

Highlights of 2014

Economic and Financial Environment

Hong Kong's economy grows at a slower pace amid softer growth in domestic demand and a continued weak external trade performance. The Hang Seng Index records modest gains in a sharply fluctuating market, while the residential property market turns more active with housing prices picking up and trading activity rebounding.

Hong Kong's banking sector remains resilient. Retail banks are well capitalised with sound asset quality. Profitability grows modestly while credit expansion eases.

Monetary Stability

The Hong Kong dollar exchange rate against the US dollar remains stable, despite repeated triggering of the strong-side Convertibility Undertaking in July and early August. The money market functions normally with ample liquidity, and the Linked Exchange Rate System continues to command high public and market confidence. The HKMA launches the world's first structured coin collection scheme using mobile approach to help the public get value for their coins while reducing the need to mint new coins.

Banking Stability

The HKMA steps up supervision of banks' credit growth and Mainland-related business in light of the increasing challenges posed by the divergence in advanced economies, a slowdown in Mainland China and the active local property market.

The HKMA collaborates with other regulators to take robust supervisory measures on the sale of investment and insurance products. The HKMA has worked with the industry to complete the review of the Code of Banking Practice to strengthen consumer protection. An enhanced competency framework for private wealth management practitioners is launched to raise professional standards. The year also sees the implementation of the second phase of the Basel III standards, and progress is made on setting up a resolution regime for financial institutions and measures to enhance the Deposit Protection Scheme.

International Financial Centre

Hong Kong's role as the premier hub for renminbi business strengthens as renminbi activities expand globally. The Shanghai-Hong Kong Stock Connect is launched, opening up a new channel for cross-border use and circulation of renminbi. Renminbi daily conversion limit for Hong Kong residents is no longer applied by banks with effect from 17 November. The HKMA introduces measures to enhance renminbi liquidity in Hong Kong to facilitate market development.

The first sukuk (Islamic bond) under the Government Bond Programme is successfully issued in September. The US\$1 billion 5-year issuance attracts strong demand from global investors and receives international recognition.

The HKMA becomes a member of The South-East Asian Central Banks (SEACEN) group, which promotes training and research for central banks in the region.

The legislative framework for a new regulatory regime for stored value facilities and retail payment systems is finalised.

Reserves Management

The Exchange Fund records an investment income of \$44.7 billion giving a return of 1.4% despite the difficult investment environment. Total assets of the Fund reach \$3,149.0 billion at the end of 2014.

The HKMA continues to diversify part of the Fund's investment into various asset classes. At the end of 2014, the market value of investments under the Long-Term Growth Portfolio totals \$115.2 billion, made up of \$80.5 billion in private equity and \$34.7 billion in real estate, with outstanding investment commitments amounting to \$80.9 billion.

Corporate Functions

The HKMA continues to strengthen its connection with the community through timely dissemination of information, effective communication with the media, and other public education activities. Robust control processes are in place to ensure efficient deployment of resources. HKMA staff maintain professionalism in upholding best practices in governance, financial budgeting and disclosure, internal controls, risk management and general support. Staff members also actively participate in green initiatives and charity work.