



HONG KONG MONETARY AUTHORITY

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

1 February 2021



DISCUSSION TOPICS

Updates on

- Financial and Economic Environment
- Currency Stability
- Banking Stability
- Financial Infrastructure
- Hong Kong as an International Financial Centre
- Investment Environment and Performance of the Exchange Fund
- Hong Kong Mortgage Corporation



FINANCIAL AND ECONOMIC ENVIRONMENT



GLOBAL ECONOMIC GROWTH FORECASTS

Real GDP Growth

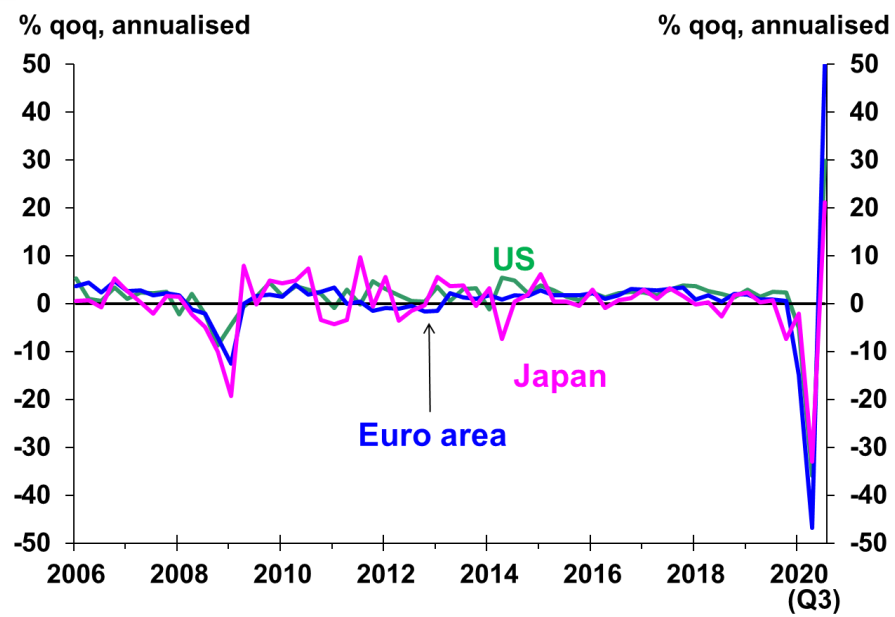
(% year-on-year)

	2019	2020 Forecasts	2021 Forecasts
US	2.2	-3.5	4.4
Euro area	1.3	-7.3	4.4
Japan	0.7	-5.3	2.4
Asia (ex-Japan)	5.0	-0.3	7.4
Mainland China	6.0	2.3	8.3
Hong Kong	-1.2	-6.0	4.7

