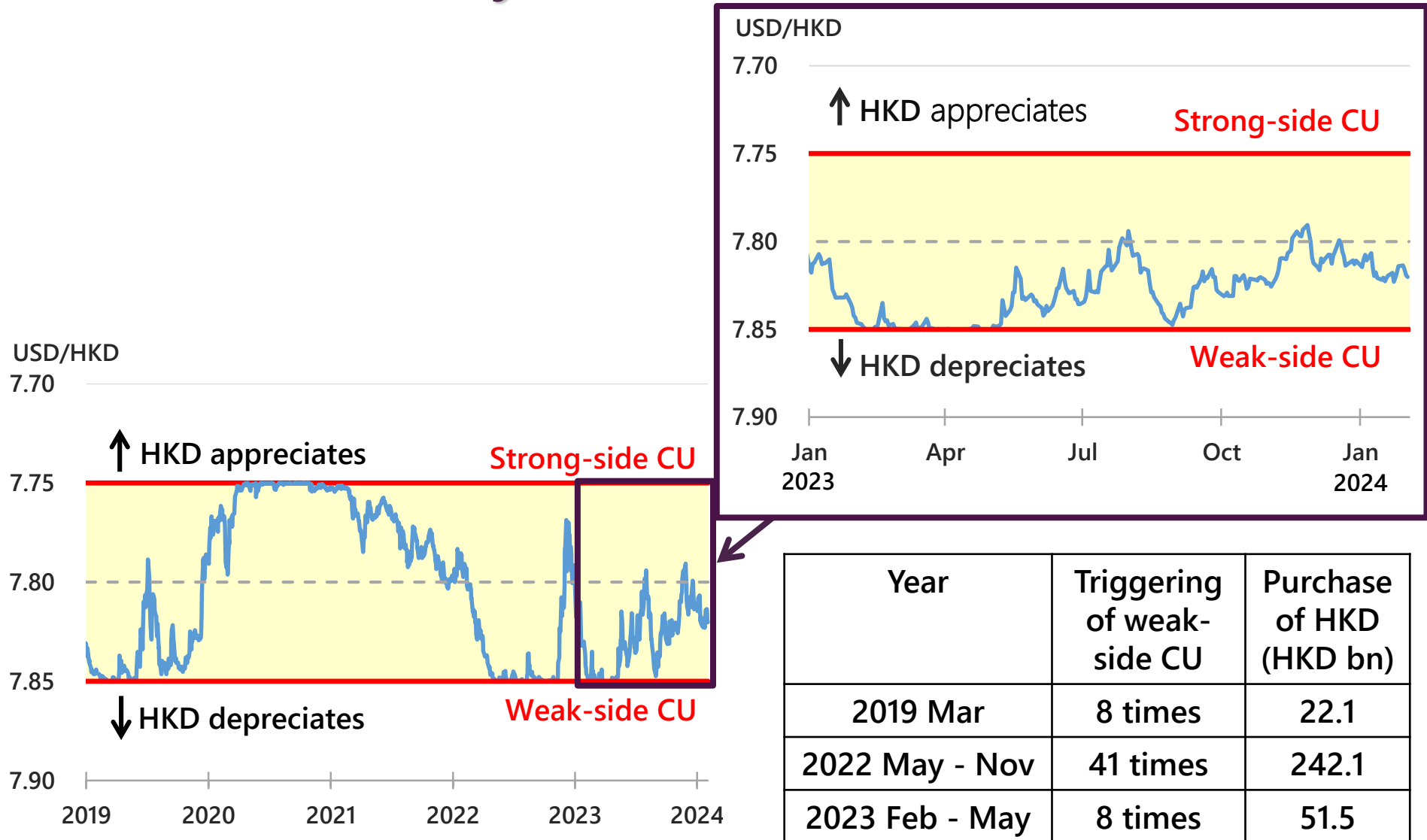
Business sentiment stabilises



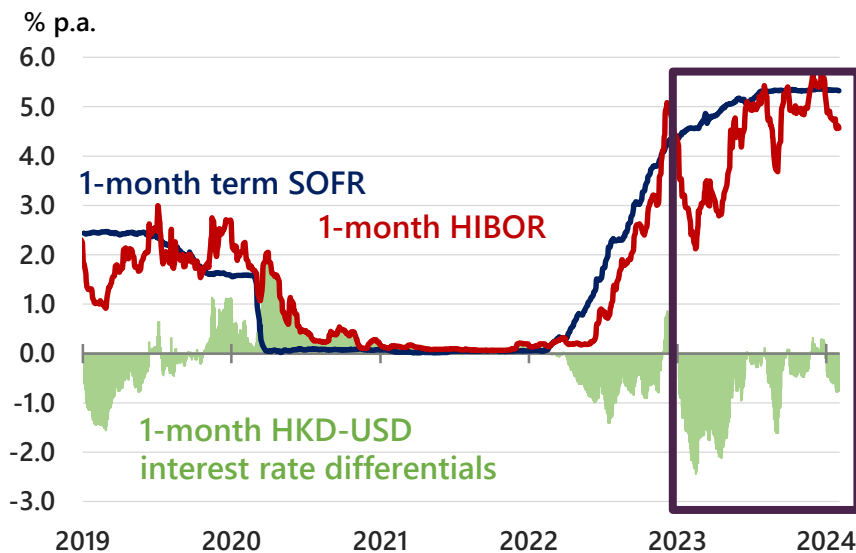
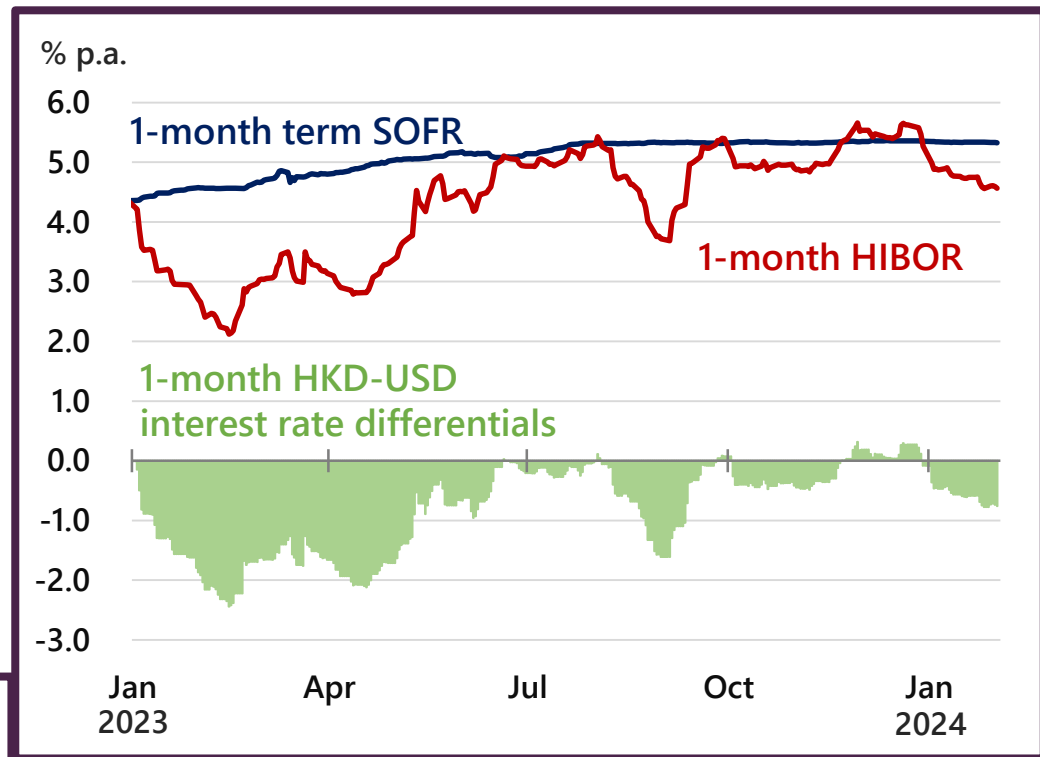
Note: Visitor arrival index is defined as the number of monthly visitor arrivals as a percentage of monthly average in 2019.

Sources: Hong Kong Tourism Board, Immigration Department, Census and Statistics Department, and S&P Global

