



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

**30 November 2022
[Translation]**



1. Assessment of Risk to Hong Kong's Financial Stability

2. Banking Supervision

3. Development of Financial Market

4. Financial Infrastructure

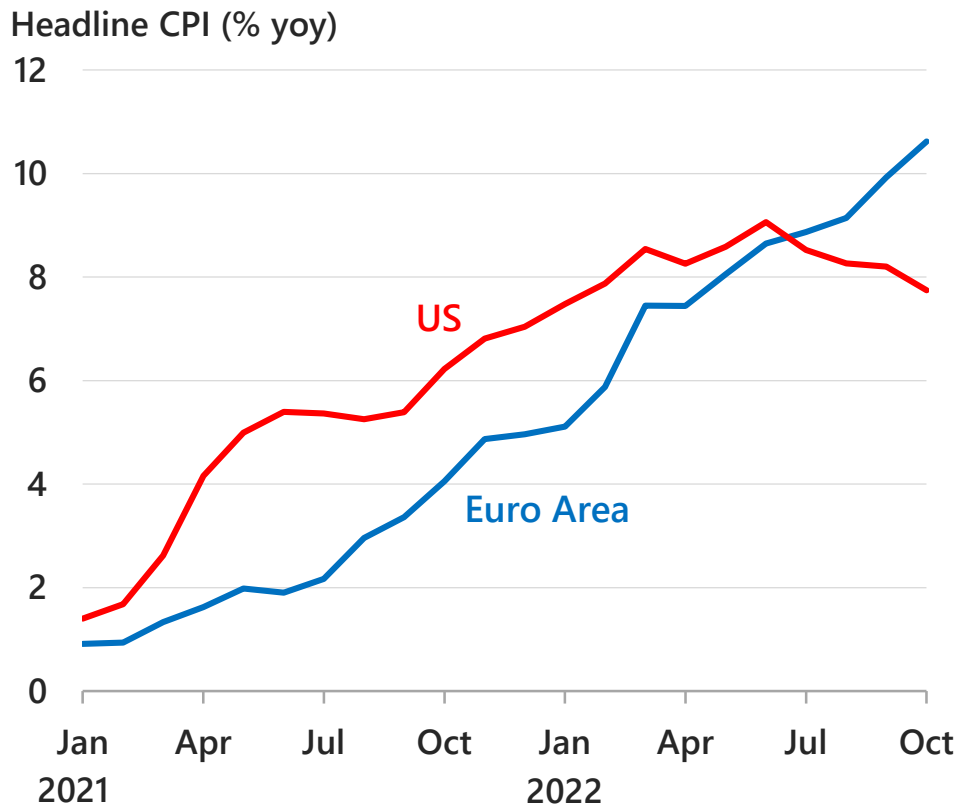
5. Investment Performance of the Exchange Fund