Sources: January 2021 Consensus Forecasts and Official Statistics



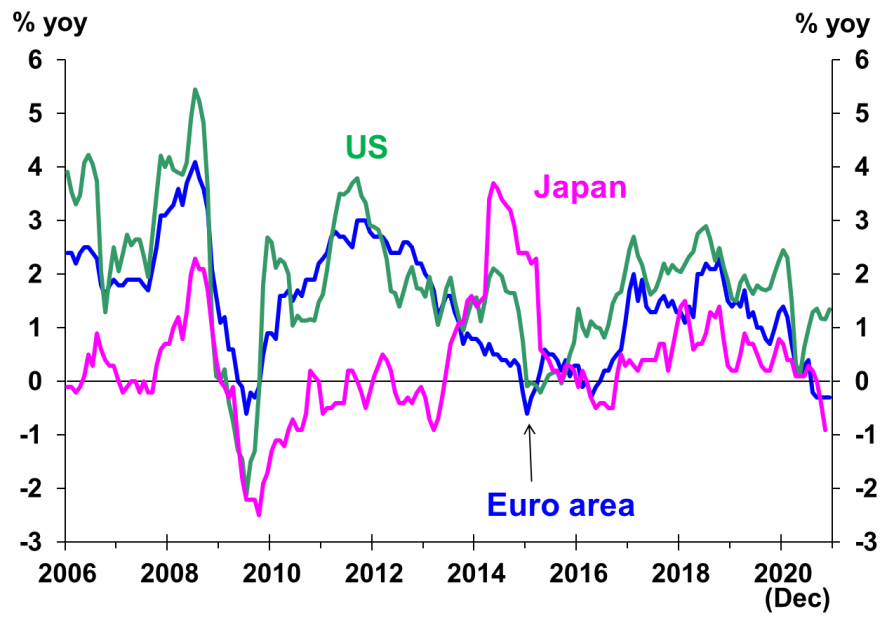
REAL GDP GROWTH IN MAJOR ECONOMIES



Source: CEIC



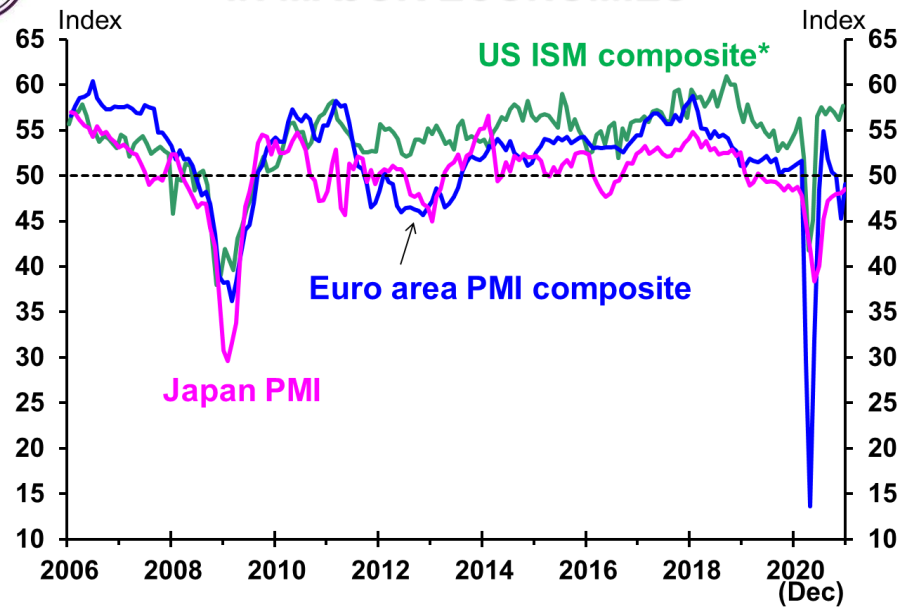
HEADLINE INFLATION IN MAJOR ECONOMIES



Source: CEIC



PURCHASING MANAGERS' INDEX IN MAJOR ECONOMIES

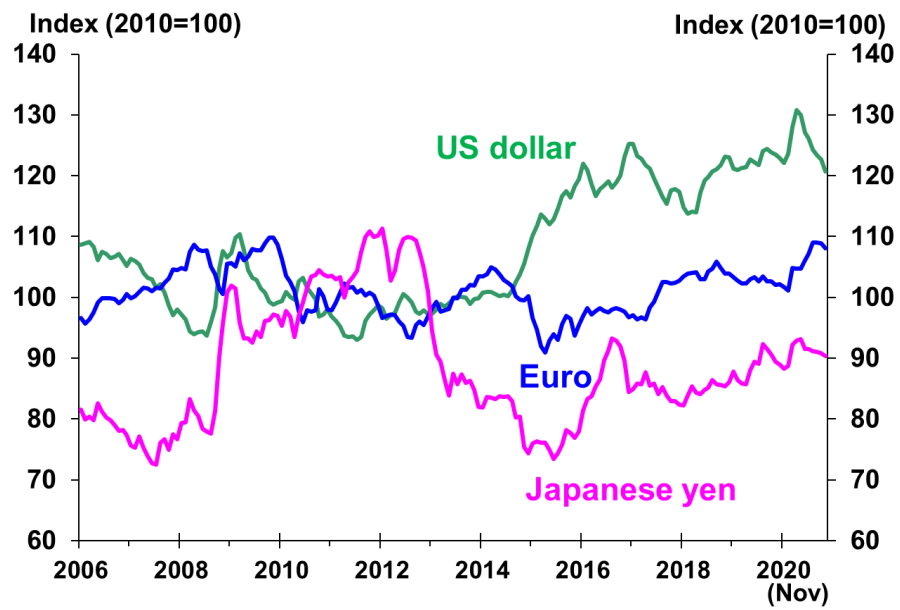


*Weighted average of the ISM Manufacturing and Services PMIs

Source: CEIC



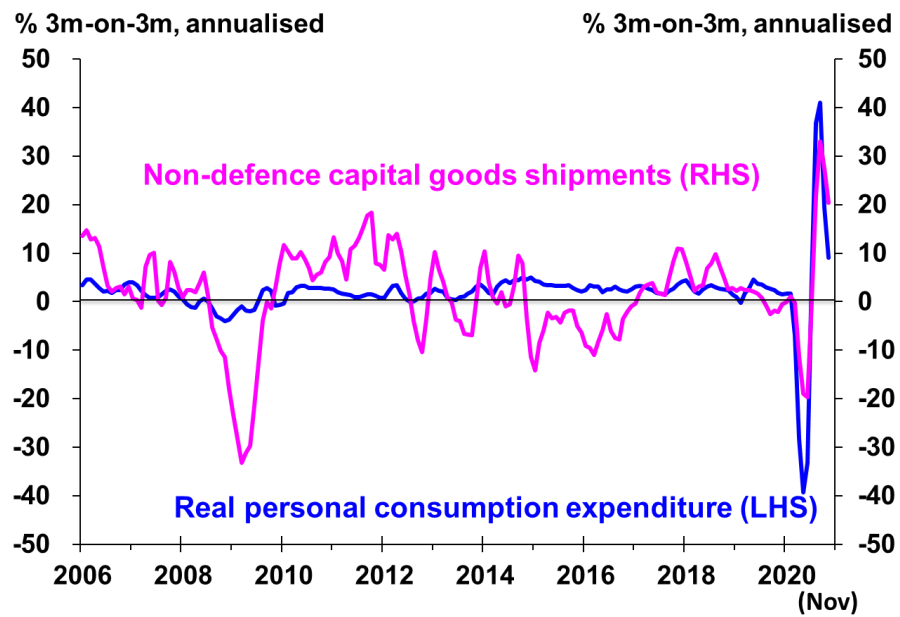
NOMINAL EFFECTIVE EXCHANGE RATE INDEX OF MAJOR CURRENCIES



Source: CEIC



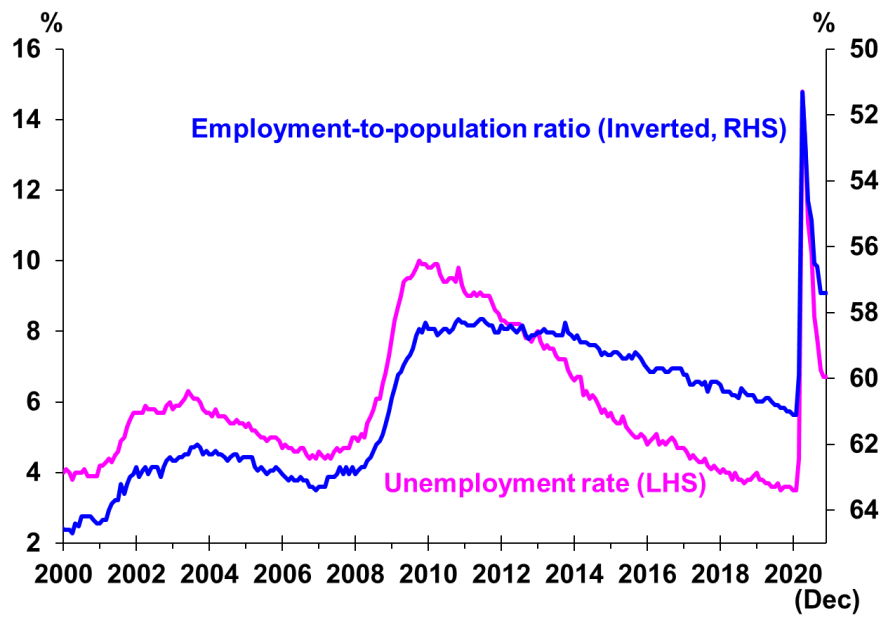
US: CONSUMPTION GROWTH & BUSINESS INVESTMENT ACTIVITY



Source: CEIC



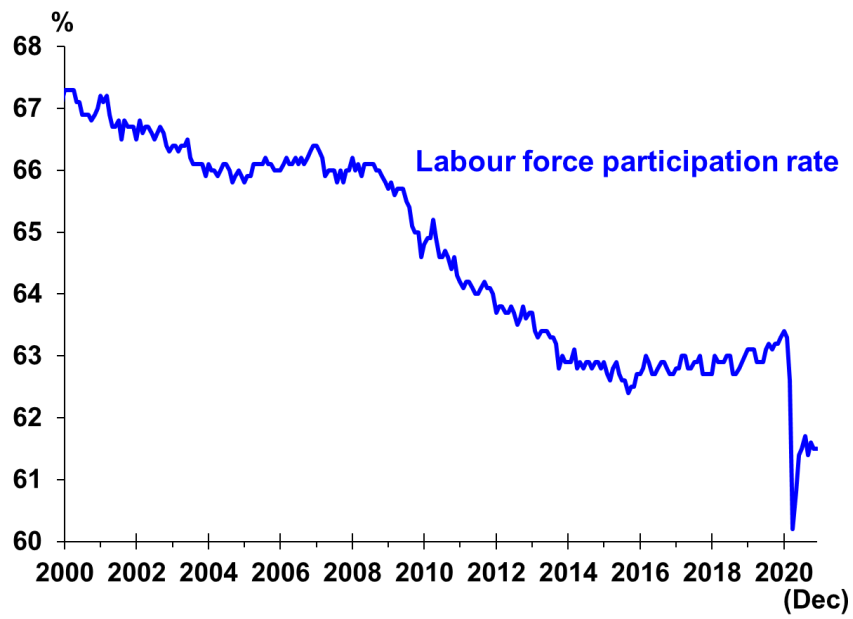
US: LABOUR MARKET SITUATION



Source: CEIC



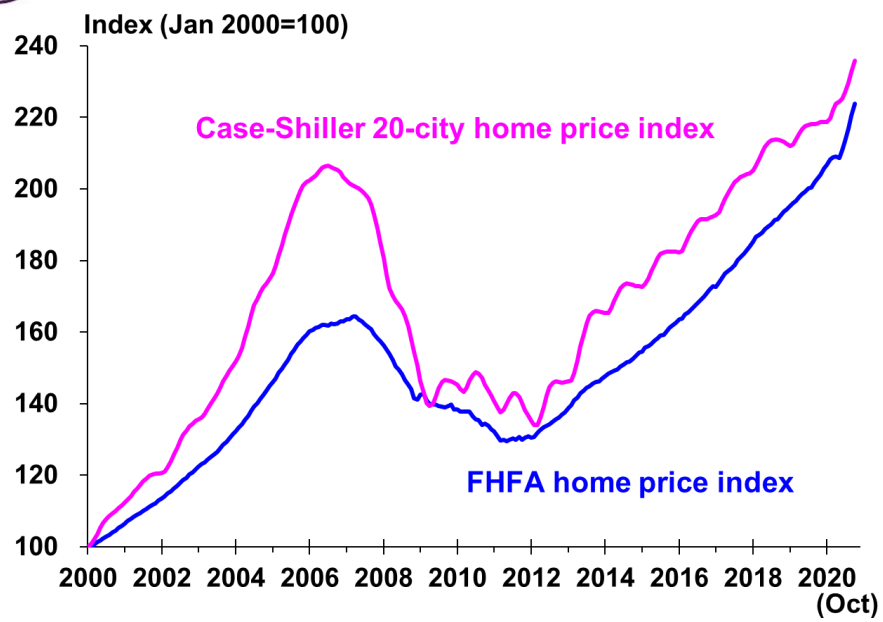
US: LABOUR FORCE PARTICIPATION



Source: CEIC



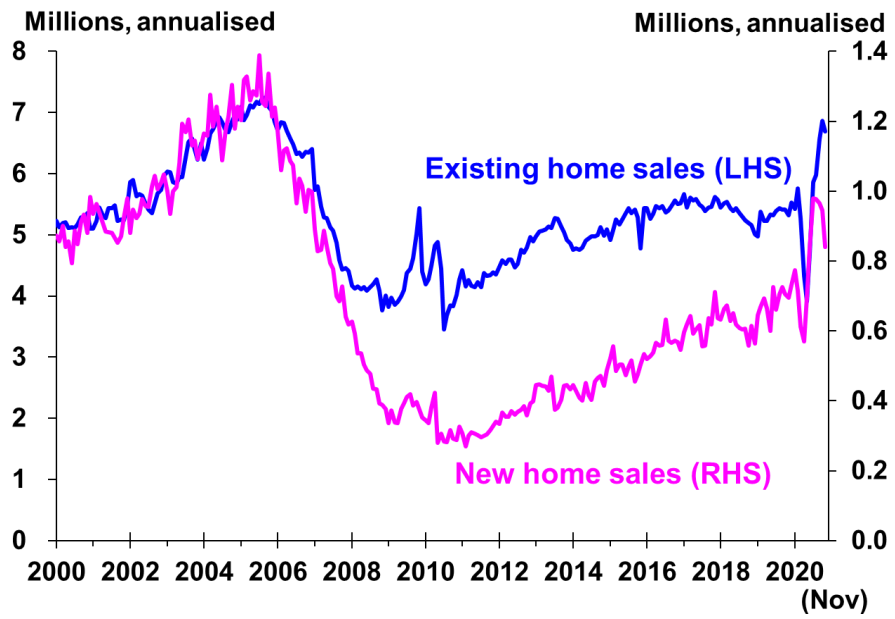
US: HOME PRICES



Sources: CEIC and Datastream



US: HOME SALES

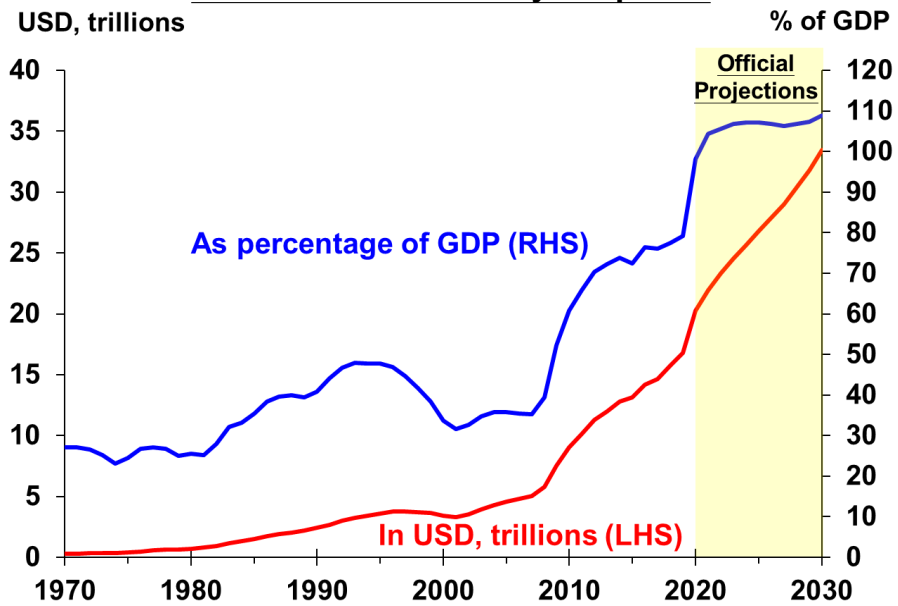


Sources: CEIC and Datastream



US: FEDERAL GOVERNMENT DEBT

US federal debt held by the public

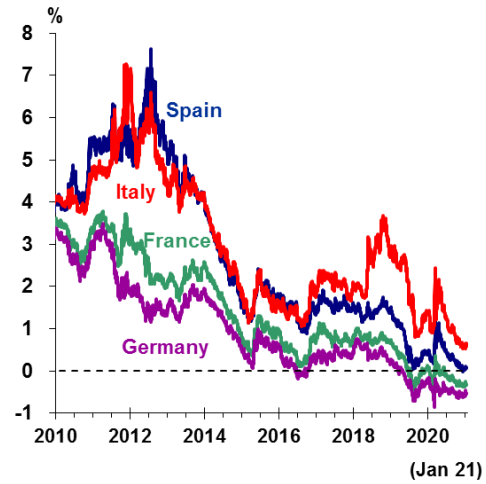
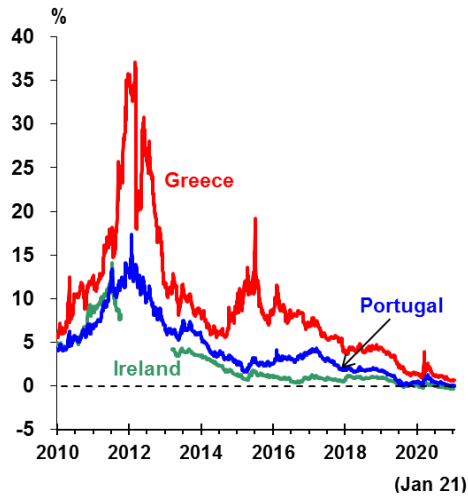


Sources: CEIC and Congressional Budget Office



EURO AREA: SOVEREIGN BOND YIELDS

10-year sovereign bond yield



Note: 10-year Irish sovereign bond yield data is not available between 12 Oct 2011 and 14 Mar 2013
Source: Bloomberg



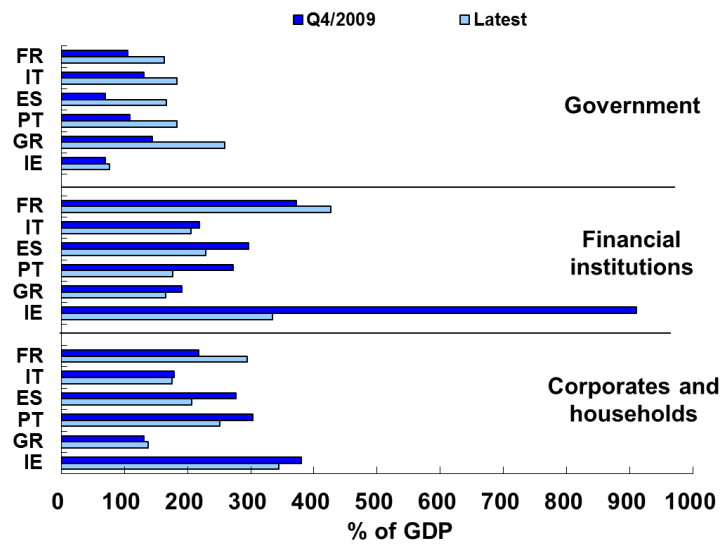
EURO AREA: UNEMPLOYMENT RATE



Source: Bloomberg



EURO AREA: OVERALL INDEBTEDNESS



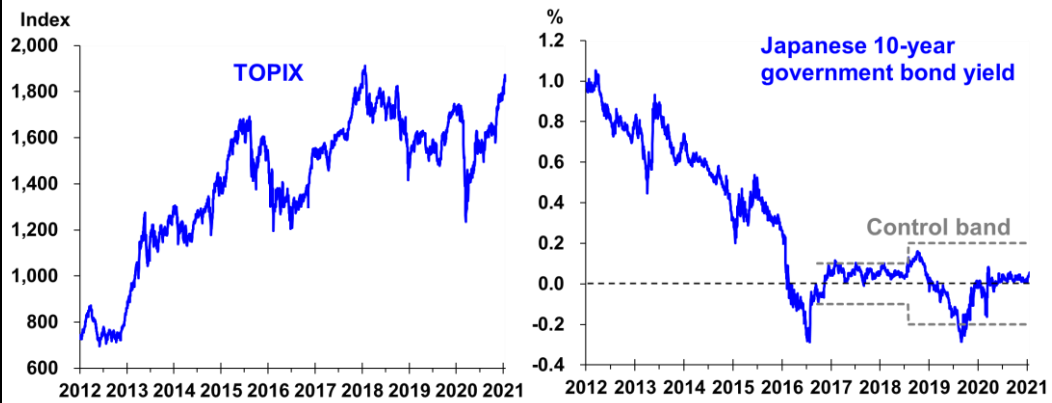
Source: European Central Bank

Note: FR – France, IT – Italy, ES – Spain, PT – Portugal, GR – Greece, IE – Ireland

The latest figures are up to Q3/2020



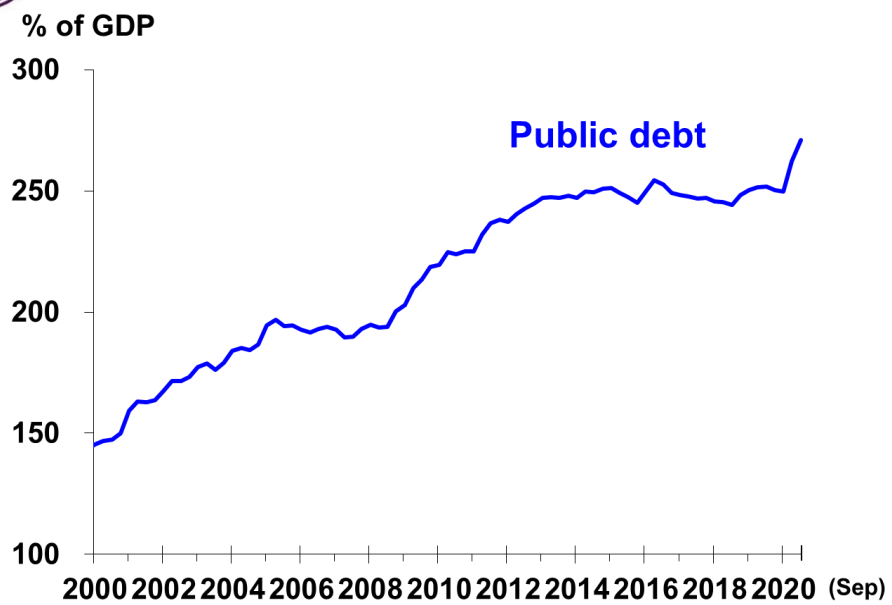
JAPAN: FINANCIAL MARKETS



Source: Bloomberg



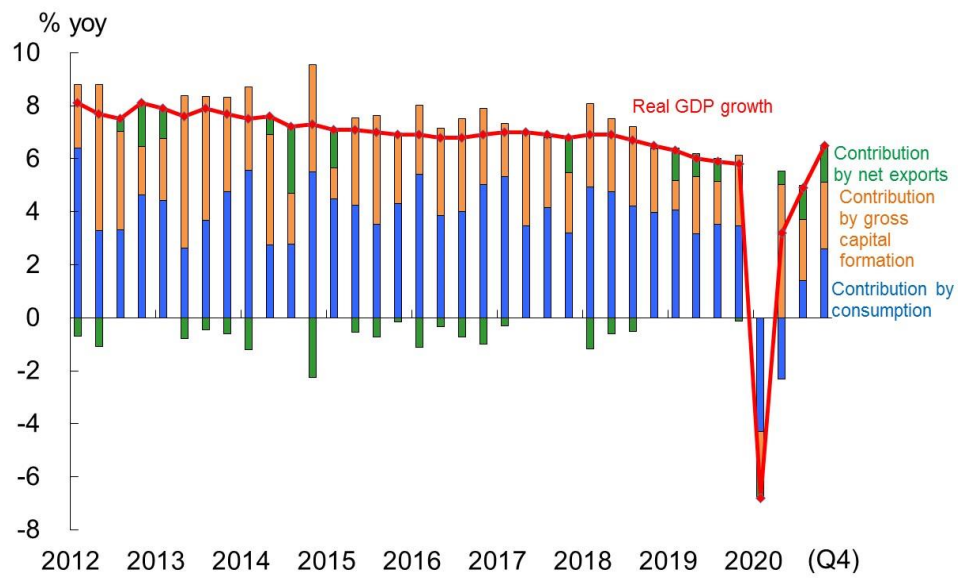
JAPAN: PUBLIC DEBT



Sources: Bank of Japan and CEIC



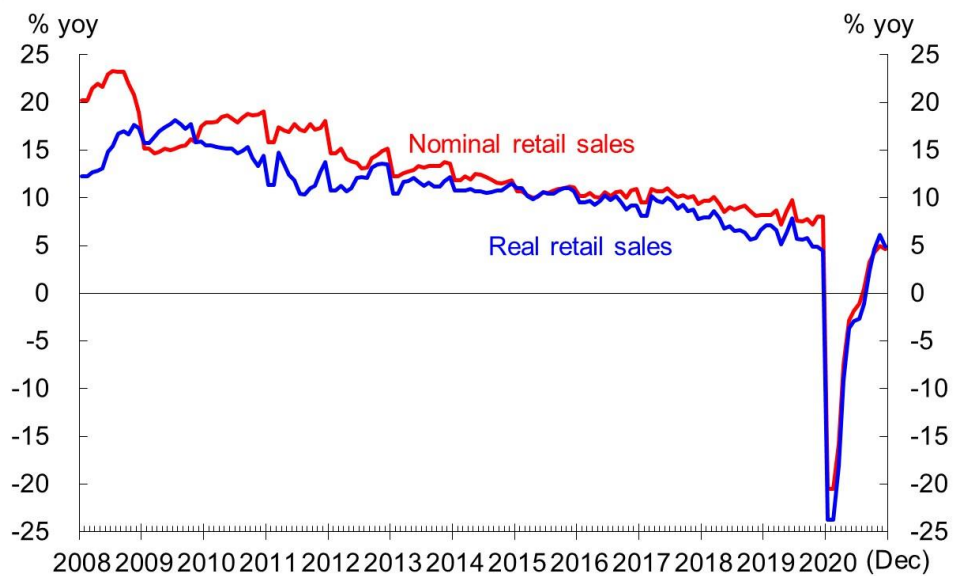
MAINLAND CHINA: REAL GDP GROWTH



Source: CEIC



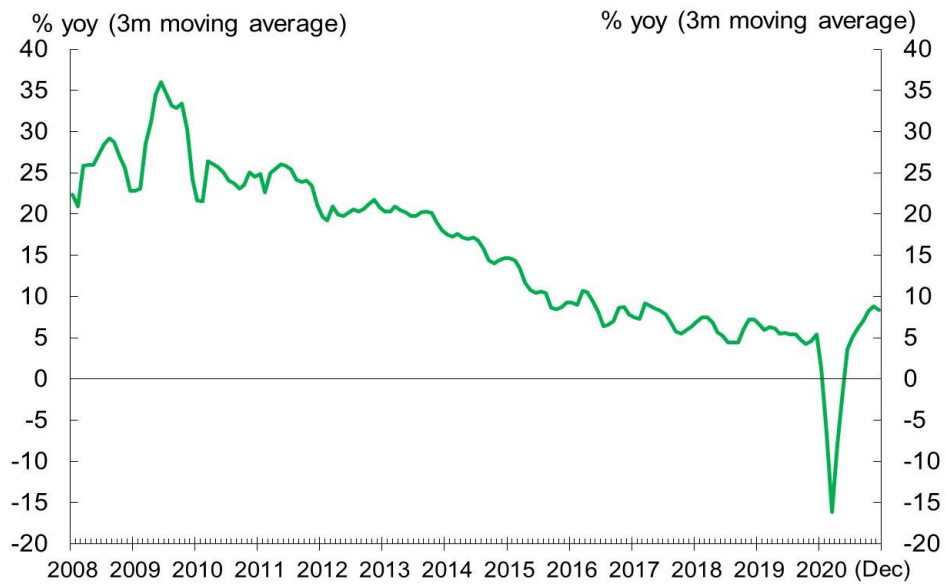
MAINLAND CHINA: RETAIL SALES



Note: January and February figures are the average annual growth rate for the first two months of the year
Sources: WIND and HKMA staff estimates



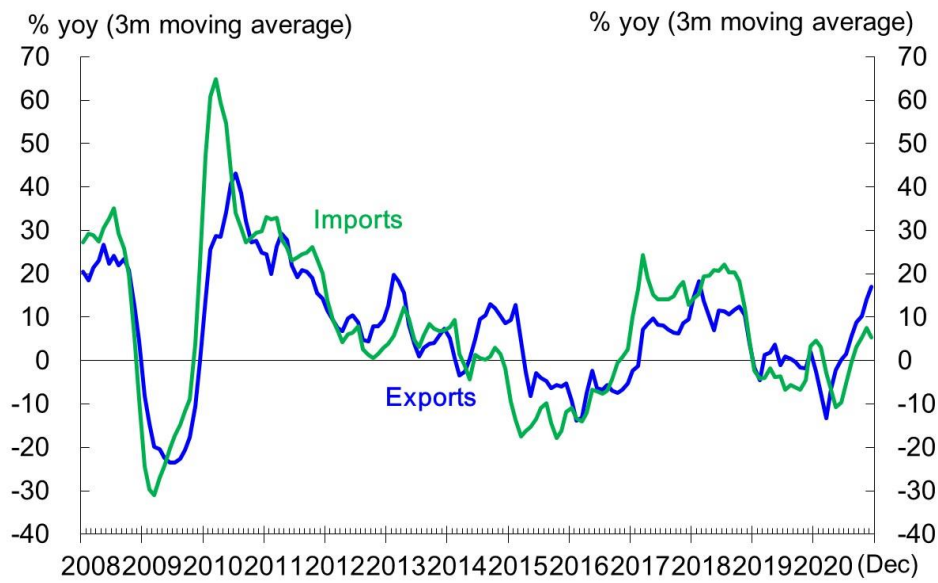
MAINLAND CHINA: FIXED ASSET INVESTMENT



Sources: CEIC and HKMA staff estimates



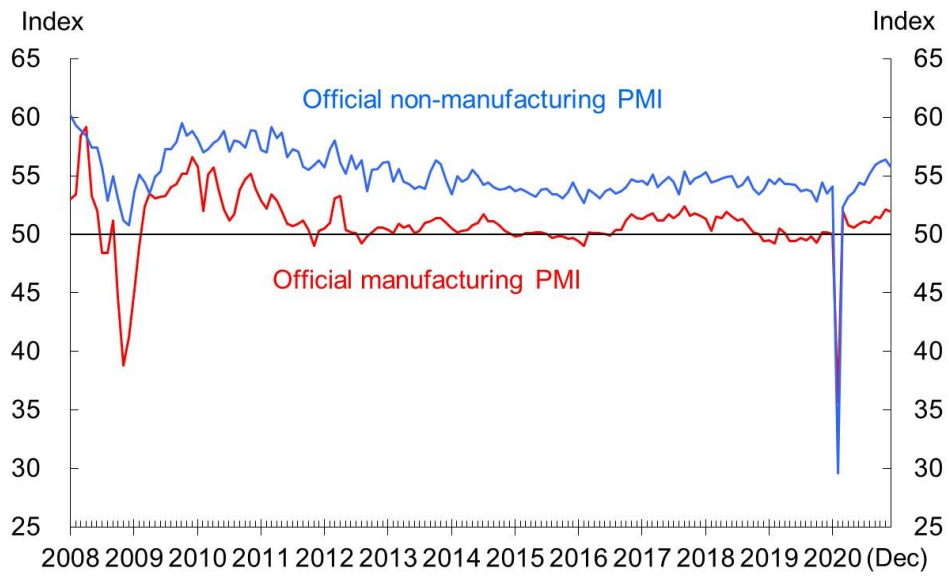
MAINLAND CHINA: IMPORT AND EXPORT GROWTH