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



HKD interest rates may continue to stay at high levels in the short term





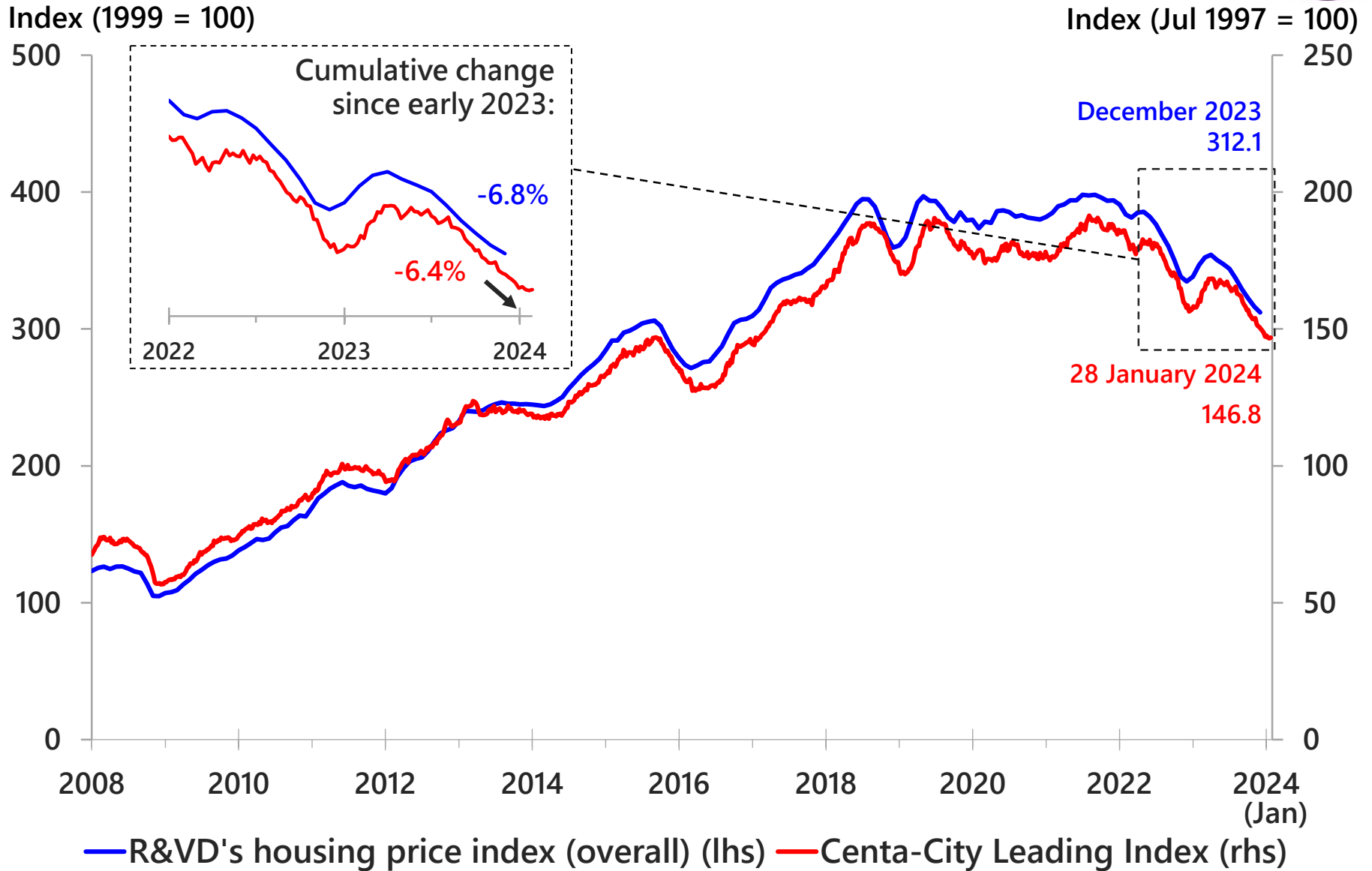
Bank deposits continue to grow

Change during the period (%)

	Total deposits	HKD deposits
First three quarters of 2023	+2.3%	+1.6%
October 2023	+0.0%	-0.4%
November	+1.7%	+0.5%
December	+1.0%	+0.3%
Full year 2023	+5.1%	+2.1%



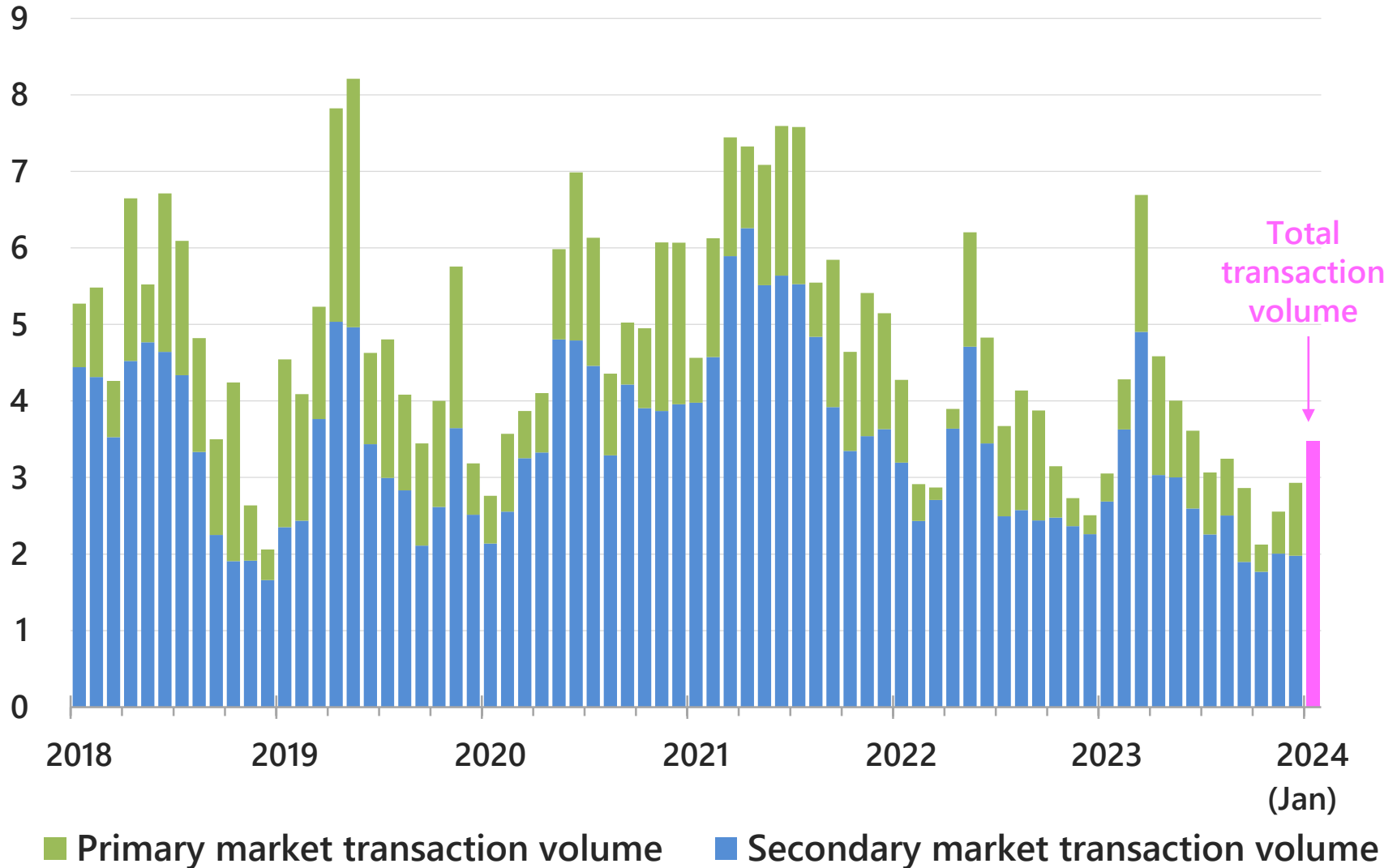
Property market sentiment remains soft





Property transactions increase slightly

Number of transactions ('000)





Hong Kong's financial sector is resilient

- As inflation in the US eased further, US interest rates may have already peaked. Nevertheless, given the resilience of both the US economy and the labour market, the timing and the pace of the US Fed's future rate cuts are subject to uncertainties
- Given the uncertainties surrounding the US interest rate path, together with continued geopolitical tensions, financial markets may experience some corrections
- The Hong Kong economy is expected to register mild growth in 2024 on the back of a gradual improvement in Hong Kong's goods exports, continued recovery of inbound tourism, and various measures put in place to attract businesses and talents
- The Hong Kong money market continues to operate smoothly with the HKD exchange rate remaining steady. The local banking sector also remains robust with ample capital and liquidity buffers
- HKD interbank rates may continue to stay at high levels for some time. The public should prudently assess and manage the interest rate risks when making property purchase, mortgage or other borrowing decisions