6. Hong Kong Mortgage Corporation

FED and ECB may keep rates elevated amid the threat from high inflation

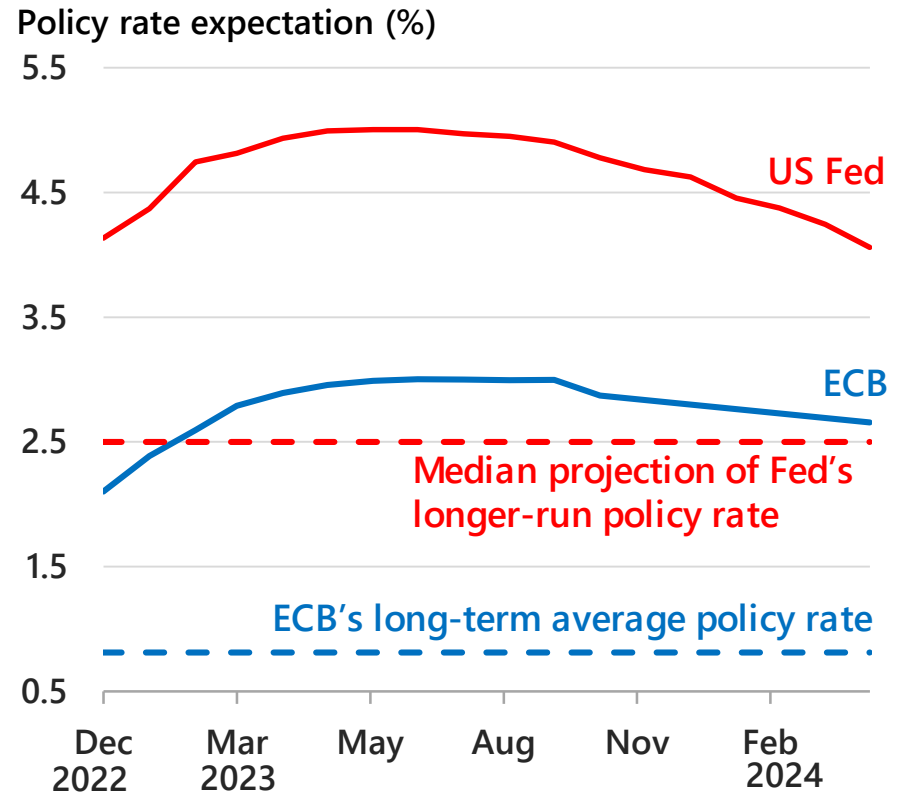


Inflation remains high in the US and Europe



Source: CEIC

Markets expect policy rates in the US and Europe to stay elevated



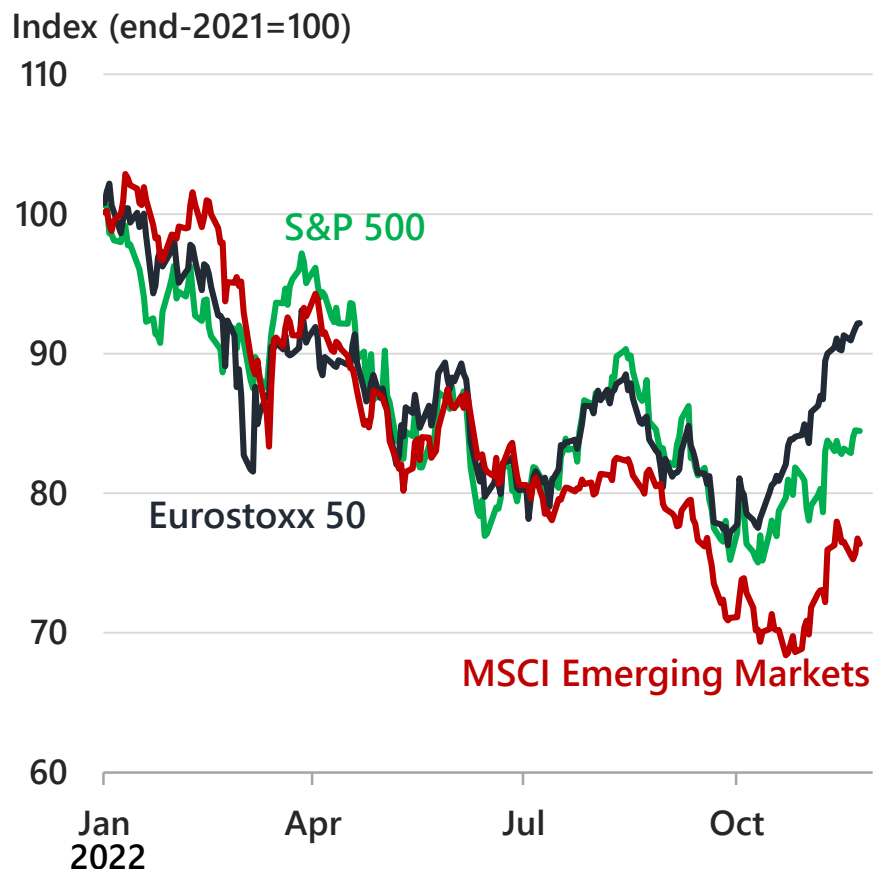
Note: Market expectations as of 25 November; ECB's long-term average policy rate refers to that from January 1999 to date.

Source: Bloomberg

Global equity markets are volatile while bond markets are facing increasing pressure