Sources: CEIC and HKMA staff estimates



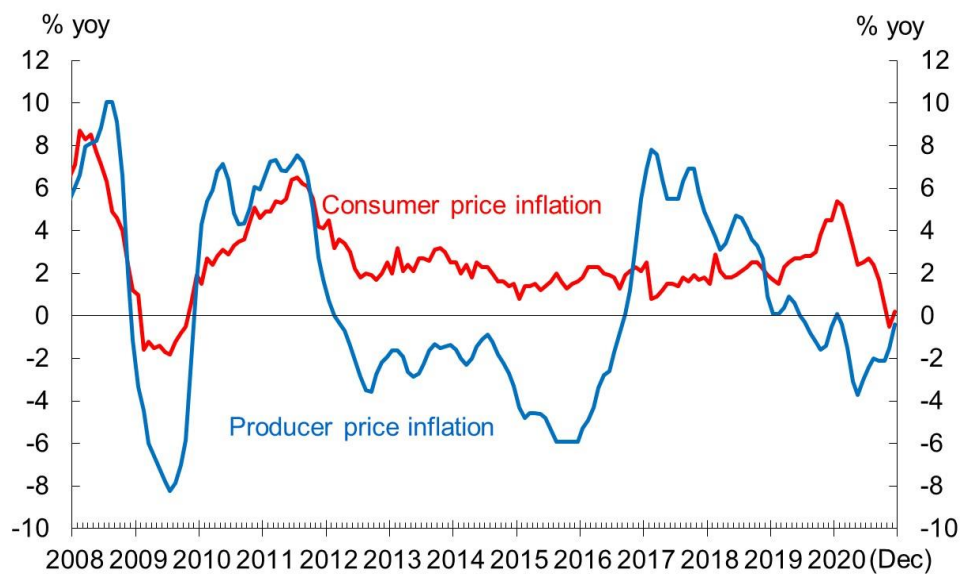
MAINLAND CHINA: PURCHASING MANAGERS' INDEX



Source: CEIC



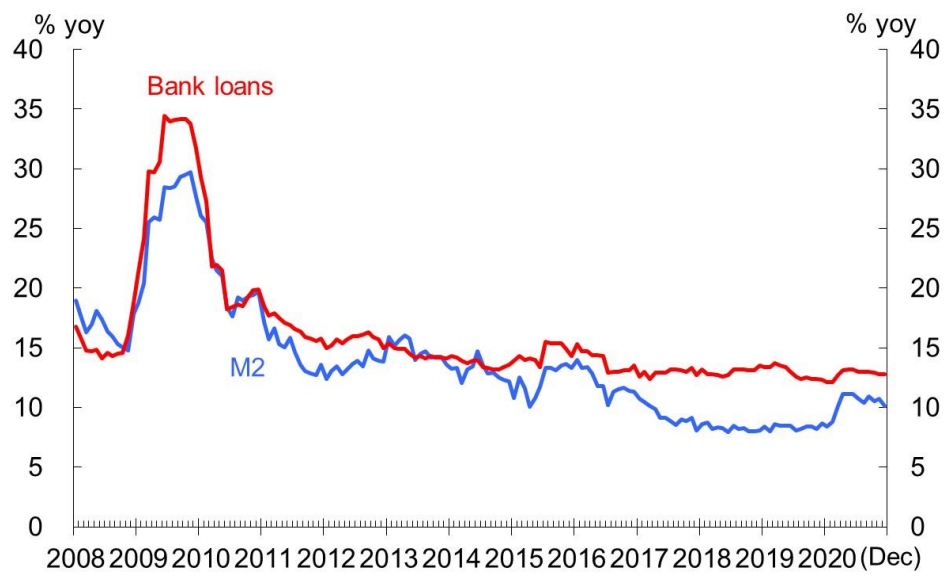
MAINLAND CHINA: INFLATION



Source: CEIC



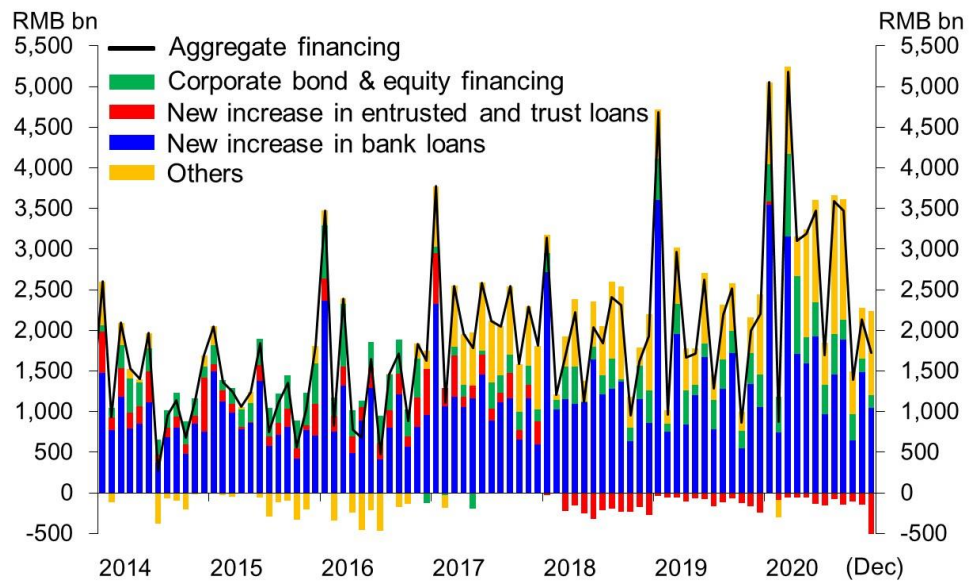
MAINLAND CHINA: MONEY AND LOAN GROWTH



Source: CEIC



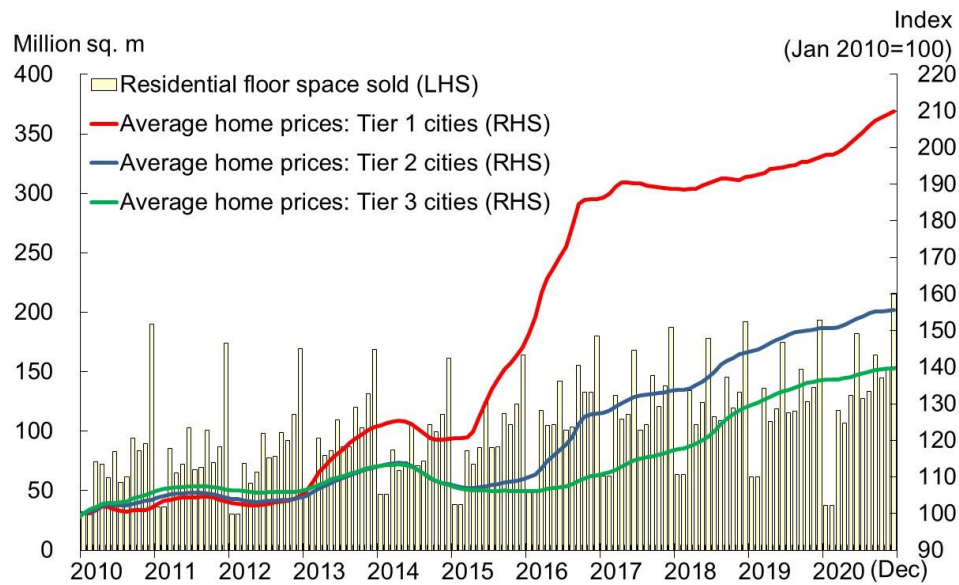
MAINLAND CHINA: AGGREGATE FINANCING FLOW