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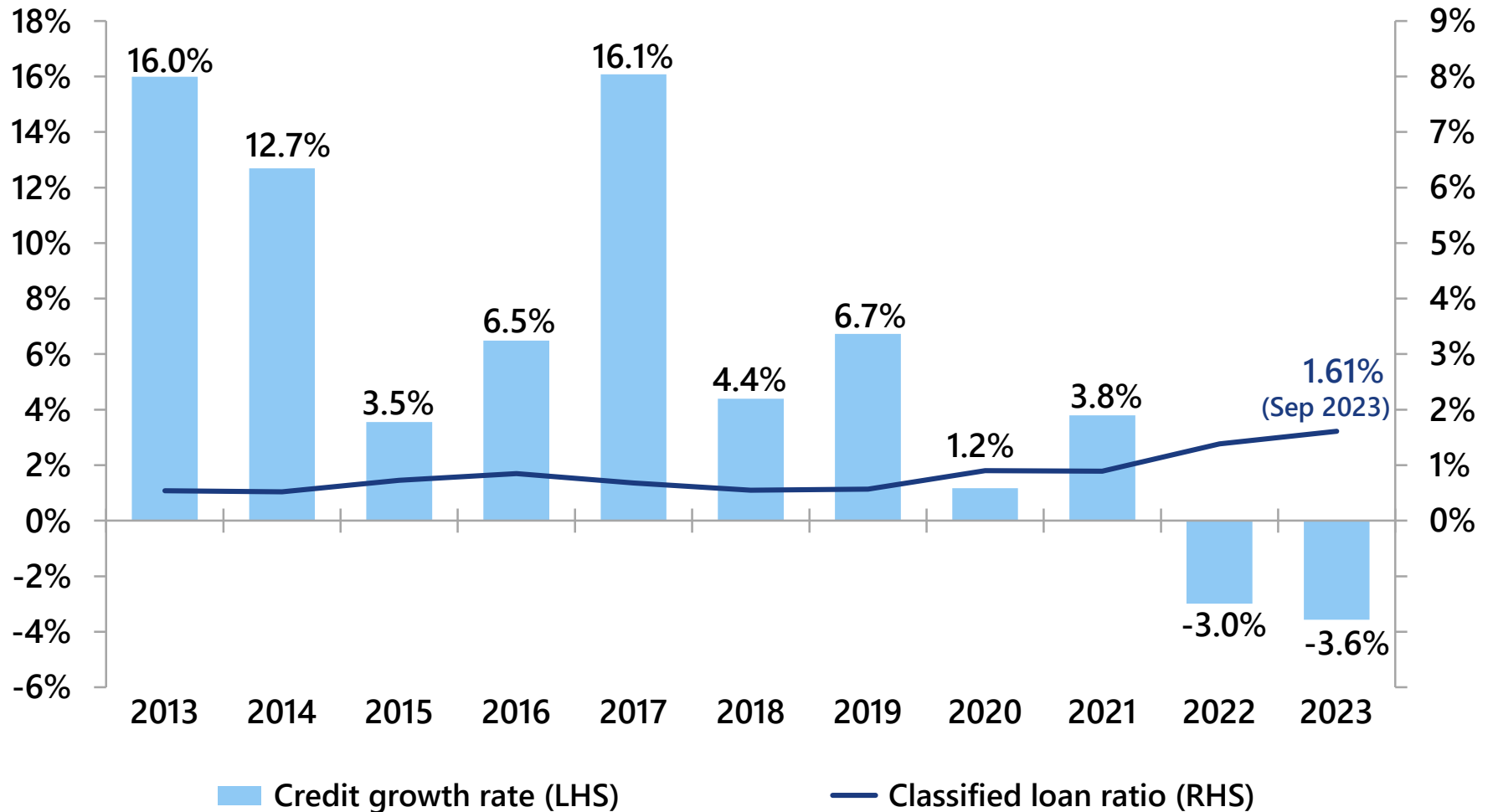
Banking sector performance



Loan demand reduced while asset quality stays healthy

Credit growth rate

Classified loan ratio*



■ Credit growth rate (LHS)

— Classified loan ratio (RHS)

* Classified loan ratio of all authorized institutions

Source: HKMA



Supporting SMEs

- Exiting orderly from the Pre-approved Principal Payment Holiday Scheme
 - Principal moratorium offered to corporates still in need of support
- Reiterated supervisory expectation for banks to strike a balance between prudent credit risk management and supporting real economic activities



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**
 - Gazetted on 29 December 2023
 - Tabled at LegCo on 10 January 2024

Review of the Banking Ordinance

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



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Growth momentum of Hong Kong's offshore renminbi (RMB) business continued



- Offshore RMB market continued to grow steadily. Various businesses saw year-on-year growth

(RMB bn)	2023	2022	Growth
RMB deposits (incl. outstanding certificates of deposit)	1,045.3	981.7	6%
Outstanding RMB loans	441.2	191.7	130%
RMB bond issuance	545.1	330.8	65%
RMB trade settlement	11,668.6	9,342.1	25%

Measures to strengthen financial collaboration between Hong Kong and the Mainland (1)



The HKMA and the People's Bank of China announced on 24 January six measures to strengthen Hong Kong's position as an international financial centre and leading offshore RMB business hub, and foster closer connections within the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)