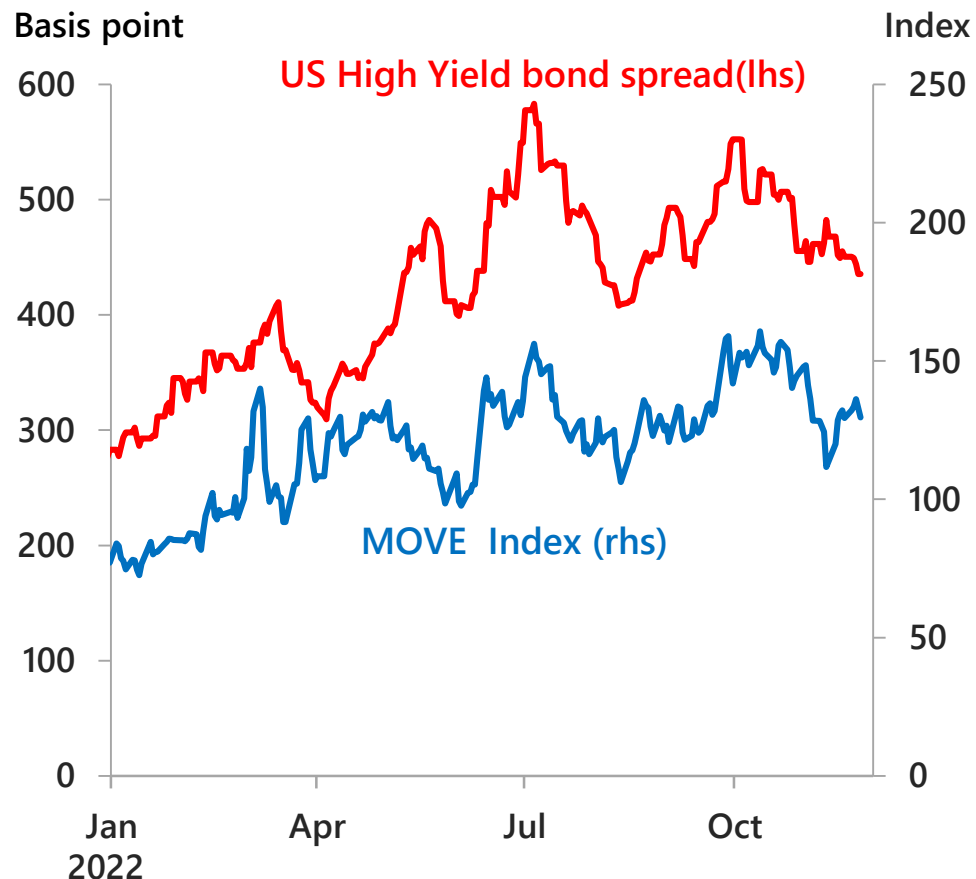


Choppy global equity markets



Source: Bloomberg

US bond markets are volatile

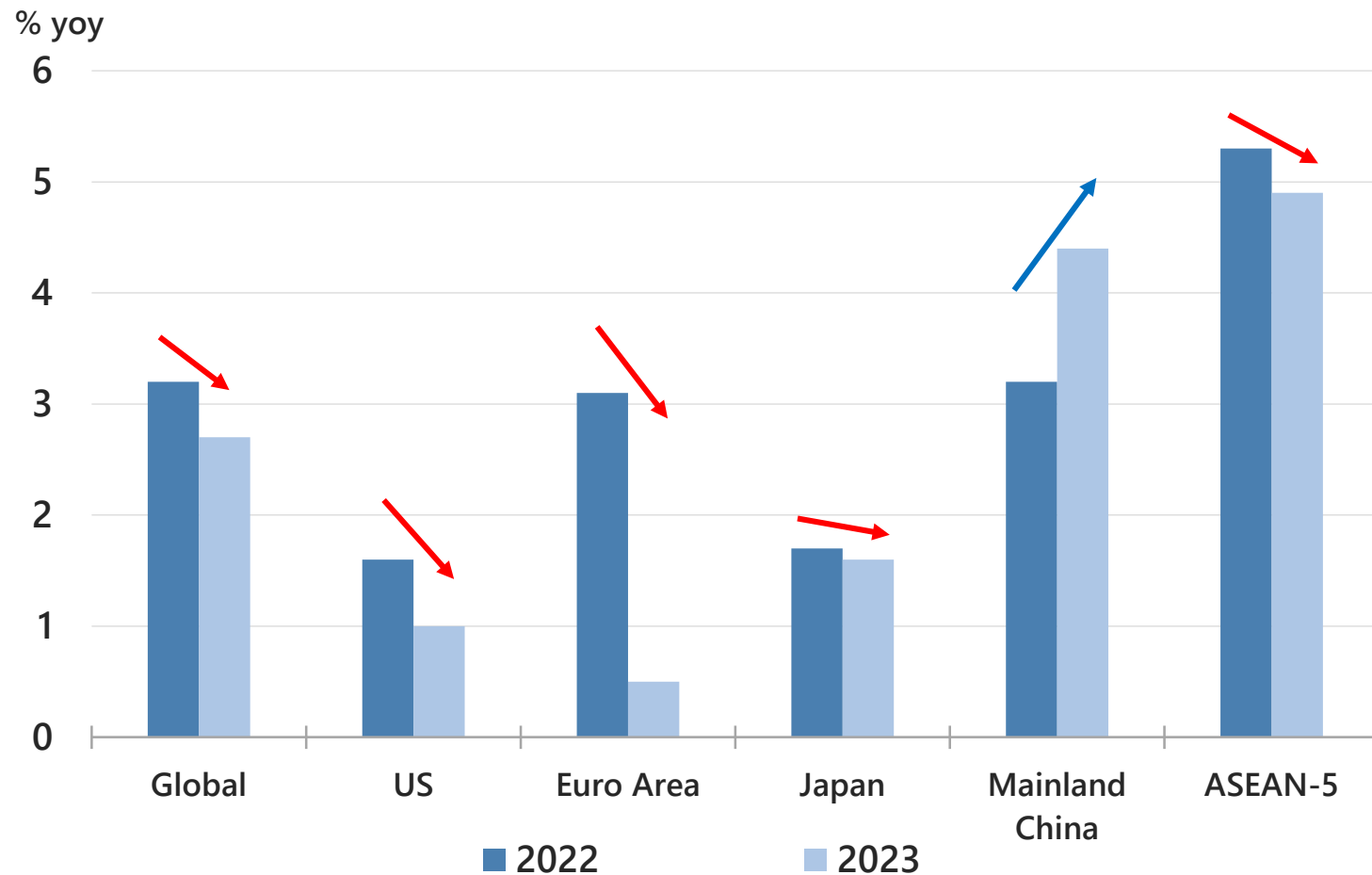


Source: Bloomberg

Global economic growth expected to soften next year



International Monetary Fund's real GDP growth projections



Note: ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Source: International Monetary Fund