Source: CEIC



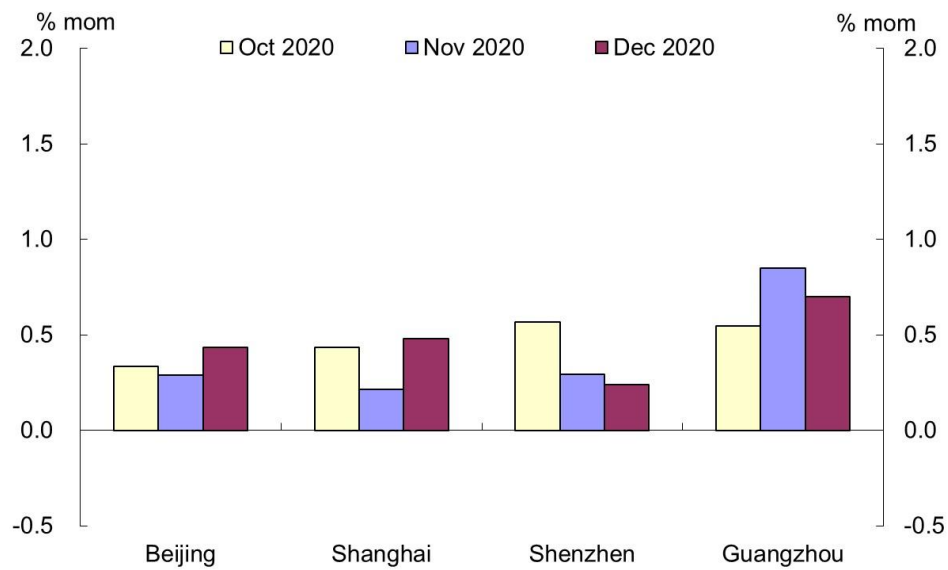
MAINLAND CHINA: PROPERTY PRICE AND TRANSACTION VOLUME



Sources: CEIC, WIND and HKMA staff estimates



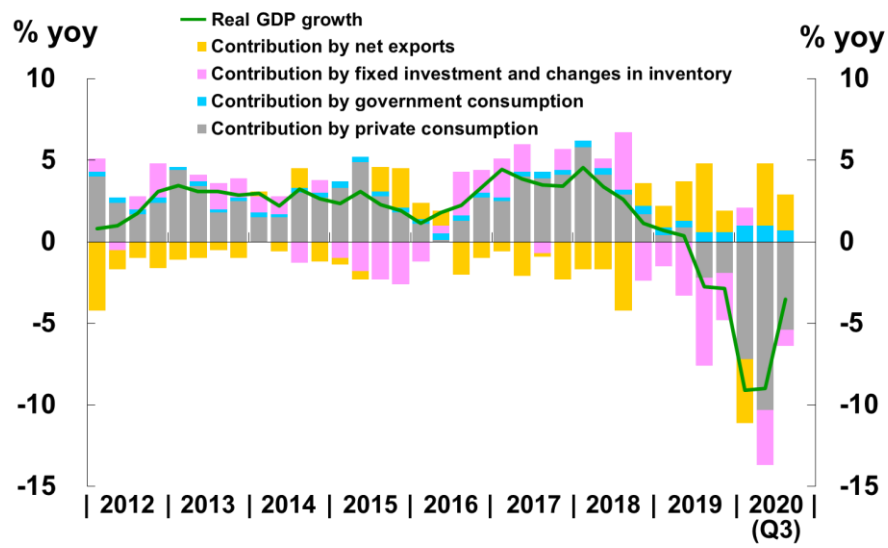
MAINLAND CHINA: HOUSING PRICE CHANGES IN MAJOR CITIES



Sources: CEIC, WIND and HKMA staff estimates



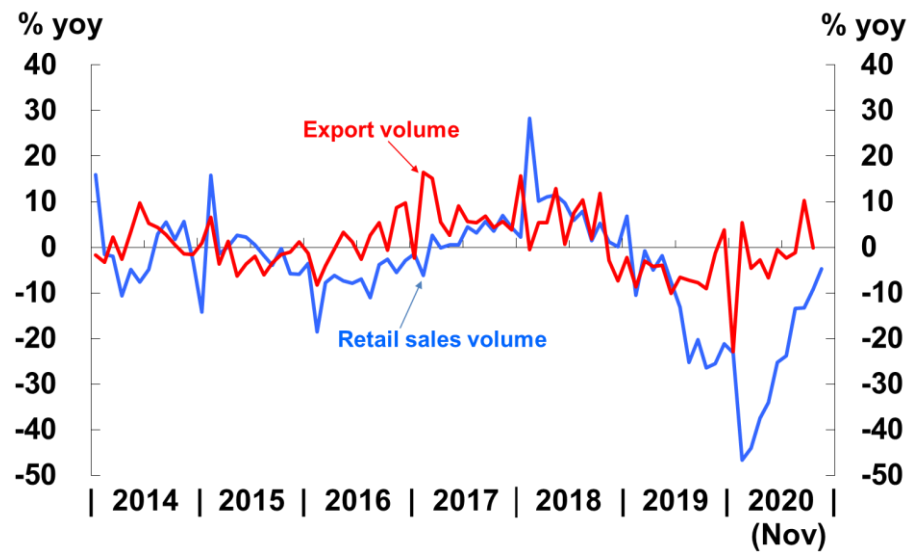
HONG KONG: REAL GDP GROWTH



Source: C&SD



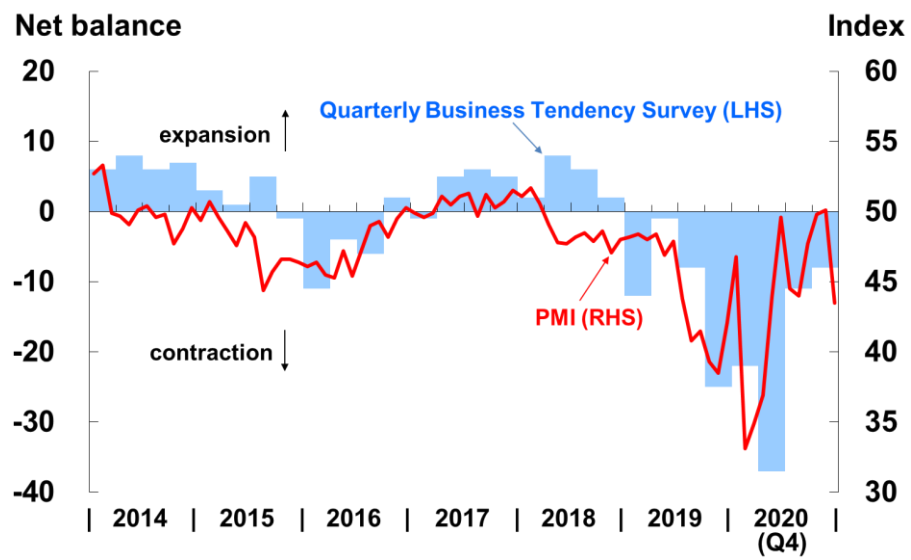
HONG KONG: ECONOMIC ACTIVITY



Source: C&SD



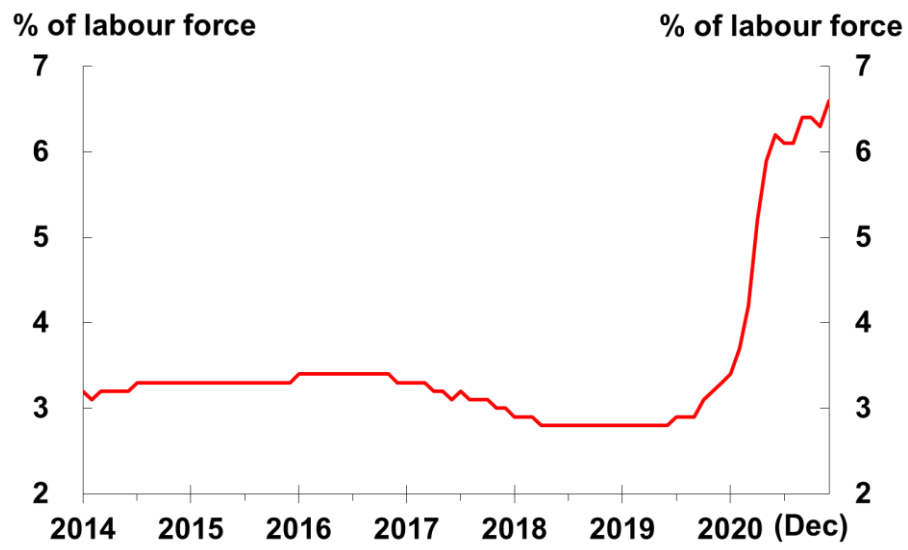
HONG KONG: BUSINESS OUTLOOK



Sources: C&SD and IHS Markit



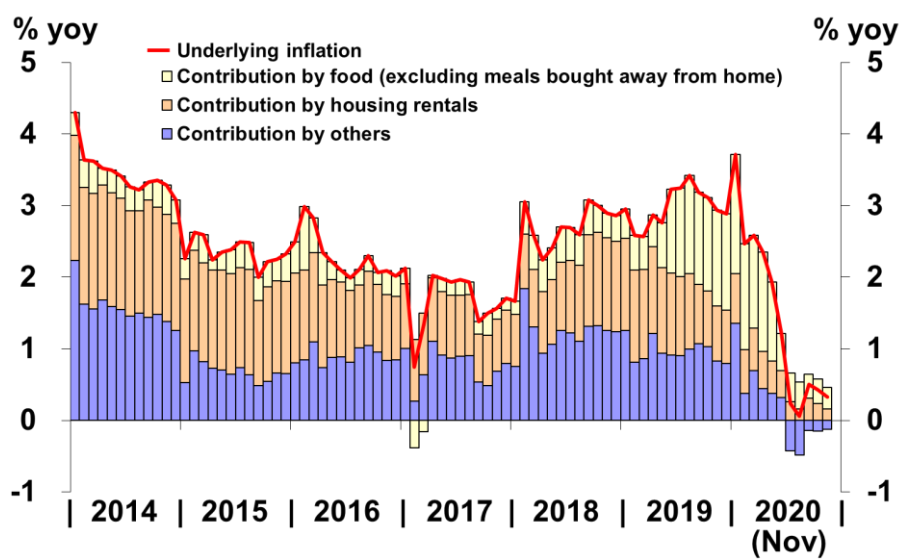
HONG KONG: UNEMPLOYMENT RATE



Source: C&SD



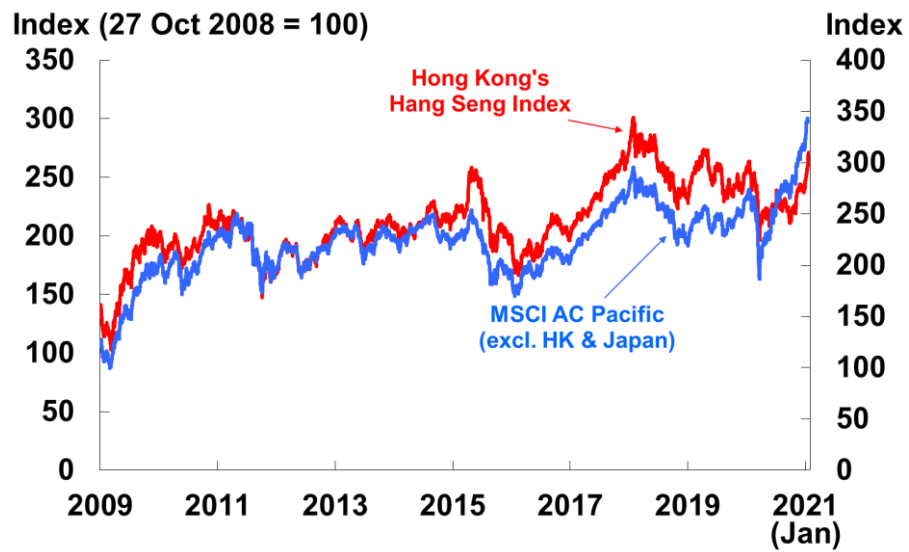
HONG KONG: INFLATION



Sources: C&SD and HKMA staff estimates



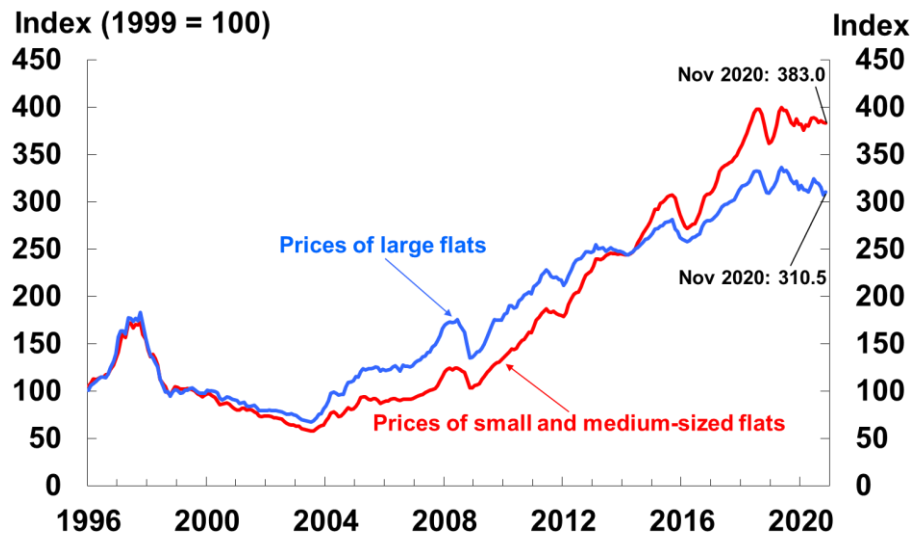
HONG KONG: EQUITY MARKET



Source: Bloomberg



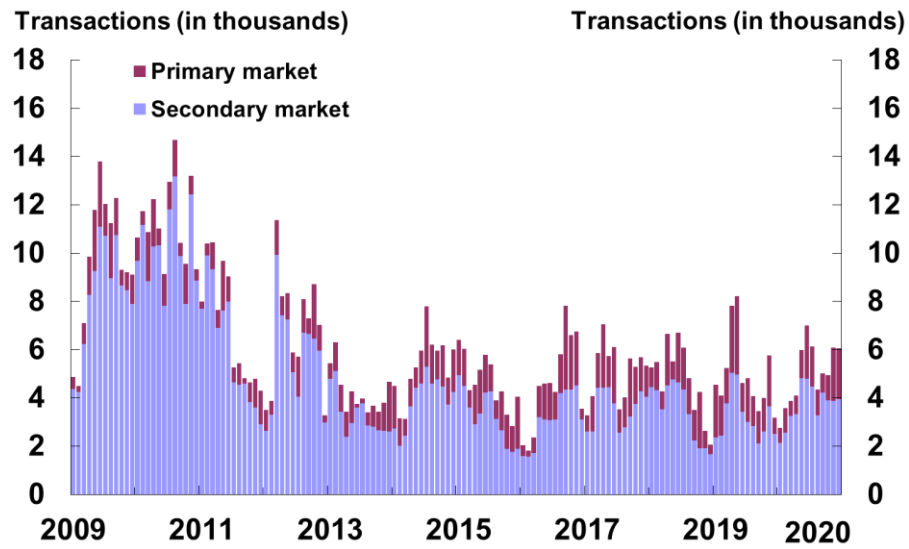
HONG KONG: RESIDENTIAL PROPERTY PRICES



Source: Rating and Valuation Department



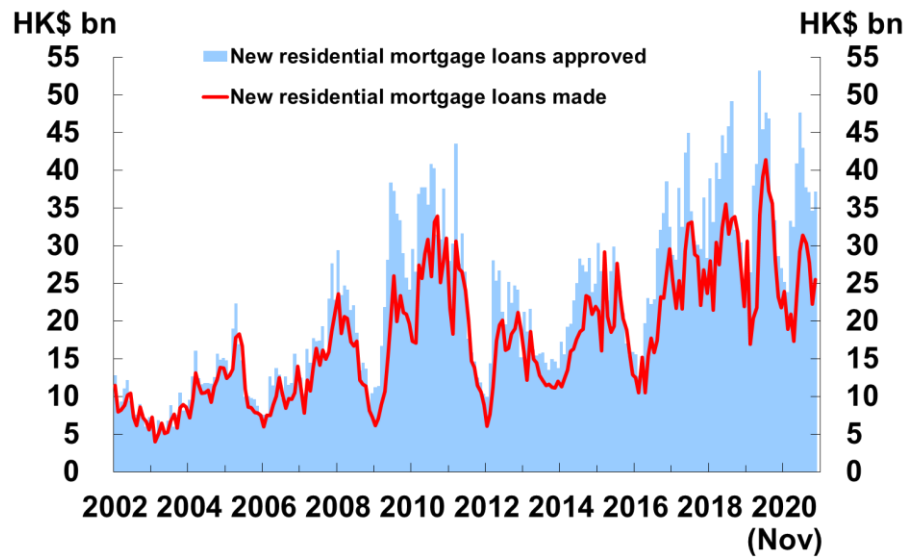
HONG KONG: TRANSACTION VOLUME IN THE PRIMARY AND SECONDARY MARKETS



Source: The Land Registry



HONG KONG: NEW RESIDENTIAL MORTGAGE LOANS

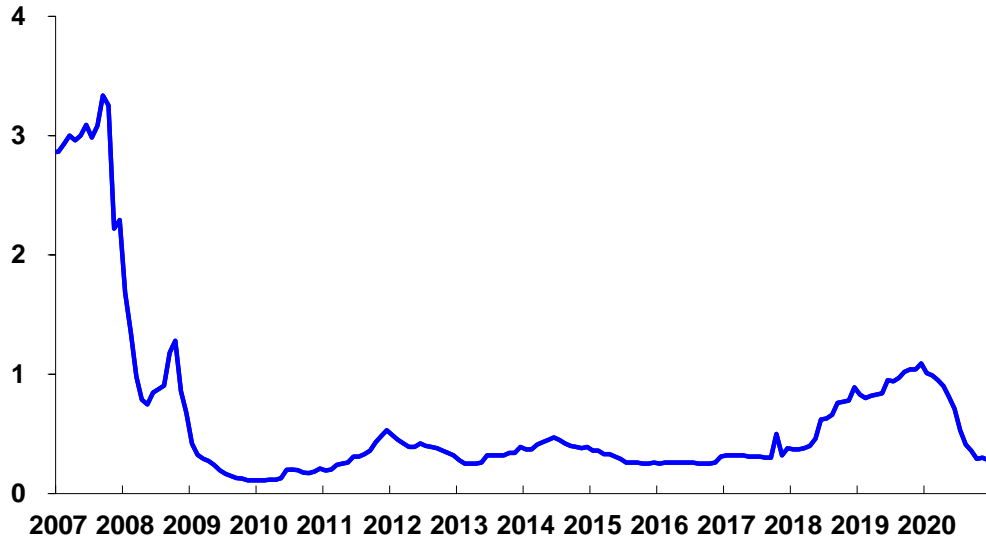


Source: HKMA



HONG KONG: COMPOSITE INTEREST RATE

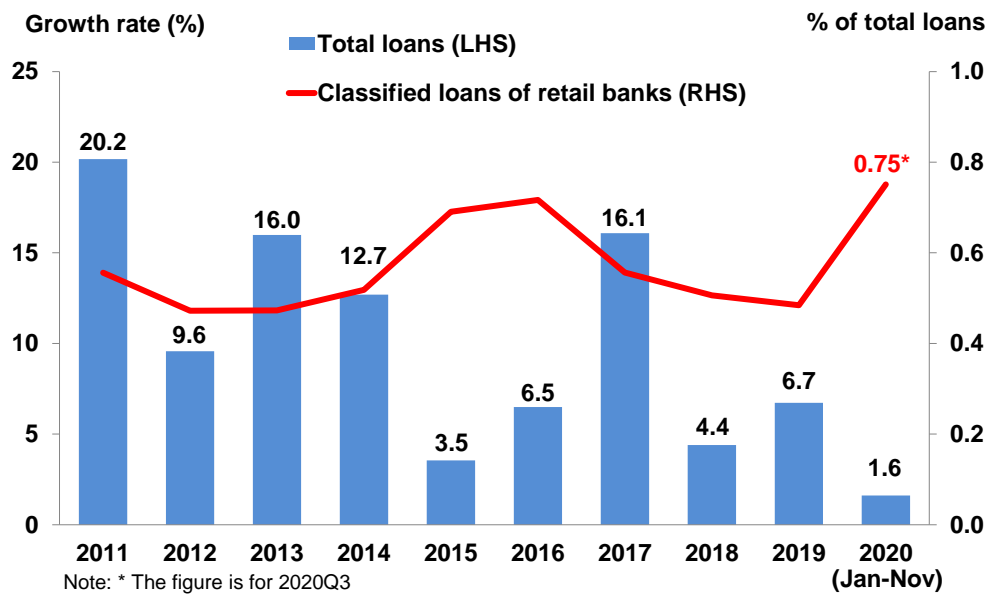
% p.a.



Source: HKMA



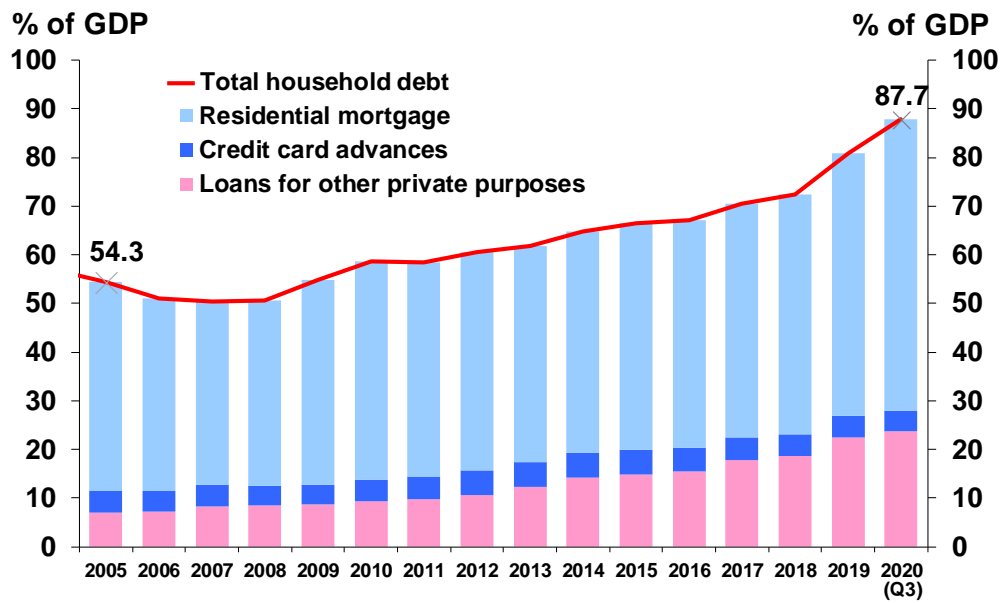
HONG KONG: LOAN GROWTH AND ASSET QUALITY



