Briefing to the Legislative Council Panel on Financial Affairs

2 March 2020

[ Translation ]
1. Assessment of Risk to Hong Kong’s Financial Stability
2. Banking Supervision
3. Financial Infrastructure
4. Development of Financial Market
5. Investment Performance of the Exchange Fund
6. Hong Kong Mortgage Corporation
NOVEL CORONAVIRUS IMPACTS THE GLOBAL ECONOMY

- More uncertain economic outlook
- Declining wealth lowers consumption
- Fewer fundraising activities
- Supply chain disruptions due to production halts
- Tourism hit by the outbreak and entry restrictions

Consumption and investment ↓
Service exports ↓
Financial market impact
Merchandise exports ↓
IMPACTS HINGE ON NOVEL CORONAVIRUS SITUATION AND ECONOMIC LINKAGE WITH MAINLAND

Travel restrictions and local outbreak weigh on tourism

Mainland’s production suspension disrupts supply chain

Note: Asian economies’ dependence on Mainland’s supply includes Mainland’s value added contribution to their final demand and exports. Asian economies’ dependence on Mainland’s market includes their value added contribution to China’s final demand and exports.

Source: TiVA of the OECD (latest version)
Residents avoid going out

Industrial production stays stagnant

Note: The daily city traffic congestion index is an average of congestion indices of 100 cities in Mainland China
Source: WIND

Note: The third week before Spring Festival = 100
Source: WIND
NOVEL CORONAVIRUS INFECTION POSES THREAT TO MAINLAND AND GLOBAL GROWTH

IMF 2020 real GDP growth forecasts (Baseline scenario)

Note: The baseline scenario assumes that relief measures announced by the Mainland authorities will be implemented and the Mainland economy returns to normal in Q2 2020.

Source: IMF
NOVEL CORONAVIRUS DEALS
A FURTHER BLOW TO HONG KONG ECONOMY

Tourism and retail sectors face more severe headwinds

Unemployment rate is likely to climb visibly

Source: Census and Statistics Department, Hong Kong Tourism Board
ASSESSMENT OF RISKS TO HONG KONG’S FINANCIAL STABILITY: HKD REMAINS STABLE

HKD REMAINS STABLE

<table>
<thead>
<tr>
<th>Year</th>
<th>Trigger of Weak-side CU</th>
<th>Outflows from HKD (HK$ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 Apr - Aug</td>
<td>27 times</td>
<td>103.5</td>
</tr>
<tr>
<td>2019 Jan - Mar</td>
<td>8 times</td>
<td>22.1</td>
</tr>
<tr>
<td>Apr 2019 – present</td>
<td>0 times</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: HKMA
ASSESSMENT OF RISKS TO HONG KONG’S FINANCIAL STABILITY: STABLE DEPOSIT LEVELS

Source: HKMA
HONG KONG: PROPERTY TRANSACTIONS DECLINED AFTER A TEMPORARY REBOUND

Number of transactions ('000)

- Primary market transaction volume
- Secondary market transaction volume

Source: Land Registry
HONG KONG: PROPERTY PRICE TREND UNCERTAIN, CORONAVIRUS IMPACT TO BE SEEN

Sources: Rating and Valuation Department and Centaline Property Agency Limited
HONG KONG’S FINANCIAL SYSTEM REMAINS ROBUST AND STABLE

• US-China trade tensions, social incidents and the coronavirus outbreak have weighed heavily on the Hong Kong economy

• Hong Kong’s monetary system continues to function in an orderly manner, with stable HKD exchange rate and interbank interest rates

• Hong Kong’s banking system is operating smoothly and highly resilient to market shocks

• The HKMA has taken measures to enhance banks’ lending ability in support of the real economy, especially small and medium enterprises

• We will closely monitor the impact of the outbreak on the real economy and financial markets
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BANKING SECTOR PERFORMANCE

Total loans grew at a moderate pace, with asset quality staying at a healthy level

Total loan growth(%)
BANKING SECTOR SME LENDING COORDINATION MECHANISM

• Held two more meetings in January and February. Key measures include:

  ➢ Streamline the application procedures of the 80% Guarantee Product
  ➢ Call on merchant acquirers not to extend credit card payment withholding periods for small and medium enterprises (SMEs)
  ➢ Exercise flexibility in handling refinancing applications for upgrades of public light buses
  ➢ Allow SME customers to extend or reschedule their repayment period to lessen their cash flow pressure
  ➢ Introduce relief measures targeting specific sectors (e.g. import & export and transportation sectors)
  ➢ Offer principal moratoriums for residential mortgages
  ➢ Exercise flexibility in handling maximum mortgage loan tenors
  ➢ Offer unsecured personal relief loans
LEGISLATIVE WORK