Asia-Pacific region facing pressure on multiple fronts as the external environment worsens



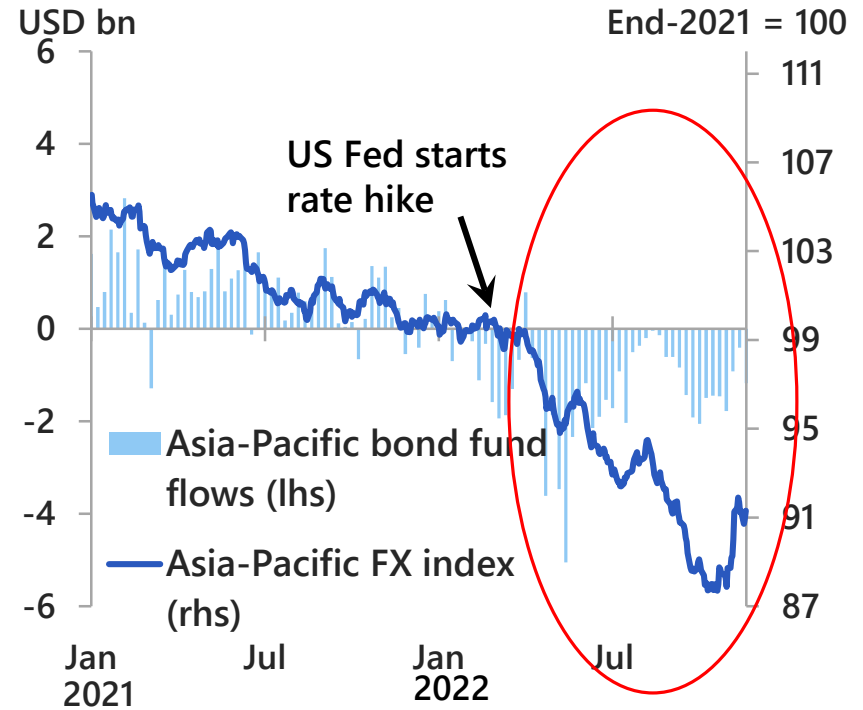
Asia-Pacific export growth softens



Note: Asia-Pacific includes Australia, Mainland China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. Asia-Pacific export growth refers to the average year-on-year export growth in the above economies.