- Strengthening mutual market access
 - Facilitating the diverse use of onshore bonds held by foreign investors
 1. Collateral - Expanding the list of eligible collateral for the HKMA's RMB Liquidity Facility to include RMB bonds issued onshore by the Ministry of Finance and the policy banks in the Mainland
 2. Repo - Further opening up the onshore repo market to foreign investors to facilitate acquisition of RMB liquidity

Measures to strengthen financial collaboration between Hong Kong and the Mainland (2)



- Enhancing the Cross-boundary Wealth Management Connect Scheme in the GBA: Expanding the scope of eligible products and participating institutions, enhancing promotion and sales arrangements, increasing individual investor quota, etc.
- Bringing convenience to corporates and the general public
 - Implementing facilitative measures on cross-border remittances for purchasing properties in GBA's Mainland cities, providing Hong Kong residents with a clear, safe and proper channel to remit related funds to the Mainland
 - Promoting the collaboration on cross-boundary credit referencing to facilitate corporates' cross-boundary financing activities
 - Expanding the cross-boundary e-CNY pilots in Hong Kong to facilitate the set up and usage of e-CNY wallets by Hong Kong residents

Developing Hong Kong's financial platform (1)



Outreach

- Hosting major international events
 - Successfully held the second edition of the Global Financial Leaders' Investment Summit and the HKMA-BIS High-Level Conference in November 2023
 - Active preparations are underway for the Hong Kong Green Week – Finance Stream which will be held in late February 2024 and preparing to host the next Global Financial Leaders' Investment Summit again in November this year
- New market opportunities
 - The HKMA and banking sector representatives visited Thailand in January 2024 and plan to visit other ASEAN countries this year to look for new growth opportunities for Hong Kong's financial sector and foster closer financial cooperation within the region

Developing Hong Kong's financial platform (2)



Green finance

- The HKMA is assisting the Government in the second issuance of tokenised green bond

Stablecoin

- The FSTB and HKMA jointly issued a public consultation paper in December 2023 to gather views on the legislative proposal to regulate issuers of stablecoin. The HKMA is preparing to introduce a stablecoin issuer sandbox arrangement



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Financial infrastructures and fintech initiatives (1)



Financial infrastructures

- Operation of all financial infrastructures remains safe and efficient
- Number of registrations and turnover of the Faster Payment System (FPS) grew steadily over the past five years. Launched the “FPS Suspicious Proxy ID Alert” and “FPS x PromptPay” Link in Q4 2023
- Enhancement work of the Central Moneymarkets Unit in good progress

Fintech initiatives

- The connection arrangement between Commercial Data Interchange (CDI) and the Government’s Consented Data Exchange Gateway commenced operation in December 2023, with the Companies Registry becoming the first government data source of CDI via the connection; banks are conducting pilot trials in phases to obtain company search records in a straight-through manner through the connection

Financial infrastructures and fintech initiatives (2)



Hong Kong FinTech Week 2023 (co-organised with InvestHK)

- The event attracted a record high of over 35,000 attendees and 5.5 million online views from over 100 economies