Source: HKMA



HONG KONG: HOUSEHOLD DEBT



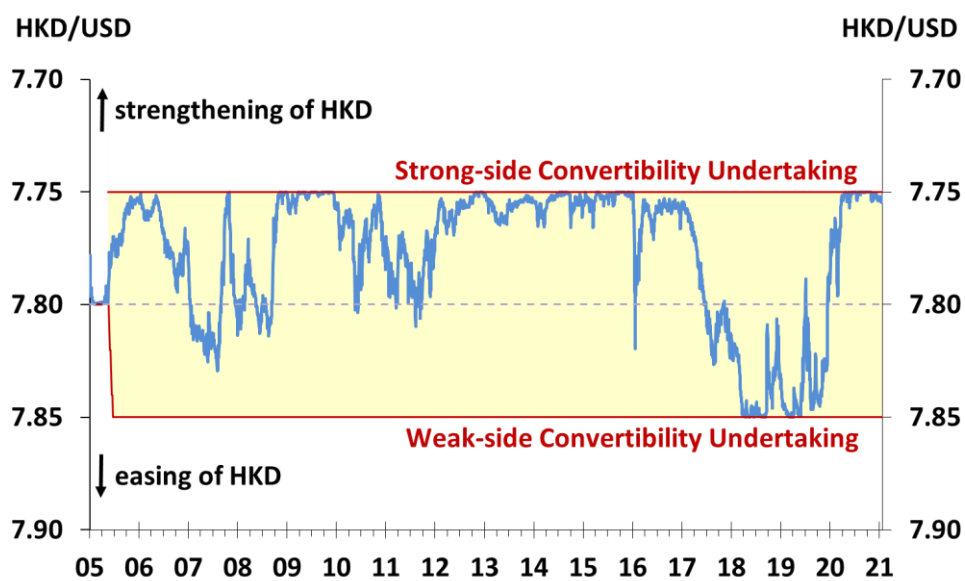
Source: HKMA



CURRENCY STABILITY

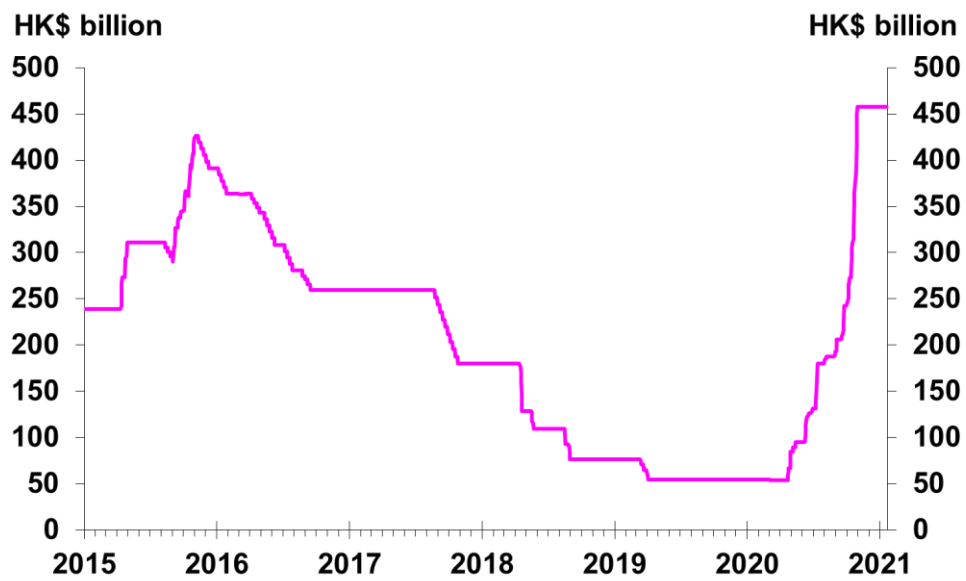


HONG KONG DOLLAR SPOT EXCHANGE RATE



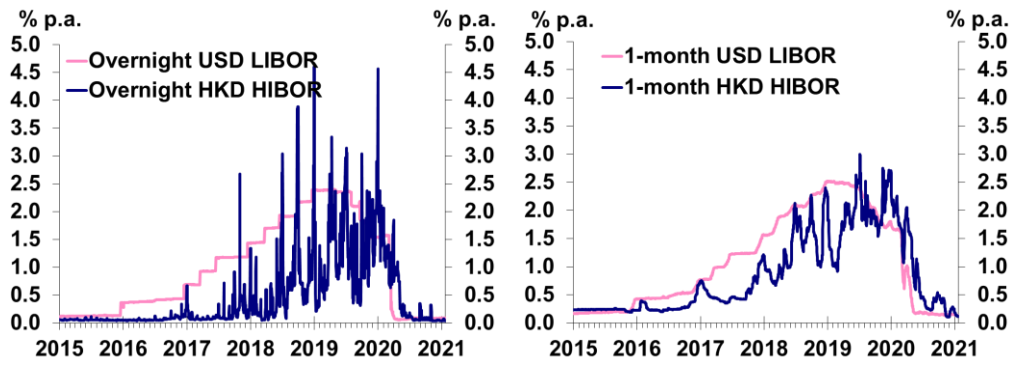


AGGREGATE BALANCE



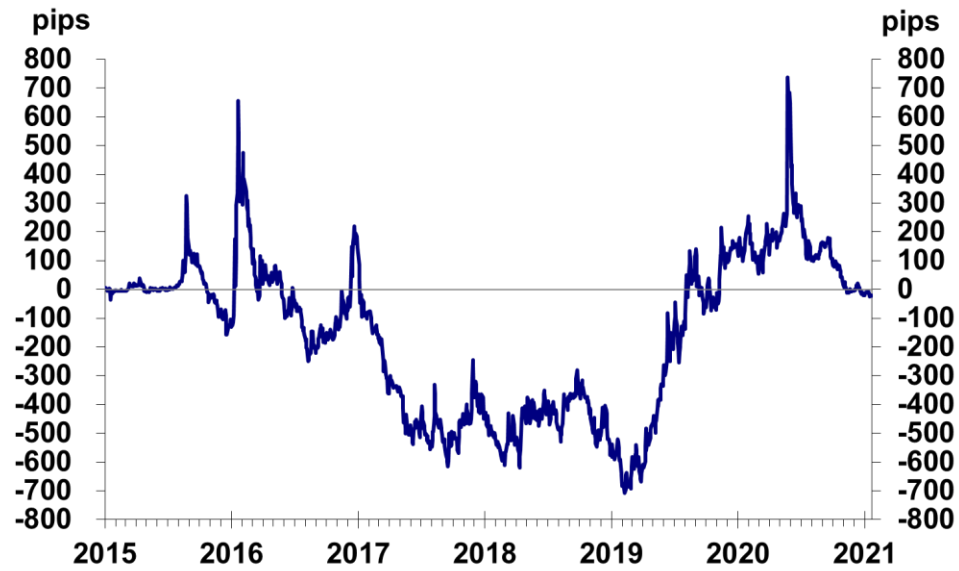


DOMESTIC INTEREST RATES





12-MONTH HONG KONG DOLLAR FORWARD POINTS



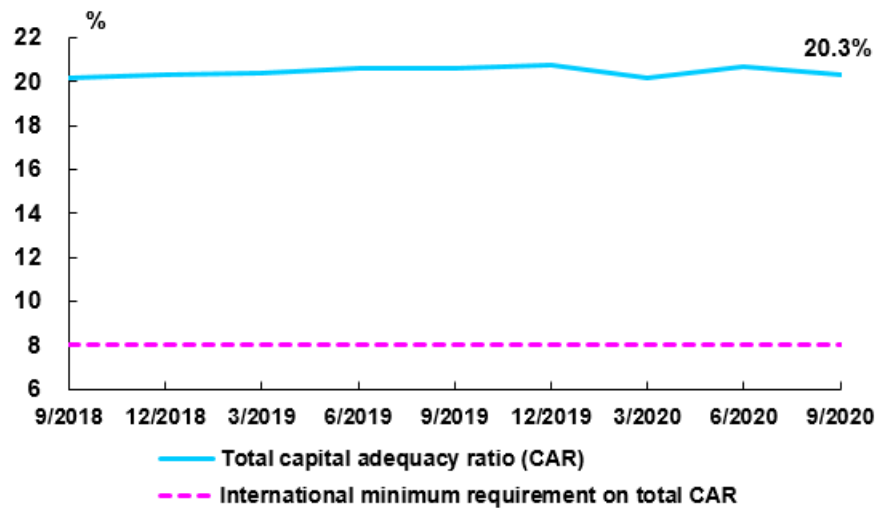


BANKING STABILITY



BANKING SECTOR PERFORMANCE

Locally incorporated authorized institutions (AIs)
remained well capitalised



Source: HKMA

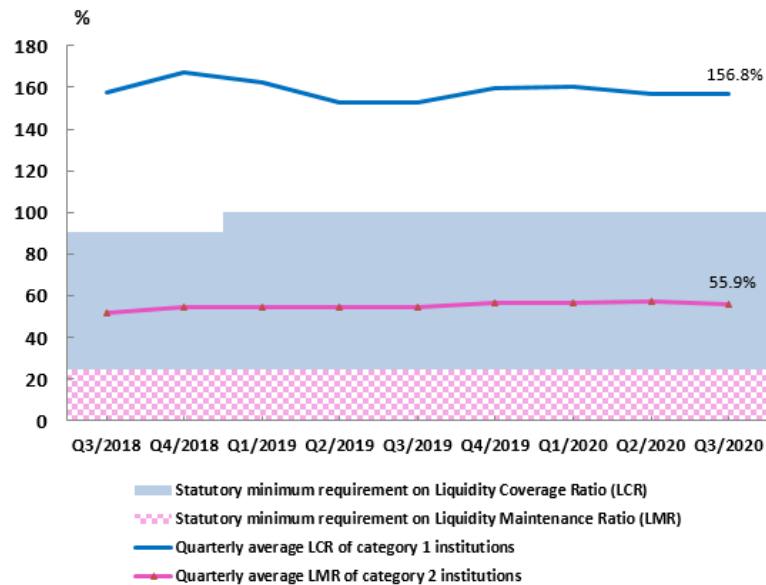
48

- The banking sector stayed well capitalised. The total CAR of locally incorporated AIs stood at 20.3% at end-September 2020, well above the international minimum requirement of 8%.



BANKING SECTOR PERFORMANCE

Liquidity position remained robust



Source: HKMA

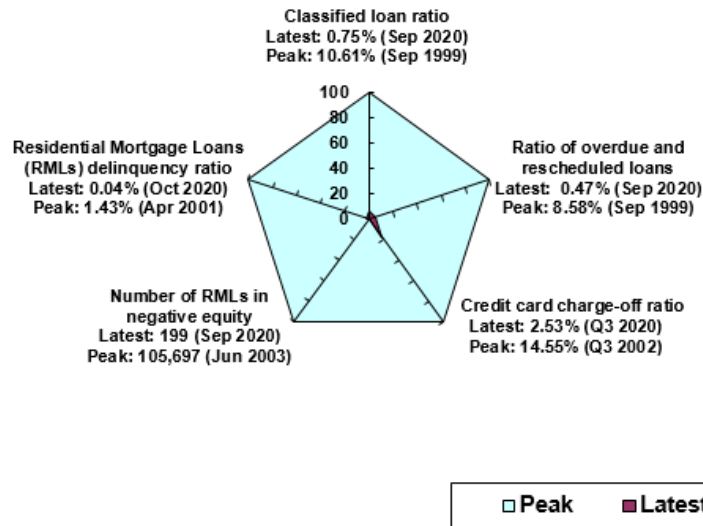
49

- In the third quarter of 2020, the quarterly average LCR of category 1 institutions was 156.8%, well above the statutory minimum requirement of 100%. For category 2 institutions, their quarterly average LMR was 55.9%, also well above the statutory minimum requirement of 25%.



BANKING SECTOR PERFORMANCE

Asset quality deteriorated slightly but remained at a healthy level



Source: HKMA

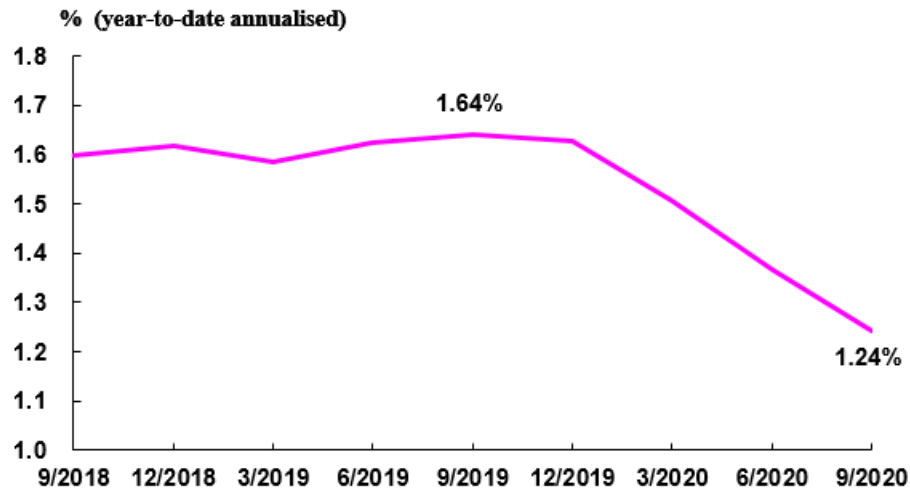
50

- As the economic impact of the COVID-19 outbreak took hold, the asset quality of retail banks deteriorated slightly but remained at a healthy level. The classified loan ratio of retail banks increased to 0.75% at end-September 2020 from 0.71% a quarter earlier. For the banking sector as a whole, the classified loan ratio increased to 0.84% from 0.79% during the same period. Both were significantly below the long-term average of 2% since 2000.



BANKING SECTOR PERFORMANCE

Net interest margin (NIM) narrowed



Source: HKMA

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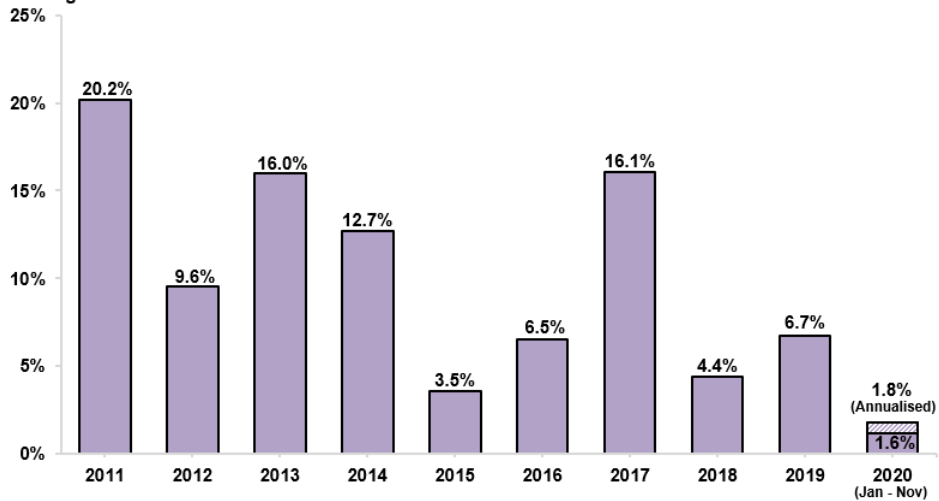
- The NIM of retail banks' Hong Kong offices narrowed to 1.24% in the first three quarters of 2020 from 1.64% in the same period last year. The narrowed NIM was mainly due to a decline in Hong Kong Interbank Offered Rates (HIBORs) in the second and third quarter, which compressed banks' margin on HIBOR-based assets.



BANKING SECTOR PERFORMANCE

Credit growth slowed

Credit growth rate



Source: HKMA

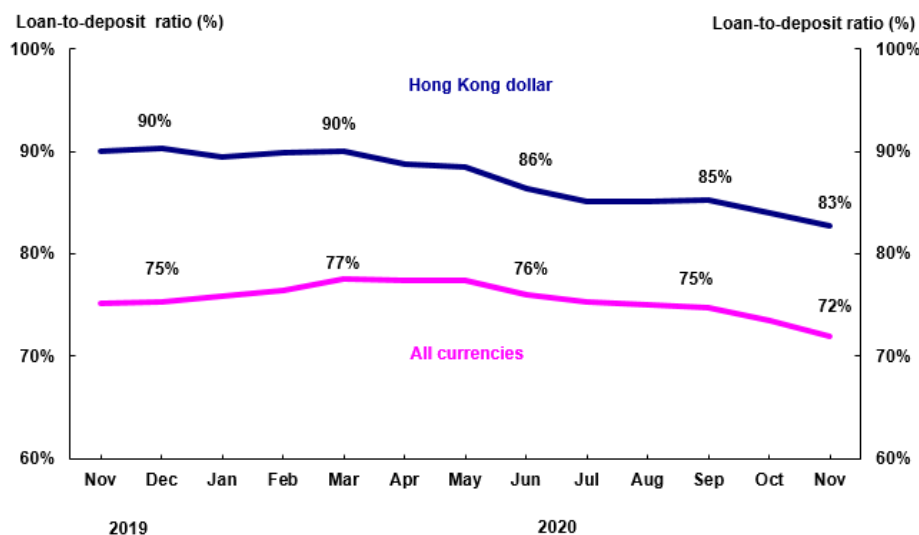
52

- Total loans increased slightly by 1.6% in the first eleven months of 2020, or 1.8% on an annualised basis.



BANKING SECTOR PERFORMANCE

Loan-to-deposit ratios decreased



Source: HKMA

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- Hong Kong dollar loan-to-deposit ratio edged down to 83% at end-November 2020 from 85% at end-September 2020.
- Similarly, loan-to-deposit ratio for all currencies decreased to 72% from 75% during the same period.