Source: CEIC

Bond funds register outflows, regional currencies weaken



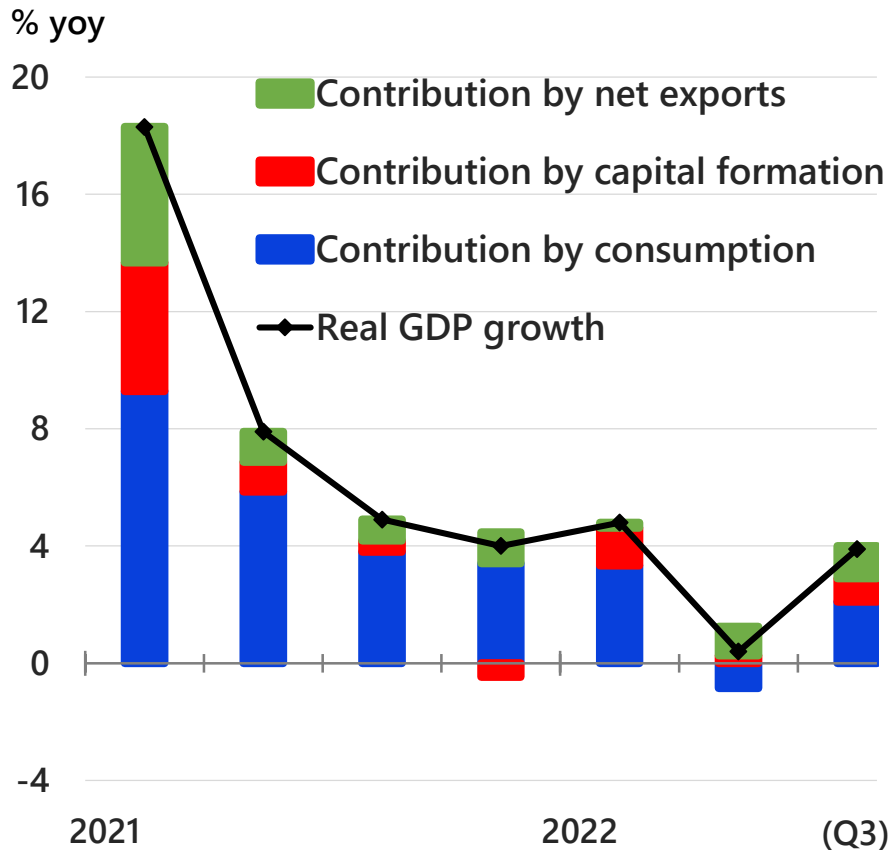
Note: Asia-Pacific FX index is the simple average of LCY/USD index of the individual economies' currencies. Smaller index value means weaker local currency vis-à-vis USD.

Sources: Bloomberg and EPFR

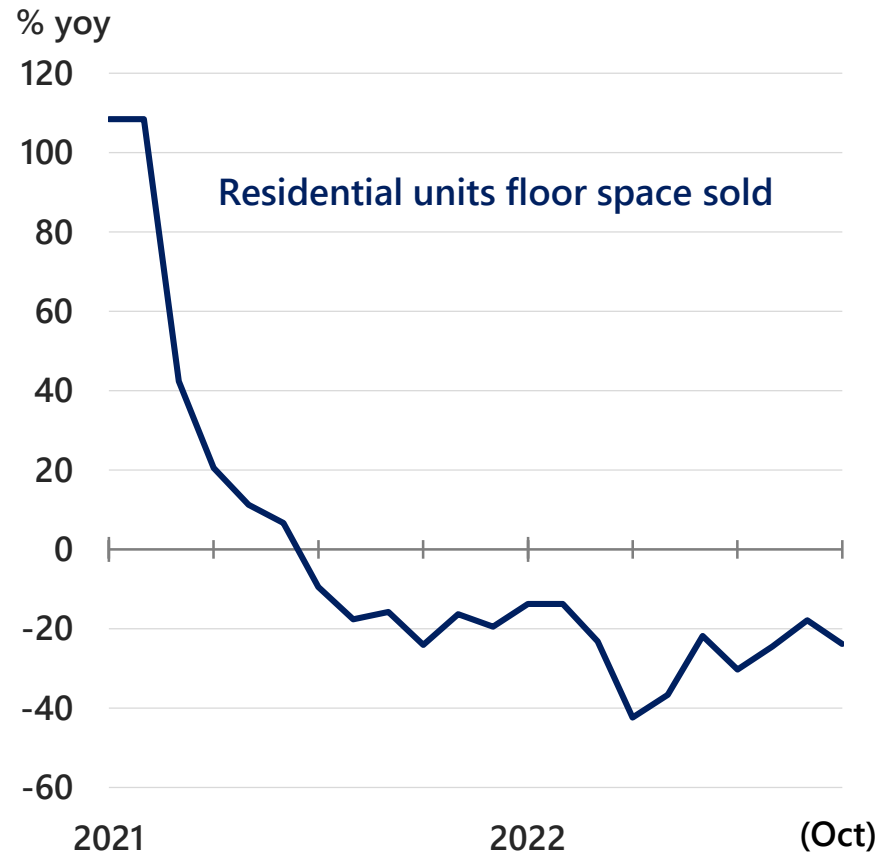
Mainland growth softens while the property market remains weak