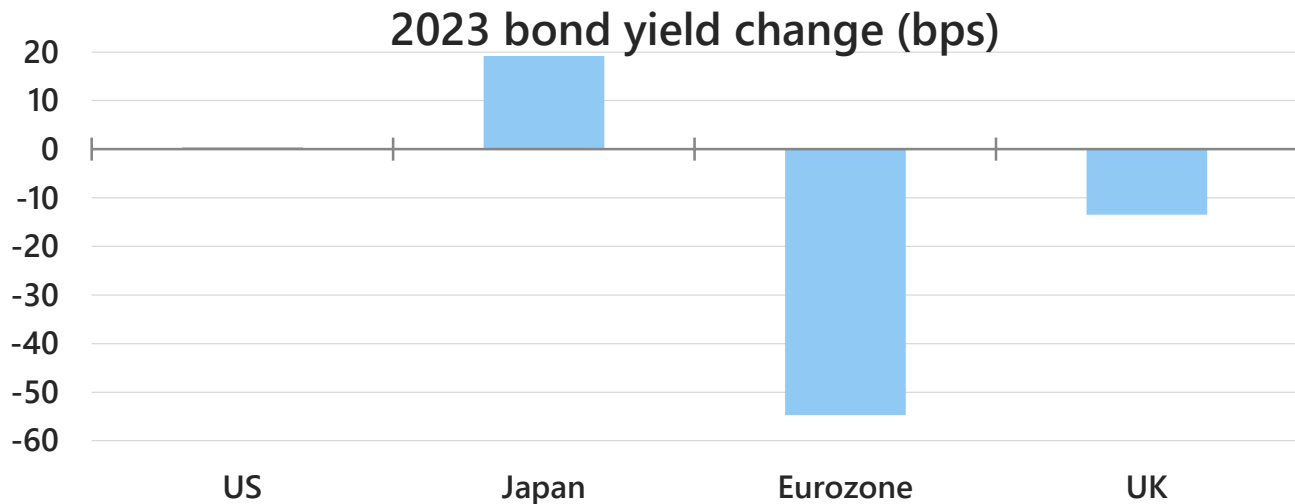
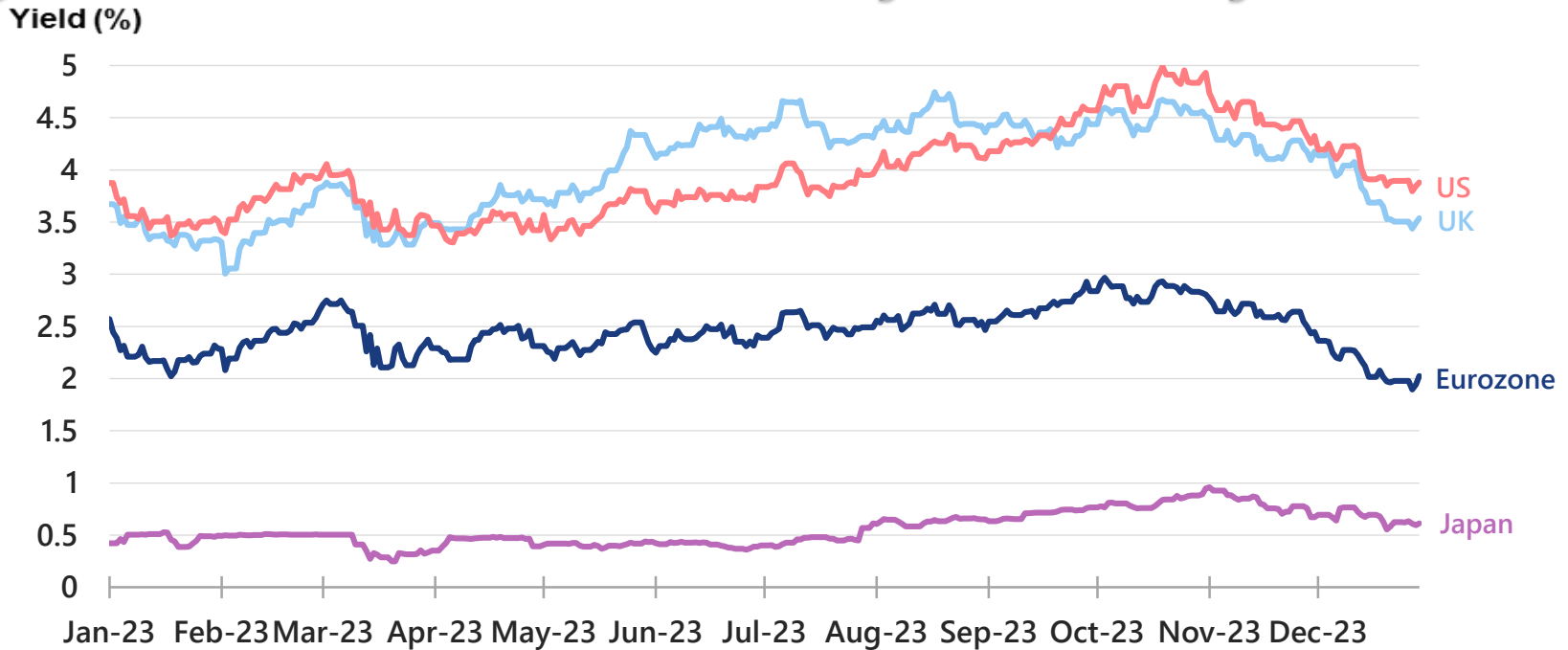
Central Bank Digital Currency (CBDC)

- 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