International Standards

• Banking (Capital) (Amendment) Rules 2020

• Banking (Exposure Limits) (Amendment) Rules 2020

Resolution Regime

• Standard disclosure templates under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules

• Developing subsidiary legislation under the Financial Institutions (Resolution) Ordinance on contractual stays
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FASTER PAYMENT SYSTEM (FPS)

Average daily turnover of HKD real-time payments

In January 2020
191,000 txn/day
HK$ 2.5 bn/day

Number of registered accounts

As at end-January 2020
Mobile number: 2.84 million
Email address: 0.70 million
FPS ID: 0.66 million
Total: 4.20 million

Transaction Volume ( '000)  Transaction Value (HKD bn)
LATEST FINTECH INITIATIVES

• Co-organised with InvestHK “Hong Kong Fintech Week 2019”, which attracted over 12,000 attendees from over 60 economies

• Published in December 2019 a report on the application of Artificial Intelligence in the banking industry

• Started an industry-wide consultation on the proposed enhancements to the existing framework of the Cybersecurity Fortification Initiative

• Working with Bank of Thailand on a joint research project on the application of Central Bank Digital Currency to cross-border payments

• Bank for International Settlements Innovation Hub Hong Kong Centre commenced operation
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DEVELOPING HONG KONG'S FINANCIAL PLATFORM

Green Finance
• Continue to support green finance to combat climate change, in our capacity as a bank regulator, asset owner, and market facilitator. To promote the development of green finance in Hong Kong, the HKMA will also assist the Government to issue more green bonds

Retail Bonds
• The HKMA will assist the Government in the issuance of iBond and Silver Bond in order to promote the further development of the Hong Kong retail bond market

Private equity (PE) fund platform
• The HKMA is working with the Administration to develop a legislative proposal on a new limited partnership regime for PE funds. The Administration consulted this Panel on 2 December 2019 and received general support for the proposed regime. The plan is to introduce the bill into LegCo as soon as possible
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## INVESTMENT INCOME

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>(HK$ billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>114.4</td>
<td>38.0</td>
<td>76.4</td>
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<tr>
<td></td>
<td>57.4</td>
<td>34.4</td>
<td></td>
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<tr>
<td>Hong Kong equities*</td>
<td>22.1</td>
<td>1.8</td>
<td>20.3</td>
</tr>
<tr>
<td></td>
<td>(20.7)</td>
<td>58.3</td>
<td></td>
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<tr>
<td>Other equities</td>
<td>100.3</td>
<td>35.2</td>
<td>65.1</td>
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<tr>
<td></td>
<td>(38.7)</td>
<td>80.4</td>
<td></td>
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<tr>
<td>Foreign exchange#</td>
<td>(13.0)</td>
<td>(9.5)</td>
<td>(3.5)</td>
</tr>
<tr>
<td></td>
<td>(9.0)</td>
<td></td>
<td>53.5</td>
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<tr>
<td>Other investments@</td>
<td>23.4</td>
<td>3.3</td>
<td>20.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>21.9</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>37.4</td>
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<tr>
<td>Investment income/(loss)</td>
<td>247.2</td>
<td>68.8</td>
<td>178.4</td>
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<tr>
<td></td>
<td>10.9</td>
<td></td>
<td>264.0</td>
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</table>

* 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 represents valuation changes up to the end of September 2019. Valuations of these investments from October to December are not yet available.
## INCOME AND EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Full year</td>
<td>2H</td>
<td>1H</td>
</tr>
<tr>
<td>(HK$ billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income/(loss)</td>
<td>247.2</td>
<td>68.8</td>
<td>178.4</td>
</tr>
<tr>
<td>Other income</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Interest and other expenses</td>
<td>(24.8)</td>
<td>(13.4)</td>
<td>(11.4)</td>
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<tr>
<td>Net income/(loss)</td>
<td>222.6</td>
<td>55.5</td>
<td>167.1</td>
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<td>Fee payment to Fiscal Reserves*#</td>
<td>(29.4)</td>
<td>(14.1)</td>
<td>(15.3)</td>
</tr>
<tr>
<td>Fee payment to HKSAR government funds and statutory bodies*</td>
<td>(9.0)</td>
<td>(4.5)</td>
<td>(4.5)</td>
</tr>
</tbody>
</table>

* The rate of fee payment is 2.9% for 2019, 4.6% for 2018 and 2.8% for 2017.
# This does not include the 2019 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2019 is available.
(The composite rate was 6.1% for 2018 and 9.6% for 2017. Fee payable to the Future Fund was HK$16.4 billion for 2018 and HK$22.7 billion for 2017).