Economic growth softens



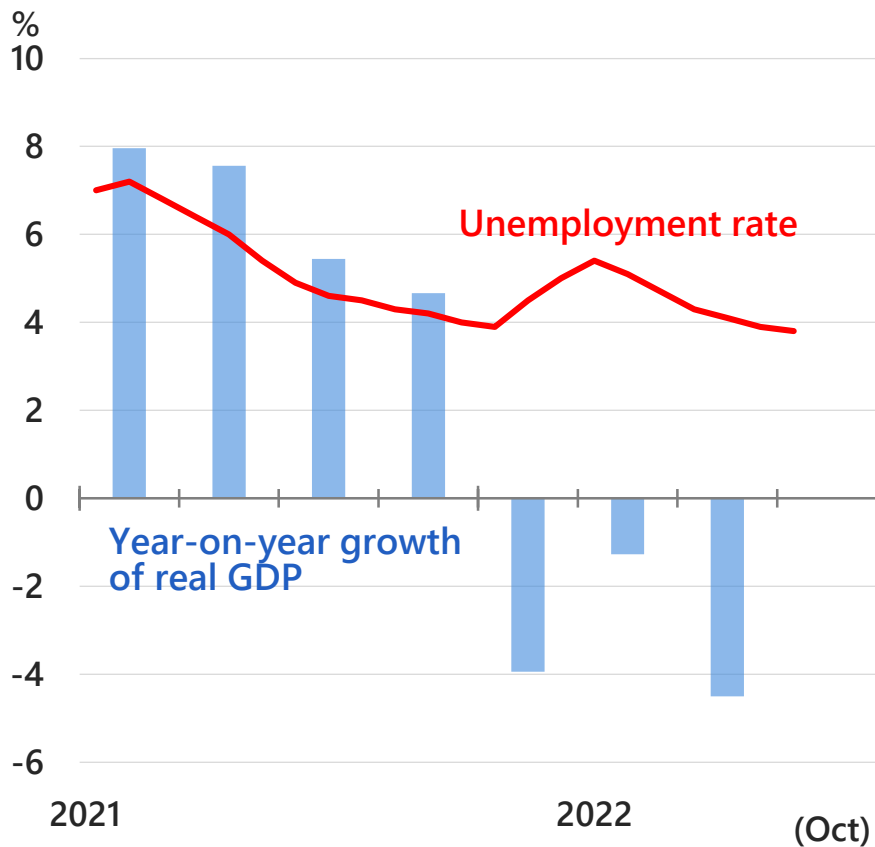
Property market sales remain subdued



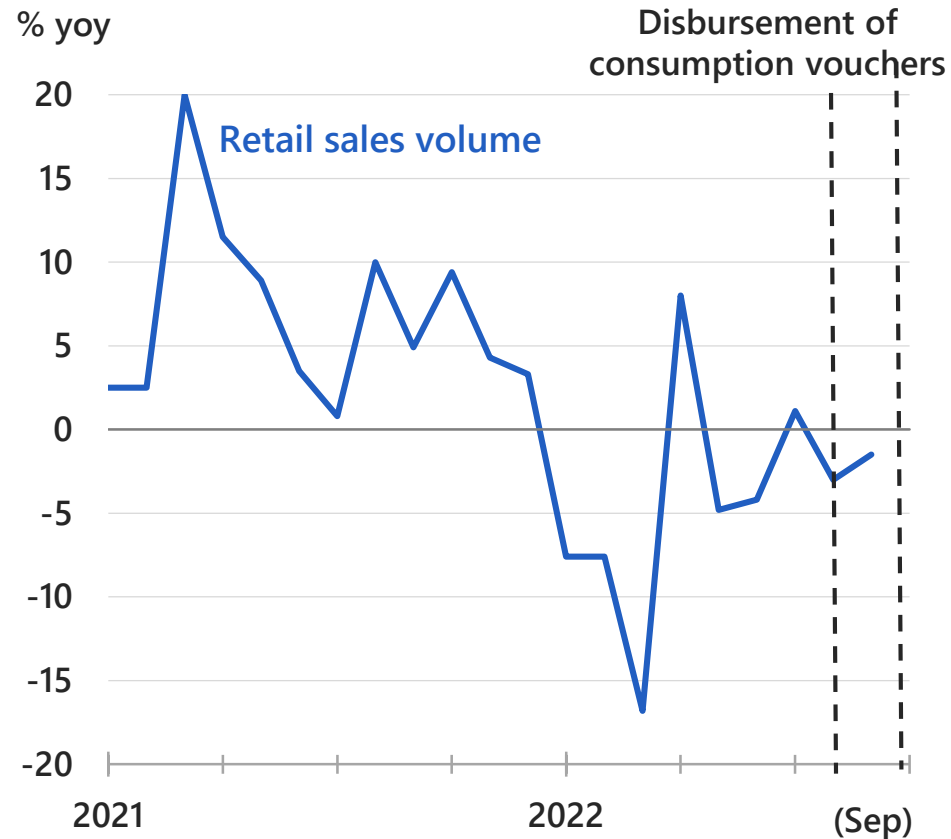
Hong Kong's economic activities under pressure