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

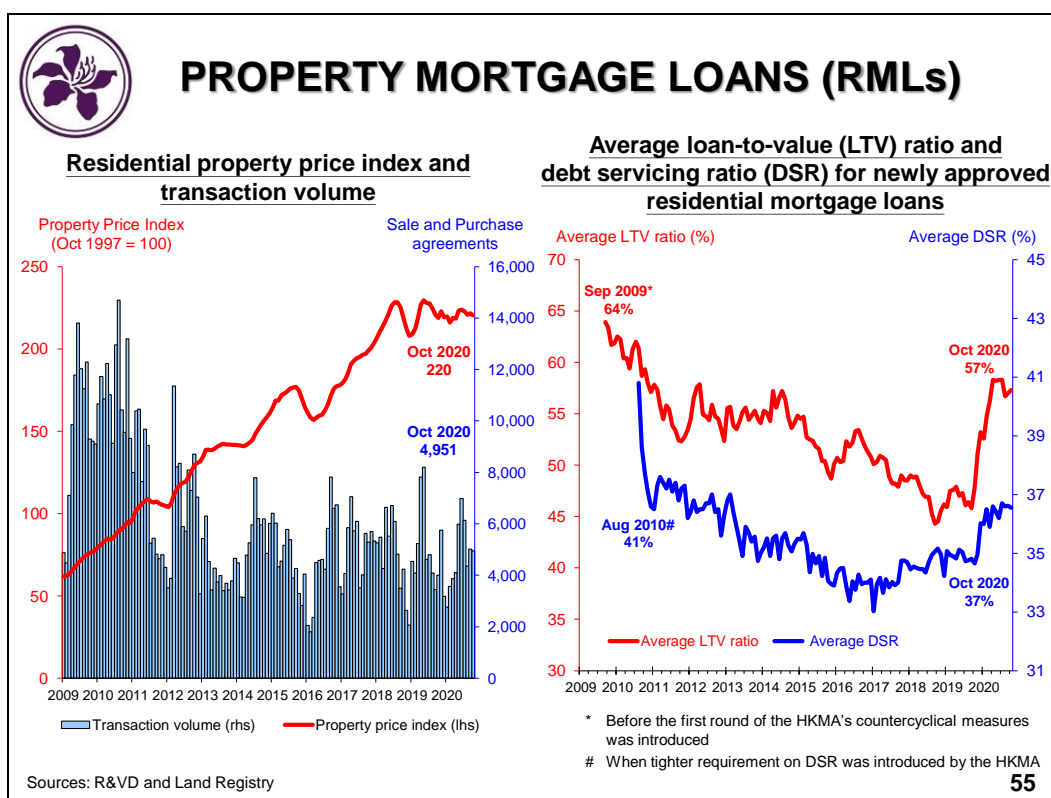
Extended Pre-approved Principal Payment Holiday Scheme

- Principal payments of eligible small and medium-sized enterprises (SMEs) deferred up to one year till April 2021

Enhanced SME Financing Guarantee Scheme

- Principal moratorium for 80% and 90% Guarantee Products deferred up to 18 months till March 2021
- Enhanced the Special 100% Loan Guarantee Scheme

- Aggregate number of cases involving credit relief (up to December 2020):
 - Corporate customers: 58,000 cases (HK\$740 billion)
 - Individual customers: 28,000 cases (HK\$44 billion)



- The average LTV ratio of newly approved RMLs hovered at 57% recently, following a rise in the earlier period, primarily driven by larger proportion of RMLs with mortgage insurance which generally have a higher LTV ratio. The HKMA considers the risk manageable as the portion of loans above the HKMA's permissible LTV cap is covered by mortgage insurance.

Latest statistics on RMLs

	Monthly average in 2018	Monthly average in 2019	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020
Number of sale and purchase agreements	4,771	4,983	5,984	6,987	6,133	4,358	5,024	4,951
Number of new RML applications	12,826	12,244	15,019	13,829	13,246	10,846	12,288	10,908
Number of new RMLs approved	9,296	8,981	8,749	10,032	9,019	7,918	7,826	7,311

Latest statistics on residential property prices

Property price index		Period	Property price index
Rating and Valuation Department (10/1997=100)	Latest position	10/2020	220.3
	Recent peak	5/2019	229.6
	Peak in 1997	10/1997	100.0
Centaline (6/7/1997=100)	Latest position	6/12/2020	177.8
	Recent peak	30/6/2019	190.5
	Peak in 1997	19/10/1997	102.9



INTERNATIONAL STANDARDS IMPLEMENTATION

2021

- Amendments to Banking (Capital) Rules – revised capital treatment on banks' equity investments in funds
- Amendments to Banking (Exposure Limits) Rules – technical refinements

2022

- Amendments to Banking (Capital) Rules – Basel III final reform package

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As reported in the last FAP meeting, preparatory work for legislative amendments scheduled for the next two years to implement the relevant Basel regulatory standards is on-going:

Year 2021

Legislative amendments targeted to be submitted to LegCo sometime in 2021 (potentially sometime in second half of the year) are:

- amendments to the Banking (Capital) Rules to reflect the revised Basel capital requirements for banks' exposures to equity investments in funds; and
- amendments to the Banking (Exposure Limits) Rules to incorporate certain technical refinements to enhance clarity and better reflect the policy intent of certain existing provisions.

Year 2022

The above will be followed sometime in 2022 with the submission of amendments to the Banking (Capital) Rules to implement two sets of capital standards under the Basel III reforms. These consist respectively of:

- revisions to the credit risk, operational risk, and leverage ratio frameworks, as well as requirements for the prudent use of internal models (which are scheduled to take effect from 2023 as minimum standards for banks); and
- a revised market risk framework which is scheduled to take effect from 2023 for reporting purposes by locally incorporated AIs (and no earlier than that for the actual capital requirements).



ANTI-MONEY LAUNDERING (AML)

- Commenced consultation on legislative proposals to amend the Anti-money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO) to align with the latest international standards by:
 - Strengthening Hong Kong's Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) regime by bringing virtual asset service providers and dealers in precious metals and stones under regulation
 - Amending various existing provisions to introduce increased risk-based flexibility, such as amendments to facilitate wider adoption of remote on-boarding initiatives

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- The Government launched a three-month public consultation on legislative proposals to amend the AMLO with a view to bringing Hong Kong's regulatory regime up-to-date and in line with the latest international requirements, as promulgated by the global standard setter, Financial Action Task Force (FATF). This followed up on the FATF's mutual evaluation in 2019 which commended the effectiveness of Hong Kong's AML/CFT regime, and assessed Hong Kong's regime as being in line with international standards.
- The proposed amendments include the introduction of (1) a licensing regime for virtual asset service providers; (2) a registration regime for dealers in precious metals and stones; and (3) certain technical amendments.
- One of the proposed technical amendments to the AMLO aims to provide flexibility with regard to the additional measures in non-face-to-face situations (viz. Section 9 of Schedule 2 to the AMLO). In line with the FATF guidance, the use of independent and reliable digital identification systems is proposed as a recognised means which mitigates risks in situations where a customer is not physically present for customer identification and verification purposes, thus facilitating the wider adoption of remote on-boarding initiatives by financial institutions.
- The consultation will close on 31 January 2021. The HKMA will review the industry feedback and continue to work closely with the banking sector and relevant government bureaux and departments on issues relating to the legislative proposals.



RESOLUTION REGIME

- Current priority is the development of rules under the Financial Institutions (Resolution) Ordinance (FIRO) on contractual stays (Stay Rules), which would require the adoption of a provision in certain financial contracts to recognise any suspension of termination rights imposed under the FIRO
- Conclusion on public consultation on the Stay Rules was released in late December 2020. Draft text of the Stay Rules was also issued at the same time for industry consultation. Our current intention is to introduce the Stay Rules into LegCo in the first half of 2021

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- The current priority on resolution is the development of rules to be made by the Monetary Authority as a resolution authority under the FIRO which will require Hong Kong incorporated AIs and some of their group companies to include a provision in certain financial contracts that are not governed by Hong Kong law so that the parties to the contracts agree to be bound by a suspension of termination rights (i.e. “stay”) that may be imposed by the Monetary Authority under the Hong Kong resolution regime. The Stay Rules are intended to implement the relevant Financial Stability Board principles for enhancing the effectiveness of cross-border resolution actions.
- Further to the launch of a two-month public consultation on the policy proposals for formulating the Stay Rules earlier this year, the conclusion on the public consultation was released by the HKMA in late December 2020. Draft text of the Stay Rules was also issued at the same time for industry consultation. Our current intention is to introduce the Stay Rules into LegCo for negative vetting in the first half of 2021.



FINANCIAL INCLUSION

- Issuance of the Guideline on Banking Services for Persons with Intellectual Disabilities
- Continued uptake of Simple Bank Accounts (SBAs) service by small and medium-sized enterprises
- Facilitated banks to display the “Leave Home Safe” QR codes at over 1,300 branches and premises to support the fight against COVID-19

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- Further to the issuance of the Practical Guideline on Barrier-free Banking Services by the Hong Kong Association of Banks (HKAB) in March 2018, with the support of the HKMA, HKAB engaged relevant stakeholders and developed the Guideline on Banking Services for Persons with Intellectual Disabilities. The Guideline was issued in December 2020, setting out the principles and good practices recommended for the banking industry when providing banking services to customers with intellectual disabilities. Meanwhile, the HKMA issued a circular to set out the expectation that banks should observe the principles and recommended practices stipulated in the Guideline when providing services to customers in need. Banks should also provide proper guidance and training to frontline staff to ensure they can understand and communicate with customers properly, and provide appropriate services to address the needs of customers.
- The HKMA continues encouraging banks to support and launch Simple Bank Account (SBA) service to provide basic banking services with less extensive customer due diligence measures, hence offering more choices to corporate customers. As of end-2020, there are four banks offering such service with over 6,000 SBA accounts opened.
- The HKMA worked with the Innovation and Technology Bureau, the Office of the Government Chief Information Officer and HKAB to facilitate banks to display the “Leave Home Safe” QR codes at bank branches and other customer interfacing premises, such that users of “Leave Home Safe” mobile app can scan the QR codes to record their visit history at different bank venues, thereby supporting the fight against COVID-19.



BANKING CONSUMER PROTECTION

- Issued a circular on customer protection in respect of the reform of interest rate benchmarks, reminding banks of customer protection requirements
- Working with the Industry Associations to introduce more than one Credit Reference Agency (CRA) for consumer credit data in Hong Kong
- When ready, the Industry Associations will issue tenders for selection of CRAs. The new system is expected to be in operation by end-2022

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- The HKMA issued a circular on 21 October 2020 on customer protection in respect of the reform of interest rate benchmarks. The circular reminds banks to uphold customer protection principles in line with the Treat Customers Fairly Charter and other applicable requirements (e.g. Code of Banking Practice) throughout the processes of the reform and transition of interest rate benchmarks. The circular also requires banks to develop robust customer communication programmes for consumer education and outreach.
- The HKMA has been discussing with HKAB, the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies and the Hong Kong S.A.R. Licensed Money Lenders Association Ltd. (collectively referred to as “Industry Associations”) the proposal of introducing more than one CRA for consumer credit data in Hong Kong. The HKMA seeks to implement the relevant arrangement soon with a view to enhancing the service quality of consumer CRAs and reducing the operational risk of having only one commercially-run consumer credit information service provider in the market, particularly the risk of single point of failure.
- The Industry Associations are working with the HKMA to sort out the details and proceed with various preparatory work. When ready, Industry Associations will issue tenders for selection of CRAs. The new system is expected to be in operation by the end of 2022.



BANKING INVESTOR PROTECTION

- Shared with the industry key observations and good practices noted from mystery shopping programme on retail banks' sale of investment and insurance products
- Provided guidance on investment services via non-face-to-face channels, assessment of customers' concentration risk, and product disclosure for non-retail banking customers with a view to streamlining the process
- Provided guidance on the expected standards in handling life insurance policy replacement
- Worked closely with the Insurance Authority to further extend the temporary facilitative measures for non-face-to-face sale of certain insurance products amid COVID-19

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- The HKMA issued a circular on 30 September 2020 to share with the industry the key observations and good practices noted from the mystery shopping programme on retail banks' sale of investment and insurance products. The HKMA will continue to monitor the selling practices of banks in its on-going supervision.
- The HKMA issued a circular on 23 December 2020 to provide guidance regarding provision of investment services using non-face-to-face channels, assessment of customers' concentration risk, and product disclosure for non-retail banking customers who are financially literate to understand the investment products, with a view to streamlining the selling process to improve customer experience while protecting customers.
- In light of the observations identified in the course of the HKMA's supervisory work in relation to banks' handling of life insurance policy replacement, the HKMA issued a circular on 20 October 2020 to share the observations and provide guidance to banks on the expected standards in identifying, monitoring, reviewing and following up on policy replacement.
- Amid the uncertainties brought about by COVID-19, the HKMA and the Insurance Authority worked closely to further extend on 2 December 2020 the effective period of the phase 2 temporary facilitative measures for non-face-to-face sale of certain insurance products to until 31 March 2021. The scope of products covered (i.e. Qualifying Deferred Annuity Policy, Voluntary Health Insurance Scheme products, term insurance policies and certain refundable or renewable insurance policies that provide insurance protection) and the implementation details of measures remain unchanged.



PUBLIC EDUCATION

- Launched an online drama series “STEPS” to introduce the major functions and roles of the HKMA, and raise interest of the younger generation in joining the HKMA
- Launched an online parenting and educational campaign (小小理財師) on basic money management concepts, banking and payment services
- Through the HKMA’s digital media channels
 - Promoted the merchant payment and bill payment functions of Faster Payment System (FPS)
 - Publicised new batch of Silver Bond and issues to note in subscription
 - Provided updates on Green Finance initiatives



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- Launched an online drama series “STEPS” to introduce the major functions and roles of the HKMA, and raise interest of the younger generation in joining the organisation through the story of a young new recruit.
- Launched an online parenting and educational campaign (小小理財師) during Christmas & New Year to educate kids on basic money management concepts, banking and payment services through animation, games, worksheets and DIY toys.
- Through the HKMA's digital media channels:
 - Promoted the merchant payment and bill payment functions of FPS enabled by scanning QR codes;
 - Publicised the new batch of Silver Bond and introduced its subscription arrangement and issues to note; and
 - Provided updates on initiatives related to Green Finance, including the HKMA’s work on the Alliance for Green Commercial Banks, and the development of strategy on green and sustainable finance.



DEPOSIT PROTECTION SCHEME (DPS)

- Completed comprehensive drill tests for implementing electronic payment channels for DPS compensation
- Launched social media campaigns “DPS Kung Fu Duo” and “DPS Saving Duo Comics” to raise awareness and to deepen public understanding of DPS
- Continued reaching out to target audience groups via various community education activities



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- The Hong Kong Deposit Protection Board completed the industry-wide drill tests for the implementation of electronic payment channels for dispersing DPS compensation, including the use of Faster Payment System (FPS). All participating banks have systems and processes ready to effect compensation payments to depositors via FPS during a payout situation. The use of electronic payment channels is expected to be ready in the second half of 2021 following completion of procedures enhancements and training of payout agents.
- Launched two social media campaigns: i) “DPS Kung Fu Duo” with two videos with the theme of learning Kung Fu produced to promote the key features of DPS in a fun-to-watch manner; and ii) “DPS Saving Duo Comics” in partnership with local illustrators to create stories in relation to savings in comic format to reinforce public awareness and importance of DPS protection on bank deposits.
- Continued reaching out to target audience groups through online and face-to-face community education activities:
 - Conducted online briefing for recruiting DPS Ambassadors who are nearly-retired and new retirees; and
 - Collaborated with NGOs to conduct small-group discussion sessions with the elderly and homemakers to understand their saving habits and concerns while introducing the coverage of DPS protection.



HONG KONG ACADEMY OF FINANCE (AoF)

- Financial Leadership Development – more virtual events launched under the Leadership Development Programme
- Research Activities – released a new Applied Research report by the Hong Kong Institute for Monetary and Financial Research:
 - “The Green Bond Market in Hong Kong: Developing a Robust Ecosystem for Sustainable Growth” (November 2020)

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Financial Leadership Development

- The following virtual events were organised under the Leadership Development Programme in the fourth quarter of 2020:
 - A webinar on 9 November 2020 co-hosted by the AoF and the HKMA under the Banking Talent Programme, featuring Ms Katherine Ng, Managing Director, Chief Operating Officer and Head of Policy and Secretariat Services, Listing Division, Hong Kong Exchanges and Clearing Limited; Mr Eric Hui, Chief Executive Officer, Zurich Insurance (Hong Kong); and Mr Bruno Lee, Regional Head of Retail Wealth Distribution, Wealth & Asset Management, Asia, Manulife Investment Management (Hong Kong) Limited;
 - A conversation session with Mr Bill Winters, Group Chief Executive of Standard Chartered PLC, on 10 November 2020;
 - A panel discussion titled “Talent Development for Financial Industry in Hong Kong” on 16 November 2020. It was chaired by Mr Carlson Tong, Chairman of the University Grants Committee and Fellow of the AoF, featuring Mr Liu Che-Ning, Vice Chairman of Global Banking, Global Banking and Markets of the Hongkong and Shanghai Banking Corporation Limited; Professor Wei Shyy, President of the Hong Kong University of Science and Technology; and Mr Andrew Weir, Regional Senior Partner of Hong Kong, Vice Chairman of China, Global Chair of Asset Management and Real Estate of KPMG; and
 - A conversation session with Mr Noel Quinn, Group Chief Executive of HSBC Holdings PLC, on 8 December 2020.

Research Activities

- A new applied research report was released in November 2020 by the Hong Kong Institute for Monetary and Financial Research:
 - “The Green Bond Market in Hong Kong: Developing a Robust Ecosystem for Sustainable Growth” - This report illustrates the state of the green bond markets in Hong Kong and globally, sheds light on the benefits of green bonds to issuers and investors, and discusses the strategies to accelerate the development of Hong Kong as a leading international green bond hub.



FINANCIAL INFRASTRUCTURE



FINANCIAL INFRASTRUCTURE

- Financial infrastructure remains safe and efficient
- Operation of Bond Connect has been smooth; actively promote Bond Connect to overseas investors
- Further refine the Hong Kong Trade Repository (HKTR) for over-the-counter derivatives according to the relevant local and international standards

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Bond Connect

- Since the launch of Bond Connect on 3 July 2017, the related settlement operations performed by the Central Moneymarkets Unit have been smooth.
- With the Delivery-versus-Payment settlement fully implemented in August 2018, as well as the inclusion of renminbi-denominated Mainland government and policy bank securities into the Bloomberg Barclays Global Aggregate Index in April 2019 and J.P. Morgan Government Bond Index-Emerging Markets in February 2020, more overseas investors have started to invest in the Mainland interbank bond market via the Bond Connect. The HKMA has been maintaining close communications with the People's Bank of China and other relevant Mainland institutions to explore enhancements to Northbound Trading.