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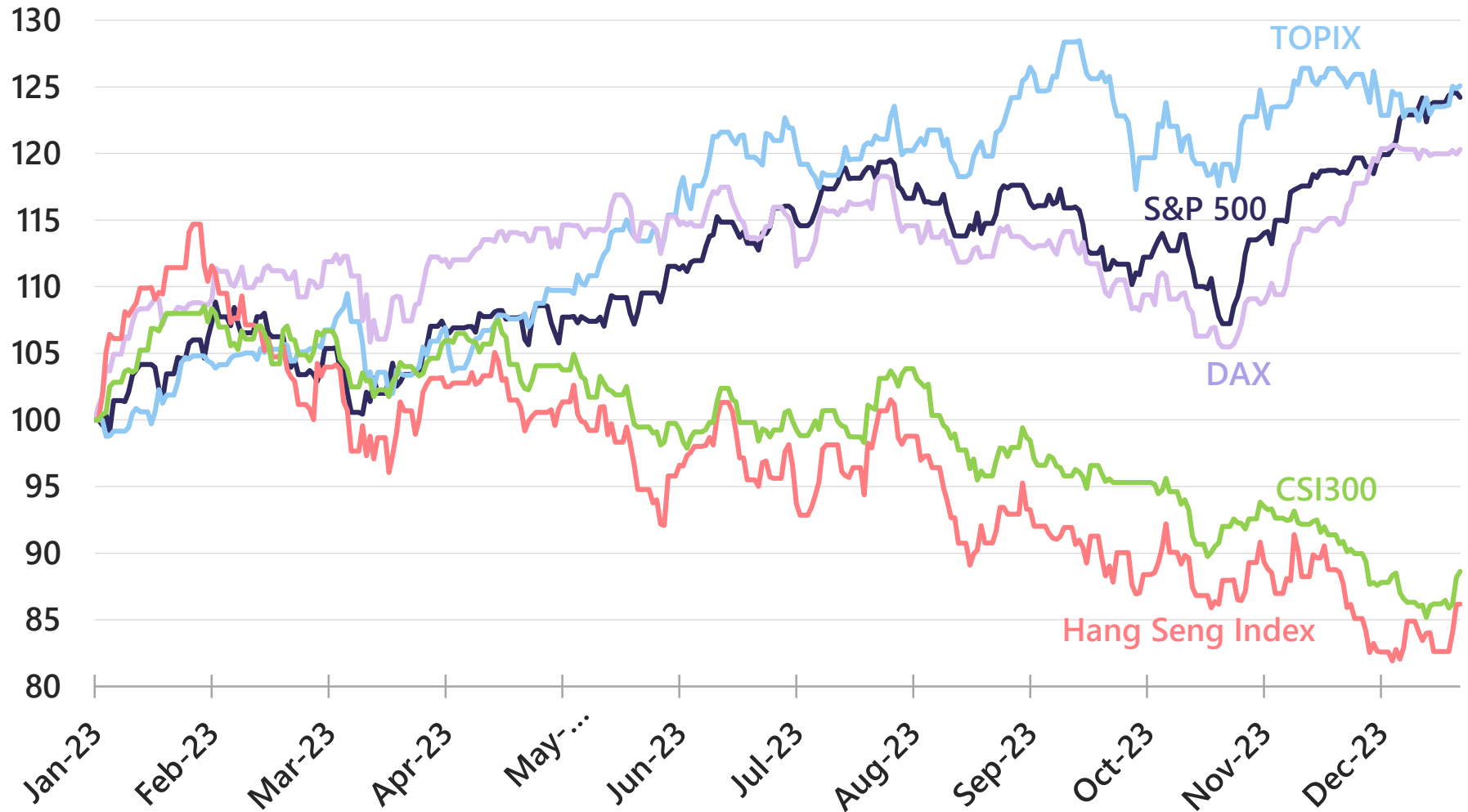
Major 10-year sovereign bond yields remained high and declined moderately towards year-end