Economic activities have not yet recovered fully

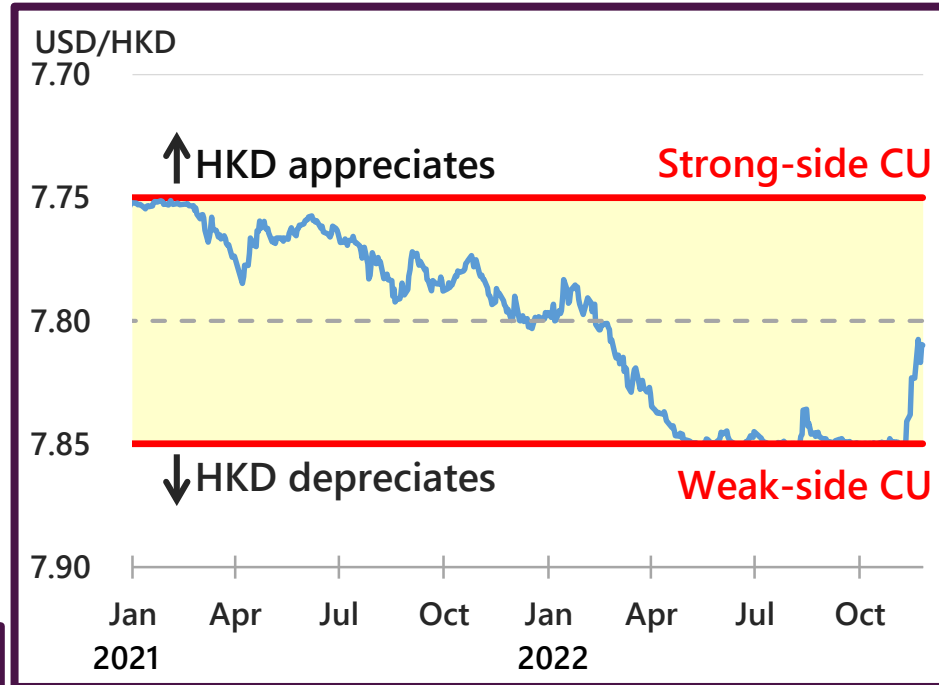
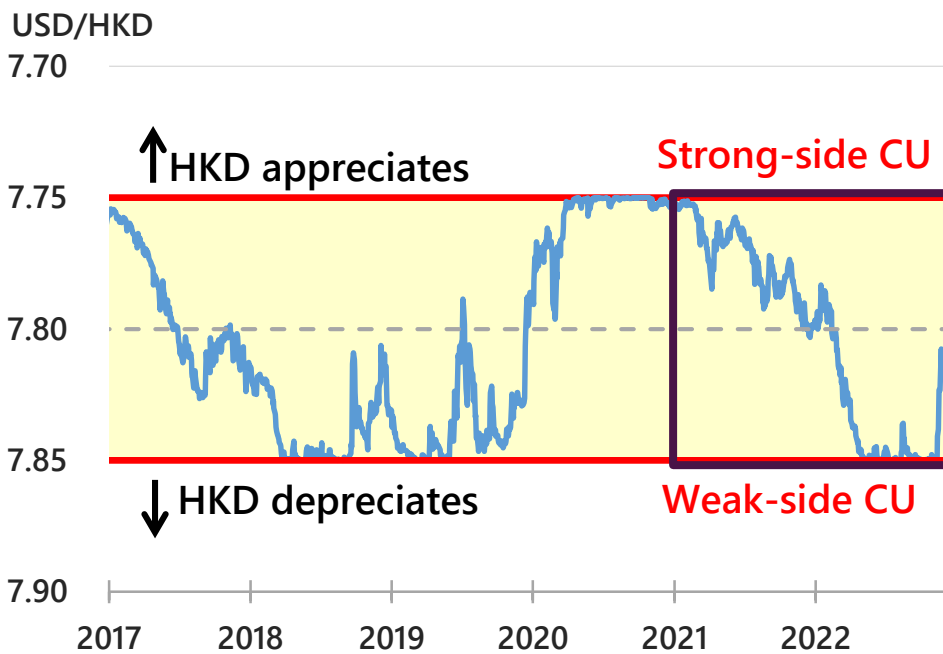