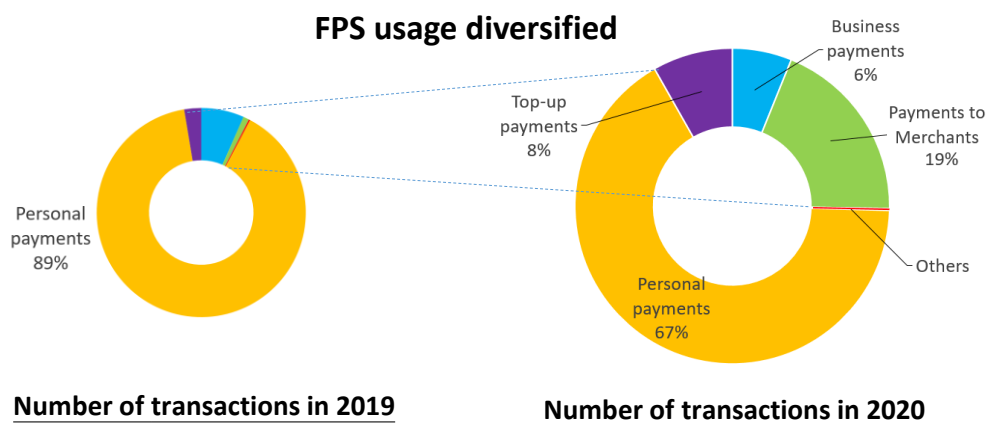
Over-the-counter derivatives trade repository

- Since the reporting function of the HKTR was launched in July 2013, reporting by banks to the HKTR has been smooth.



FASTER PAYMENT SYSTEM (FPS) in 2020

Registrations: 6.9 Million (↑ 71% from end-2019)
No. of HKD transactions: 130 Million (↑ 233% from 2019)
Value of HKD transactions: HKD 1,339 Billion (↑ 108% from 2019)



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- The number of registrations and turnover of the FPS have been growing steadily. Since the launch of the system till 31 December 2020, the FPS recorded 6.9 million registrations (including 4.43 million in mobile number, 1.12 million in email address, 1.21 million in FPS ID and 0.11 million in Hong Kong ID number), up by 71% or 2.9 million registrations from end-December 2019.
- The turnover of the FPS rose particularly fast amid the epidemic in 2020, as compared to 2019. The total number of transactions in 2020 rose two times from 2019. The average daily turnover reached 505,000 (worth HK\$5.2 billion and RMB95 million) in December 2020, equivalent to three times of that in December 2019 and tenfold of that in October 2018, the first full month after the launch.
- The usage of the FPS expanded to merchant payments and top-up transactions in 2020 from primarily P2P transactions initially.
- The FPS has launched a new feature on 6 December 2020, which allows citizens to link their HKID number to their bank account for receiving payments from institutions. Given HKID number is a piece of sensitive personal information, this new function is not intended for making person-to-person payments. It will only be used by institutions which already possess the HKID number of the recipients of the payments. Since its launch on 6 December until end-December, the FPS recorded over 110,000 registrations of the new feature in less than a month. Banks will promote this service to their corporate customers, while the HKMA will also explore more use cases with the industry and the Government. Corporate customers generally take time to understand the new feature and need to upgrade their systems for application.



LATEST FINTECH INITIATIVES

- Despite the pandemic, “Hong Kong Fintech Week 2020” successfully attracted over 1.2 million viewers from more than 130 economies
- Developing Commercial Data Interchange (CDI) to enhance SMEs’ access to financial services
- Conducting Central Bank Digital Currency (CBDC) research on cross-border payments with the Bank for International Settlements Innovation Hub (BISIH) and the Bank of Thailand
- Started pilot run on the connection between eTradeConnect and the People’s Bank of China (PBoC) Trade Finance Platform

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- **Hong Kong Fintech Week 2020**

- The event was held virtually from 2 to 6 November 2020.
- The event was well received, with over 18,000 business connections made, helping to facilitate much needed business opportunities for many industry players.

- **Commercial Data Interchange**

- Conducting a Proof-of-Concept (PoC) to study the technical feasibility of building the CDI, a consent-based financial infrastructure that would enable more secure and efficient data flow between banks and sources of commercial data. With the CDI, SMEs could use their own data to enhance their access to financial services.
- Completed Phase 1 of PoC, with a focus on using trade-related data to facilitate trade finance application process.
- Conducting Phase 2 of PoC, which covers other commercial data sources, including payment data.

- **Research on using Central Bank Digital Currency for cross-border payments**

- Completed Phase 1 of research jointly with the Bank of Thailand, with a cross-border corridor network prototype developed and joint report published in January 2020.
- Conducting Phase 2 of research, which aims to explore business use cases in cross-border trade settlement and capital market transactions. By the end of January 2021, HKEx, 19 participating banks, and 5 other corporates are participating in the project.

- **Connection between eTradeConnect and PBoC Trade Finance Platform**

- Completed Phase 1 of PoC and initiated a pilot run. By the end of January 2021, 7 banks in both places have used the connection to execute cross-border trade finance transactions. Total trade value exceeded HK\$26 million.
- Conducting Phase 2 of PoC, which covers more types of trade activities and financing products to provide a holistic solution for SME financing services.
- In the long run, the HKMA hopes to leverage the result of the PoC and contribute to the development of a set of globally-accepted standards for connecting different trade finance platforms by working with international stakeholders including the BISIH.



STORED VALUE FACILITIES (SVFs) AND RETAIL PAYMENT SYSTEMS (RPSs)

- SVF usage continued to grow in Q3 2020:
 - Accounts in use: 63.97 million (+2.3% year-on-year (yoy))
 - Average daily transaction value: HK\$612 million (+9.9% yoy)
 - Licensees continue to extend their business reach
- SVF Security 2.0:
 - Enhancements in SVF account structure and account opening process
 - Announced on 18 September 2020, and will be implemented with effect from 2 July 2021
- Continue to supervise licensees in a risk-based manner, taking targeted supervisory actions where necessary
- Continue to oversee six designated RPSs



REGULATORY DEVELOPMENT OF THE OVER-THE-COUNTER (OTC) DERIVATIVES MARKET

- The HKMA and Securities and Futures Commission (SFC) jointly published the consultation conclusion paper on the Financial Services Providers (FSP) list for clearing obligation in June 2020. The revised FSP list was gazetted and became effective on 1 January 2021
- As of November 2020, the Hong Kong Trade Repository logged a total of 2.87 million outstanding OTC derivatives trades, covering five asset classes under mandatory reporting requirements, i.e. foreign exchange, interest rate, equity, credit, and commodity derivatives

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- Under the Hong Kong OTC Derivatives Clearing Rules (Clearing Rules), Als and licensed corporations (LCs) are subject to the clearing obligation of specified OTC derivative transactions. In order to capture transactions between Als/LCs and major dealers outside Hong Kong that are not Als or LCs, the concept of FSP was introduced. Under the Clearing Rules, an entity will be designated as a FSP if the entity belongs to a firm on the Financial Stability Board's list of global systemically important banks or on the OTC Derivatives Supervisors Group's list of major dealers, and the entity is a clearing member of major central counterparties. Specific transactions between a FSP and Als/LCs are subject to the clearing obligations. The HKMA and SFC perform annual review and public consultation of the FSP list to ensure the list remains relevant and appropriate.



INTEREST RATE BENCHMARKS

- The Treasury Markets Association (TMA) has adopted Hong Kong Dollar Overnight Index Average (HONIA) as the alternative reference rate for HIBOR. The HKMA and TMA continue to promote the use of HONIA
- On LIBOR transition, the HKMA has, in consultation with the TMA, developed and announced the following guidelines applicable to Als:
 - From 1 January 2021, Als should be in a position to offer products referencing the alternative reference rates to LIBOR;
 - From 1 January 2021, adequate fall-back provisions should be included in all newly issued LIBOR-linked contracts that will mature after 2021; and
 - From 30 June 2021, Als should cease to issue new LIBOR-linked products that will mature after 2021

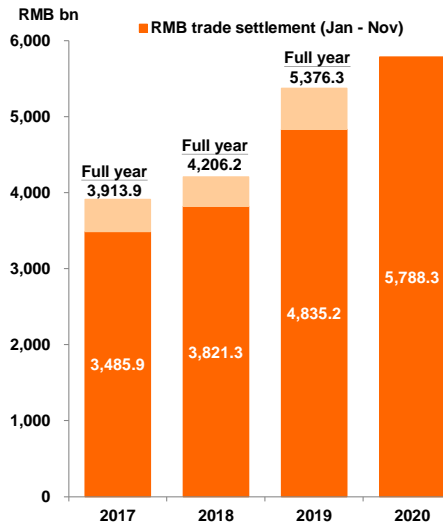


HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

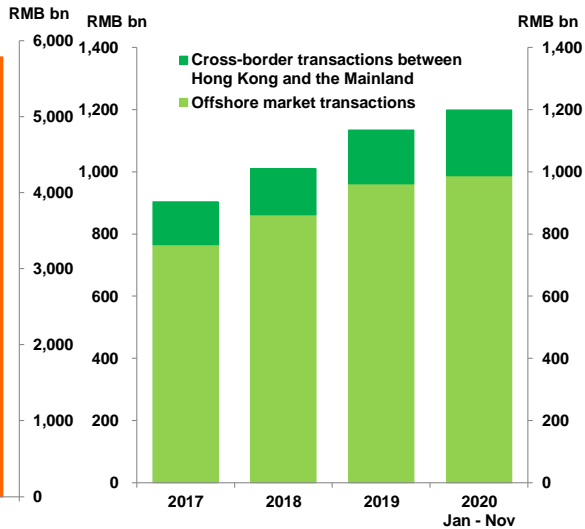


RMB TRADE SETTLEMENT AND PAYMENT

**RMB trade settlement
handled by banks in Hong Kong**

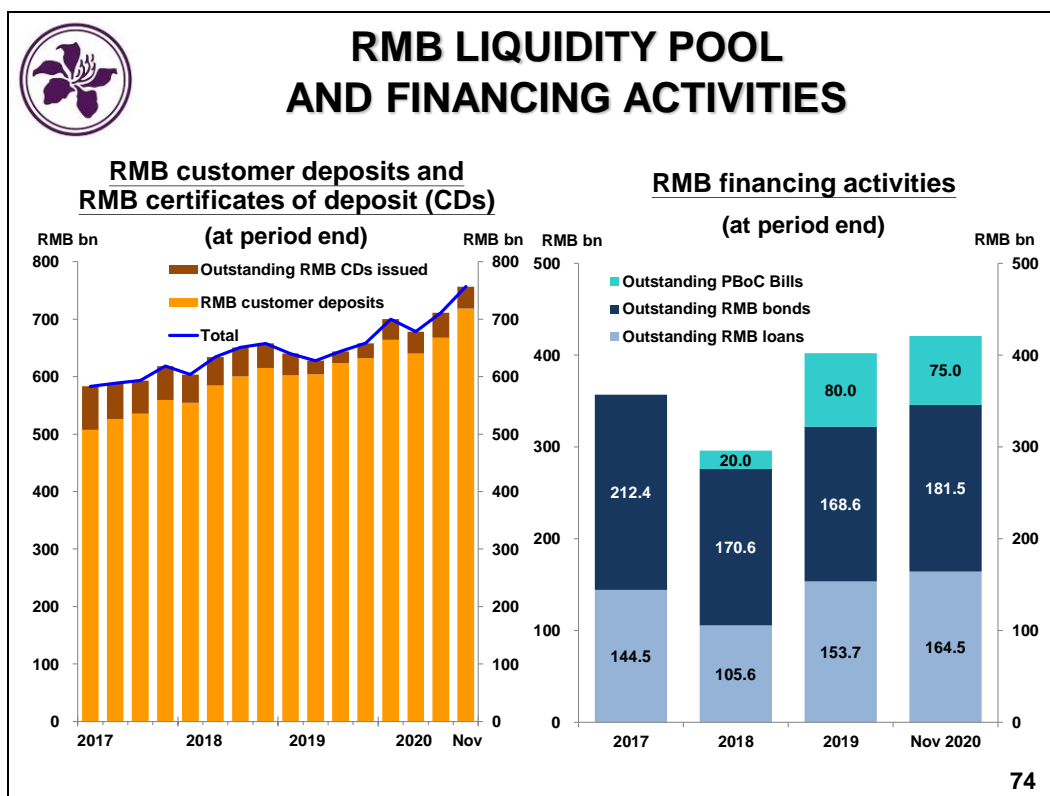


**Average daily turnover of Hong Kong
RMB RTGS System**



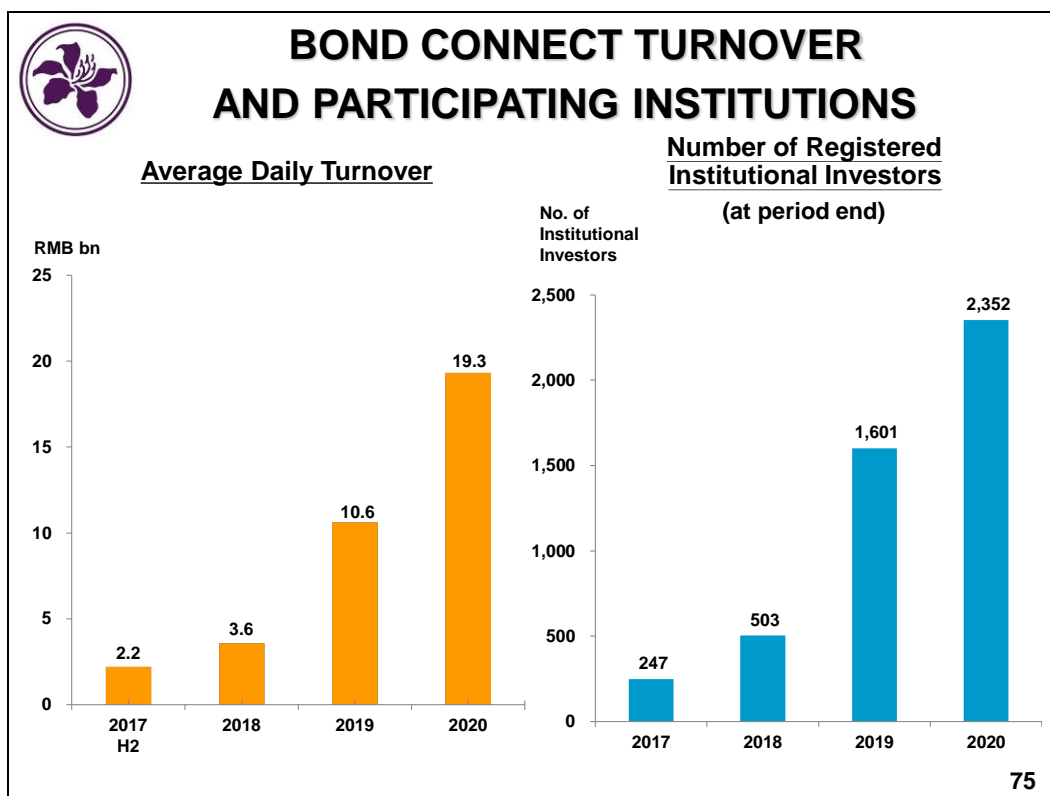
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- In the first eleven months of 2020, renminbi trade settlement handled by banks in Hong Kong totalled RMB5,788.3 billion.
- In the first eleven months of 2020, the average daily turnover of Hong Kong RMB Real Time Gross Settlement (RTGS) system stood at RMB1,198.7 billion.



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- As at end-November 2020, renminbi customer deposits and outstanding renminbi CDs amounted to RMB718.3 billion and RMB38.3 billion respectively, totalling RMB756.6 billion.
- As at end-November 2020, outstanding renminbi loans amounted to RMB164.5 billion. Outstanding dim sum bonds amounted to RMB181.5 billion. The dim sum bond issuance totalled RMB59.3 billion for the first eleven months of 2020. In November 2018, the PBoC started to issue bills in Hong Kong, which aims to enrich the spectrum of high quality renminbi financial products in Hong Kong and to help build the benchmark yield curve of renminbi bonds in Hong Kong. As at end-November 2020, outstanding PBoC bills amounted to RMB75 billion.



- In 2020, Bond Connect recorded 235 trades daily on average. The daily turnover averaged RMB19.3 billion, up around 82% from the 2019 average of RMB10.6 billion. As of end of 2020, Bond Connect onboarded 2,352 registered institutional investors.