Major equity markets rose sharply while Mainland and HK markets declined



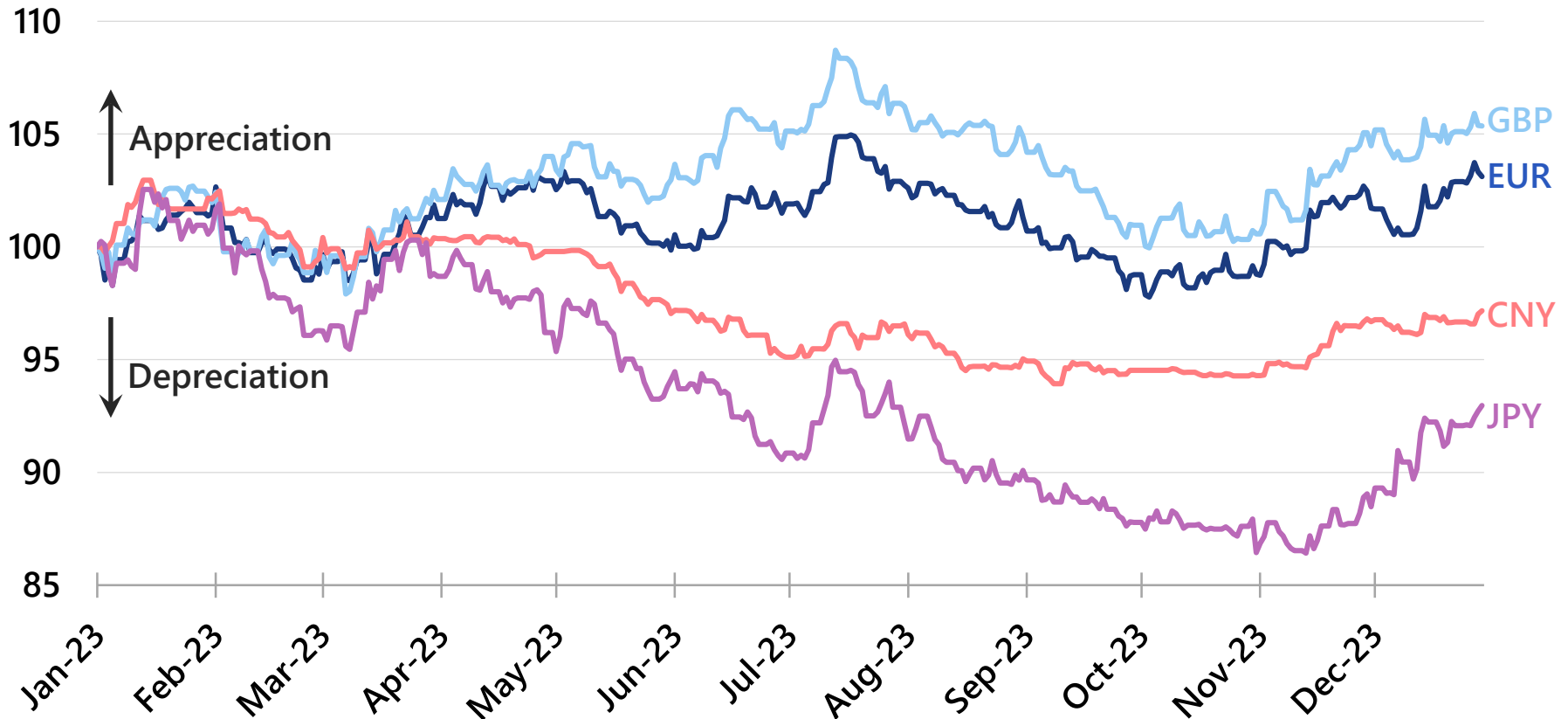
Normalised Index Level (2022 year-end = 100)



USD recorded mixed performance against major currencies



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



Investment Income



	← 2023 →			2022	2021
	(unaudited)				
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	144.0	86.0	58.0	(53.2)	12.6
Hong Kong equities*	(15.5)	(10.7)	(4.8)	(19.5)	(21.0)
Other equities	73.2	24.7	48.5	(61.0)	68.8
Foreign exchange#	(0.5)	1.3	(1.8)	(40.0)	16.8
Other investments@	<u>11.5</u>	<u>(5.0)</u>	<u>16.5</u>	<u>(31.7)</u>	<u>114.7</u>
Investment income/(loss)	212.7	96.3	116.4	(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.