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 2019. The audited full year return will be disclosed in the annual report of 2019 to be released later this year.
3 Composite CPI is calculated based on the 2014/2015-based series.
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MORTGAGE INSURANCE PROGRAMME (MIP)

• The following revisions were made to the MIP with effect from 16 October 2019:
  ➢ The cap on the value of a property eligible for a mortgage loan of maximum cover of 80% loan-to-value (LTV) ratio was raised from the HK$6 million to HK$10 million
  ➢ For a property eligible for a mortgage loan of maximum cover of 90% LTV ratio, the cap on its value was raised from HK$4 million to HK$8 million
  ➢ Mortgage loans under the revised criteria shall apply to completed residential properties only, and an additional 15% insurance premium will be charged
  ➢ Generally speaking, the maximum debt-to-income (DTI) ratio for all MIP loans is set at 50%, and borrowers have to meet the stressed DTI ratio. A first-time homebuyer is still eligible to apply even if he or she cannot meet the stressed DTI ratio, subject to an additional adjustment to the premium based on relevant risk factors
  ➢ As of 31 January 2020, approved 5,409 applications under the new coverage, with over 90% being first-time homebuyers
FIXED-RATE MORTGAGE PILOT SCHEME

• Scheme for 10, 15 and 20 years available, with interest rates at 2.75%, 2.85% and 2.95% per annum respectively

• Maximum loan amount of each private residential mortgage is HK$10 million

• As the borrowers will be insulated from interest rate movement under the fixed-rate period which is 10 years or longer, stress testing against interest rate rise will not be required, but the current DTI ratio will still be applicable

• The pilot scheme is subject to an aggregate loan amount of HK$1 billion and will be effective for 6 months starting from the date of receiving applications

• Further announcement will be made on the participating banks and the date of receiving applications
SME FINANCING
GUARANTEE SCHEME (SFGS)

• In 2019, the number and amount of applications approved increased by 60% and 89% respectively as compared to 2018

• The Finance Committee of the LegCo approved the funding for the introduction of a new 90% guarantee product under the SFGS on 6 December 2019. The 90% Guarantee Product aims to provide additional support to smaller-sized enterprises and businesses with relatively less operating experience. Each eligible enterprise can obtain guarantee for loans up to HK$6 million, with a maximum guarantee period of five years; HKMC has started receiving applications on 16 December 2019

• As of 31 January 2020, approved 155 applications under the 90% Guarantee Product, involving loan amount of more than HK$270 million
SFGS – SPECIAL 100% LOAN GUARANTEE

• Applicable to SMEs in all sectors, including those mostly affected by the coronavirus outbreak such as retail outlets, travel agents, restaurants, cinemas, karaoke establishments, transport operators, etc.

• 100% guaranteed by the Government, with a total loan amount of HK$20 billion

• Enterprises should have been operating for at least three months as at end-December 2019, and have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019

• Maximum amount of the loan is the total amount of employee wages and rents for six months, or HK$2 million, whichever is lower

• An interest rate of the Prime Rate minus 2.5% per annum (i.e. current interest rate at 2.75%) will be charged. All guarantee fee will be waived

• Maximum repayment period is 36 months, with an optional principal moratorium for the first six months

• Actively undertaking the preparatory work with the lending institutions, and striving to roll out the scheme within one month after obtaining approval of funding from the Finance Committee of the Legislative Council. The application period will last for six months starting from the launch of the scheme, and the date for receiving applications will be further announced
HKMC ANNUITY PLAN

- Minimum eligible age lowered from 65 to 60 since 26 February
- Individual premium cap remains unchanged at HK$3 million
- Internal rate of return remains unchanged at around 4%
- Examples of monthly annuity payment

<table>
<thead>
<tr>
<th>Insured age</th>
<th>Per HK$1million single premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
</tr>
<tr>
<td>60</td>
<td>5,100</td>
</tr>
<tr>
<td>65</td>
<td>5,800</td>
</tr>
</tbody>
</table>