MAINTAINING RMB BUSINESS LINKS WITH OTHER JURISDICTIONS

	Nov 2020	2019	2018
1 No. of participating banks on Hong Kong's RMB clearing platform	206	204	200
Of which:			
Branches and subsidiaries of overseas banks and overseas presence of Mainland banks	172	173	173
2 Amount due to overseas banks (RMB billion)	112.0	76.3	80.4
3 Amount due from overseas banks (RMB billion)	109.4	95.4	132.8



DEVELOPING HONG KONG'S PRIVATE EQUITY (PE) PLATFORM

- Hong Kong has a robust PE industry: the total capital under management by PE funds in Hong Kong reached US\$160 billion at end-2019*
- A new limited partnership regime for PE funds came into operation on 31 August 2020. Around 80 funds had been registered under the new regime by mid-January 2021. The HKMA is working with the Government to develop a legislative proposal to enable foreign funds to re-domicile to Hong Kong
- Regarding the tax concession for PE carried interest, the HKMA has been working with the Government to develop a legislative proposal. The relevant bill will be introduced into the Legislative Council in February 2021

* Source: Asian Venture Capital Journal



PROMOTING GREEN FINANCE

- In December 2020, the Green and Sustainable Finance Cross Agency Steering Group, co-chaired by the HKMA and the Securities and Futures Commission, launched its green and sustainable finance strategy for Hong Kong and five key action points to promote green and sustainable finance in Hong Kong
- The HKMA is conducting preparatory work to assist the Government in issuing green bonds equivalent to HK\$66 billion in the coming five years under the Government Green Bond Programme

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- The Cross-Agency Steering Group aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies. Other members include the Environment Bureau, the Financial Services and the Treasury Bureau, the Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority. The Steering Group launched its Strategic Plan that sets out six key focus areas (risk management, disclosure, capacity building, financial innovation, mainland opportunities, and collaboration) for strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future in the longer term, and announced five nearer-term actions to address the most pressing issues:
 1. Mandate Climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures recommendations across relevant financial sectors no later than 2025;
 2. Aim to adopt the Common Ground Taxonomy jointly developed by Mainland China and European Union;
 3. Support the International Financial Reporting Standards (IFRS) Foundation's proposal to establish a new Sustainability Standards Board for developing and maintaining a global, uniform set of sustainability reporting standards;
 4. Promote climate-focused scenario analysis; and
 5. Establish a platform to act as a focal point for cross-sectoral capacity building, thought leadership and development of repository for green and sustainable finance resources.



PROMOTING GREEN FINANCE

- International Finance Corporation (IFC), a member of the World Bank Group, signed the Alliance for Green Commercial Banks (Alliance) partnership with HKMA in November 2020. This new partnership aims to help develop green commercial banks and encourage more green investment by banks in order to address climate change
- As the founding member and first regional anchor for the Asia Chapter of the Alliance, the HKMA will serve as the hub for green finance among commercial banks in Asia
- Over the next five years, the HKMA and IFC will jointly launch targeted initiatives in the region to undertake green finance research, provide unique market insight, tailor capacity building/training support, and provide practical guidance for banks. These campaigns will help the banks develop their own roadmap to mainstream green finance as their core business and enhance existing green financial products and services

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- The Alliance is a new initiative launched by IFC.
- The Alliance encourages commercial banks in Asia to adopt strategies and targets to become greener. The signing of the agreement makes the HKMA the first partner to work with IFC on the initiative.
- Under the agreement, over the next five years, the HKMA and IFC will bring together financial institutions, banking industry associations, research institutions, and innovative technology providers across Asia to develop, build, and boost the capacity for green finance and promote climate-related investments.



INVESTMENT ENVIRONMENT AND PERFORMANCE OF THE EXCHANGE FUND

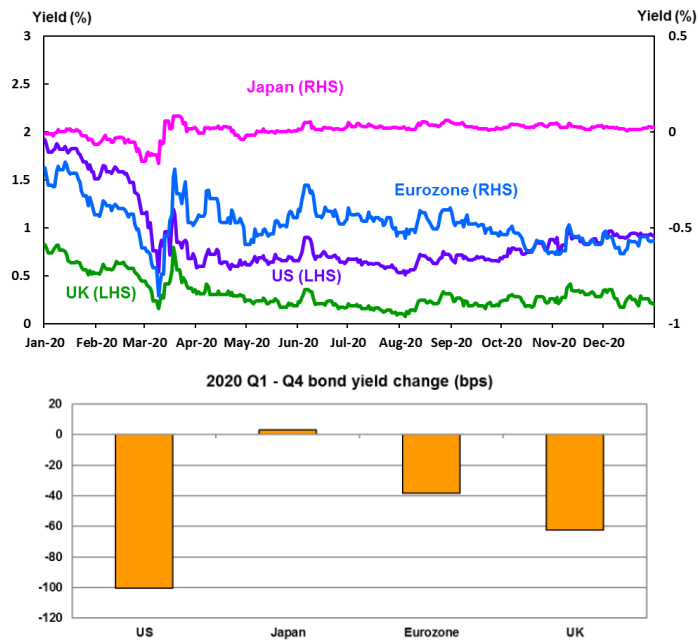


INVESTMENT ENVIRONMENT IN 2020

- **Interest rates:** Yields of major developed countries remained persistently low after a significant decline in the first quarter as demand for risk aversion rose sharply. US government bonds fell by about 100 basis points and reached record low during the year
- **Equity markets:** Equity markets fell sharply in the first quarter of 2020 after the global outbreak of COVID-19 pandemic. Super easy monetary policies drove the swift rebound of global equities. The S&P 500 reached record high at the end of the year
- **Exchange rates:** Major currencies appreciated against the US dollar, with the US dollar weakening particularly during the second half of the year due to low US interest rates and economic downturn



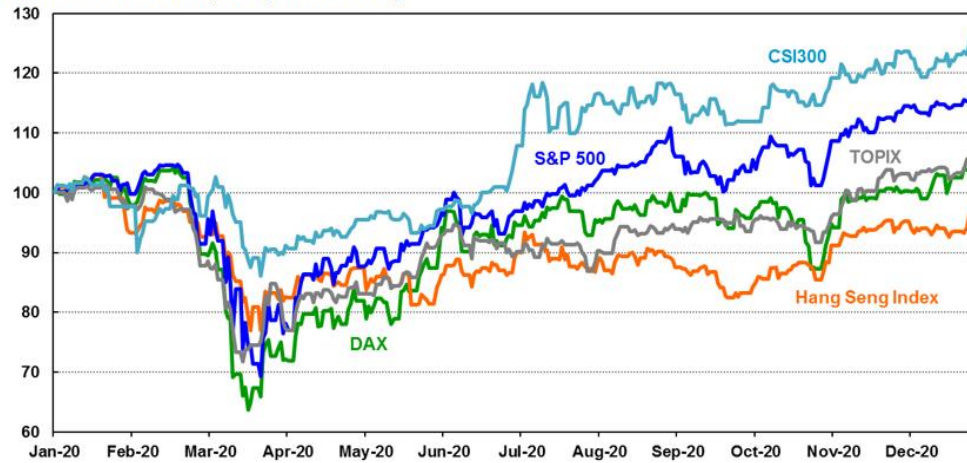
MAJOR DEVELOPED MARKETS 10-YEAR GOVERNMENT BOND YIELDS REMAINED LOW





EQUITY MARKETS REBOUNDED SHARPLY AND HOVERED AT HIGH LEVELS

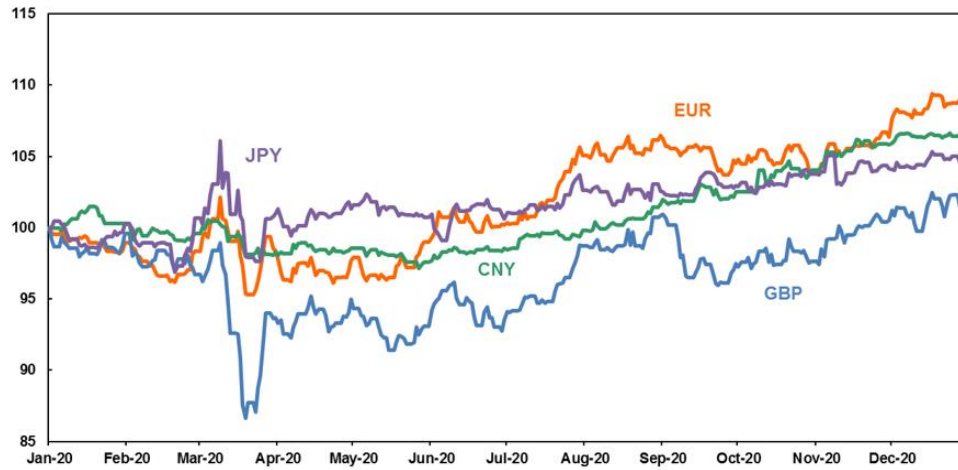
Normalised Index Level (2019 year-end = 100)





MAJOR CURRENCIES APPRECIATED AGAINST USD

Normalised FX Level Against USD (2019 year-end = 100)





INVESTMENT INCOME

	I ← 2020 → I (unaudited)			2019	2018
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	92.5	17.8	74.7	114.5	57.4
Hong Kong equities*	4.0	23.6	(19.6)	22.1	(20.7)
Other equities	69.0	84.4	(15.4)	100.7	(38.7)
Foreign exchange[#]	9.6	34.0	(24.4)	(13.0)	(9.0)
Other investments[@]	22.7	28.4	(5.7)	37.9	21.9
Investment income/(loss)	197.8	188.2	9.6	262.2	10.9

* 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 represents valuation changes up to the end of September 2020. Valuations of these investments from October to December are not yet available.



INCOME AND EXPENDITURE

	I ← 2020 → I			2019	2018
	(unaudited)				
(HK\$ billion)	Full year	H2	H1	Full year	Full year
Investment income/(loss)	197.8	188.2	9.6	262.2	10.9
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	<u>(14.5)</u>	<u>(4.3)</u>	<u>(10.2)</u>	<u>(24.8)</u>	<u>(17.9)</u>
Net income/(loss)	183.5	184.0	(0.5)	237.6	(6.8)
Fee payment to Fiscal Reserves*#	(32.6)	(14.0)	(18.6)	(53.8)	(60.2)
Fee payment to HKSAR government funds and statutory bodies*	(11.5)	(5.7)	(5.8)	(9.0)	(13.8)

* The rate of fee payment is 3.7% for 2020, 2.9% for 2019 and 4.6% for 2018.

This does not include the 2020 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2020 is available.

(The composite rate was 8.7% for 2019 and 6.1% for 2018. Fee payable to the Future Fund was HK\$24.4 billion for 2019 and HK\$16.4 billion for 2018.)



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2020	At 31 Dec 2019	Change
ASSETS	(unaudited)		
Deposits	266.3	305.9	(39.6)
Debt securities	3,239.1	2,856.6	382.5
Hong Kong equities*	206.9	194.8	12.1
Other equities	534.8	534.9	(0.1)
Other assets [#]	253.7	314.5	(60.8)
Total assets	4,500.8	4,206.7	294.1
LIABILITIES AND EQUITY			
Certificates of Indebtedness	556.2	516.1	40.1
Government-issued currency notes & coins in circulation	12.8	13.0	(0.2)
Balance of the banking system	457.5	67.7	389.8
Exchange Fund Bills and Notes issued	1,068.9	1,152.3	(83.4)
Placements by banks and other financial institutions	87.6	35.0	52.6
Placements by Fiscal Reserves [®]	881.8	1,137.5	(255.7)
Placements by HKSAR government funds and statutory bodies	342.5	328.4	14.1
Placements by subsidiaries	15.5	12.6	2.9
Other liabilities	224.9	194.7	30.2
Total liabilities	3,647.7	3,457.3	190.4
Accumulated surplus	852.4	748.7	103.7
Revaluation reserve	0.7	0.7	-
Total equity	853.1	749.4	103.7
Total liabilities and equity	4,500.8	4,206.7	294.1

* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

[#] Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$193.2 billion at 31 December 2020 (HK\$177.3 billion at 31 December 2019).

[®] Including placements by the Future Fund of HK\$205.0 billion (HK\$224.5 billion at 31 December 2019).



HISTORICAL INVESTMENT INCOME

(HK\$ billion)

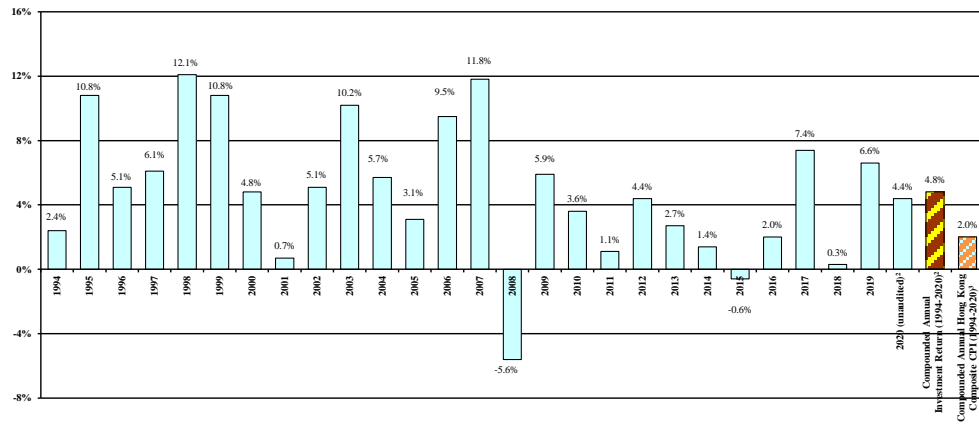
Year	Full Year	Q4	Q3	Q2	Q1
2001	7.4	13.6	10.4	(2.0)	(14.6)
2002	47.0	26.3	(2.1)	26.5	(3.7)
2003	89.7	33.5	8.4	41.1	6.7
2004	56.7	33.0	14.1	(7.2)	16.8
2005	37.8	7.3	19.0	13.6	(2.1)
2006	103.8	36.0	37.1	12.5	18.2
2007*	142.2	33.4	61.8	26.3	20.7
2008*	(75.0)	8.3	(48.3)	(20.4)	(14.6)
2009**	107.7	10.6	71.9	58.7	(33.5)
2010**	79.4	5.9	74.5	(12.1)	11.1
2011**	27.1	22.1	(41.4)	21.6	24.8
2012**	111.6	30.3	42.4	(5.6)	44.5
2013**	81.2	30.7	54.7	(23.3)	19.1
2014**	44.7	6.1	(17.8)	43.3	13.1
2015**	(15.8)	21.0	(63.8)	18.7	8.3
2016**	68.1	(23.3)	47.1	18.9	25.4
2017**	264.0	66.0	61.8	71.3	64.9
2018**	10.9	(33.6)	9.5	-	35.0
2019**	262.2	60.3	23.5	45.0	133.4
2020** (unaudited)	197.8	107.0	81.2	121.6	(112.0)

* Excluding valuation changes of the Strategic Portfolio

** Including valuation changes of private equity and real estate investments held under the LTGP



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2020)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 2020. The audited full year return will be disclosed in the annual report of 2020 to be released later this year.

³ Composite CPI is calculated based on the 2014/2015-based series.



HONG KONG MORTGAGE CORPORATION



SME FINANCING GUARANTEE SCHEME

- Special 100% Loan Guarantee:
 - As of 15 January 2021, over 26,200 applications were approved, amounting to about HK\$41 billion. Among these applications, almost 9,000 benefited from the enhanced scheme, totalling about HK\$13 billion
 - During the period, around 16,400 applications have chosen the principal moratorium option
- 80% and 90% Guarantee Products:
 - In 2020, over 4,700 applications were approved, with total loan amount of about HK\$15 billion
 - Around 1,500 loans have chosen the principal moratorium option



MORTGAGE INSURANCE PROGRAMME (MIP)

- Revisions to MIP made with effect from 16 October 2019:
 - The cap on the value of a property eligible for the MIP has been raised (applicable to completed residential properties only)
 - A first-time homebuyer is still eligible to apply even if he or she cannot meet the stress test
 - The maximum debt-to-income ratio for all MIP loans is set at 50%
- As of 15 January 2021, around 38,000 applications under the new coverage were approved, with over 90% being first-time homebuyers
- Principal moratorium or extension of repayment schedules available to borrowers to help reduce their repayment burden



FIXED-RATE MORTGAGE PILOT SCHEME

- The application period of the Fixed-rate Mortgage Pilot Scheme has been extended to 30 October 2021
- Fixed mortgage rates for 10, 15 and 20 years have been lowered to 1.99%, 2.09% and 2.19% per annum respectively
- 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 is not required, but the current requirement on debt-to-income ratio is still applicable
- Since the launch of the Pilot Scheme, applications with loan amount totalling over HK\$100 million have been received



REVERSE MORTGAGE PROGRAMME (RMP)

- As of 15 January 2021, 4,450 RMP applications were received:
 - Average age of borrowers: 68 years old
 - Average monthly payout: HK\$16,200
 - Payment terms: 10-year (23.7%); 15-year (15.2%); 20-year (12.5%); life (48.6%)
 - Average property value: HK\$5.6 million
 - Average property age: 30 years



HKMC ANNUITY PLAN

- Received a total premium amount of around HK\$2.5 billion in 2020, an increase of 56% over 2019
- The average premium amount also rose by 31% to HK\$970,000
- Detailed business results:

	2019 FY	2020 FY
No. of policies issued	2,188	2,606
Total premium amount	HK\$1.6 bn	HK\$2.5 bn
Average premium amount	HK\$750,000	HK\$970,000