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



Income and Expenditure

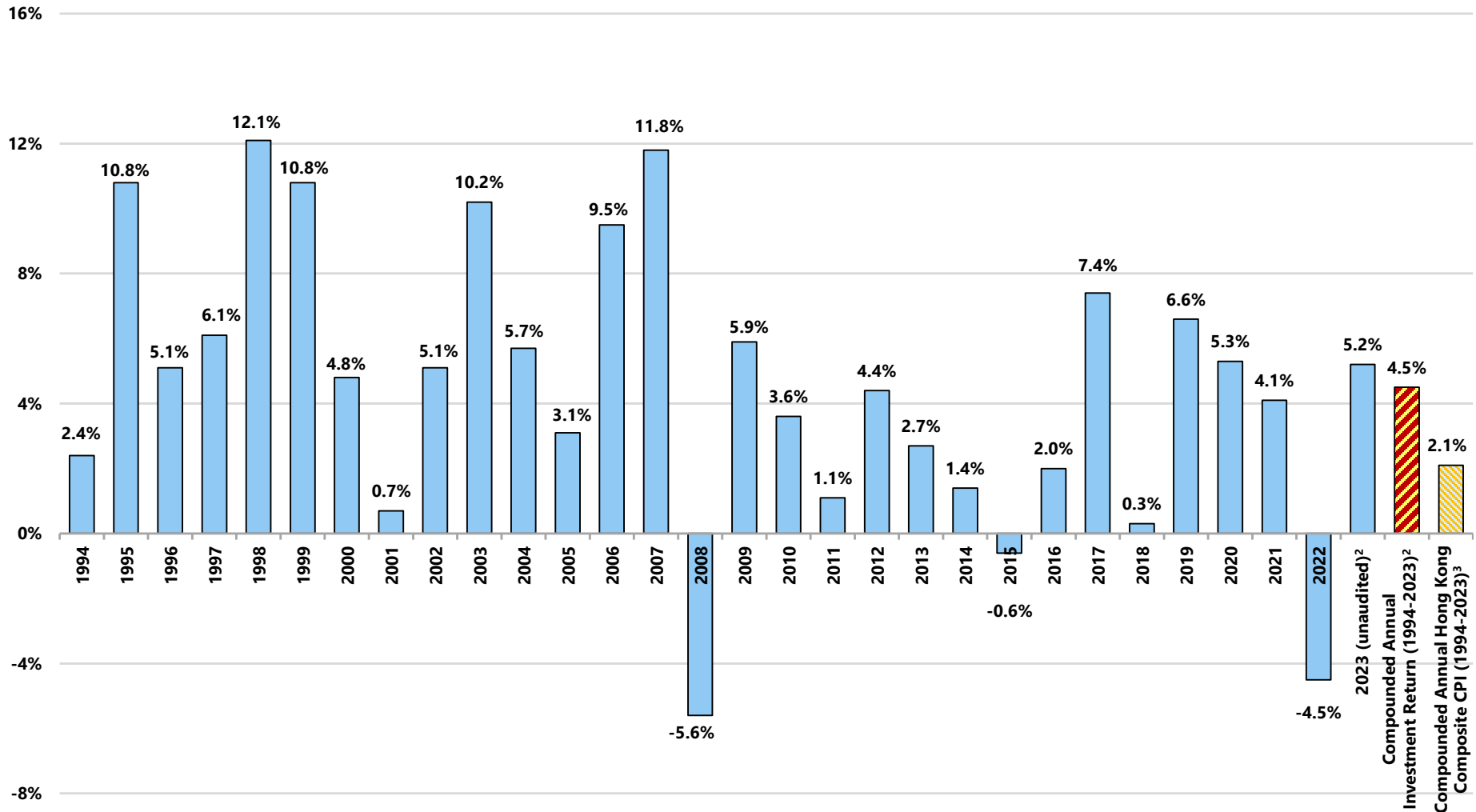
(HK\$ billion)	← 2023 → (unaudited)			2022	2021
	Full year	2H	1H	Full year	Full year
Investment income/(loss)	212.7	96.3	116.4	(205.4)	191.9
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(54.4)</u>	<u>(30.7)</u>	<u>(23.7)</u>	<u>(18.8)</u>	<u>(6.1)</u>
Net income/(loss)	158.5	65.7	92.8	(224.0)	186.0
Fee payment to Fiscal Reserves*#	(17.5)	(7.5)	(10.0)	(26.0)	(93.0)
Fee payment to HKSAR Government funds and statutory bodies*	(16.5)	(8.6)	(7.9)	(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.

Investment Return of The Exchange Fund (1994-2023)¹



¹ Investment return calculation excludes the holdings in the Strategic Portfolio.

² The return includes the performance of LTGP up to the end of September 2023. The audited full year return will be disclosed in the 2023 annual report.

³ Composite CPI is calculated based on the 2019/2020-based series.



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Mortgage Insurance Programme (MIP)

- In 2023, around 34,900 applications were approved, of which 328 were under the new coverage after the MIP revisions in July and September 2023. Over 90% of approved applications were from first-time homebuyers. In 2024, as of 15 January, around 800 applications were approved, of which 88 were under the new coverage after the two MIP revisions in 2023
- 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

- As of 15 January 2024, over 65,700 applications were approved under the Special 100% Loan Guarantee, amounting to about HK\$139.5 billion. The average loan amount per application was HK\$2.12 million, and the average approved loan amount per borrower was HK\$3.56 million. Over 45,800 applications have chosen the principal moratorium option
- As of 15 January 2024, around 36,400 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$131.8 billion. Over 3,100 applications have chosen the principal moratorium option
- 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 January 2024, 207 applications were approved, amounting to about HK\$0.2 billion
- 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. The first two applications were approved in December of the same year