Retail sales stabilise somewhat



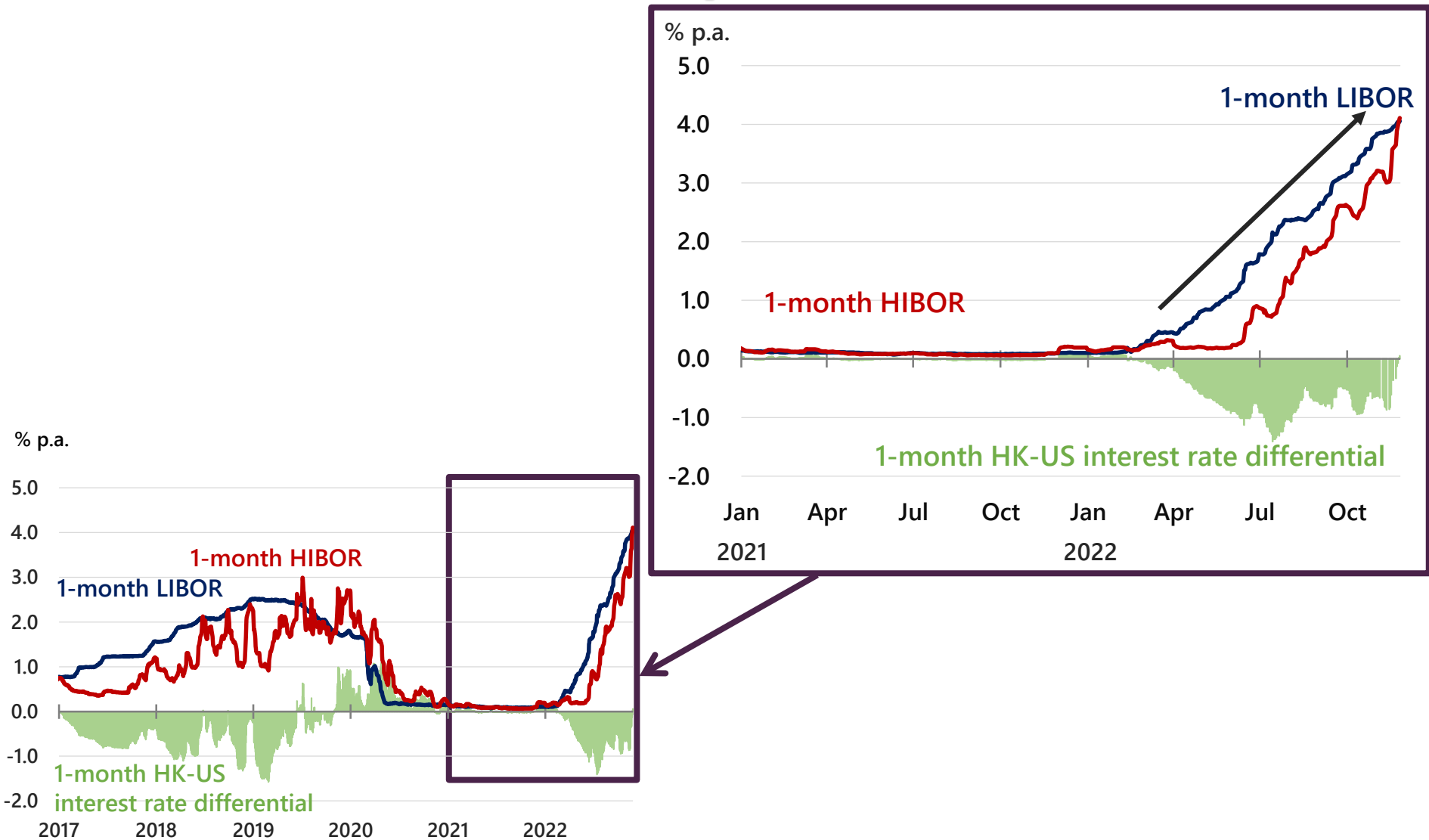
Note: Since the retail sales figures in January and February were more volatile due to the timing of the Lunar New Year, figures for the two months have been combined for analysis.

Assessment of risks to Hong Kong's financial stability: HKD softened but rebounded recently



Year	Trigger of weak-side CU	Purchase of HKD (HK\$ bn)
2018 Apr – Aug	27 times	103.5
2019 Mar	8 times	22.1
2022 May - Nov	41 times	242.1

Assessment of risks to Hong Kong's financial stability: Hong Kong interest rates rose in tandem with US counterparts



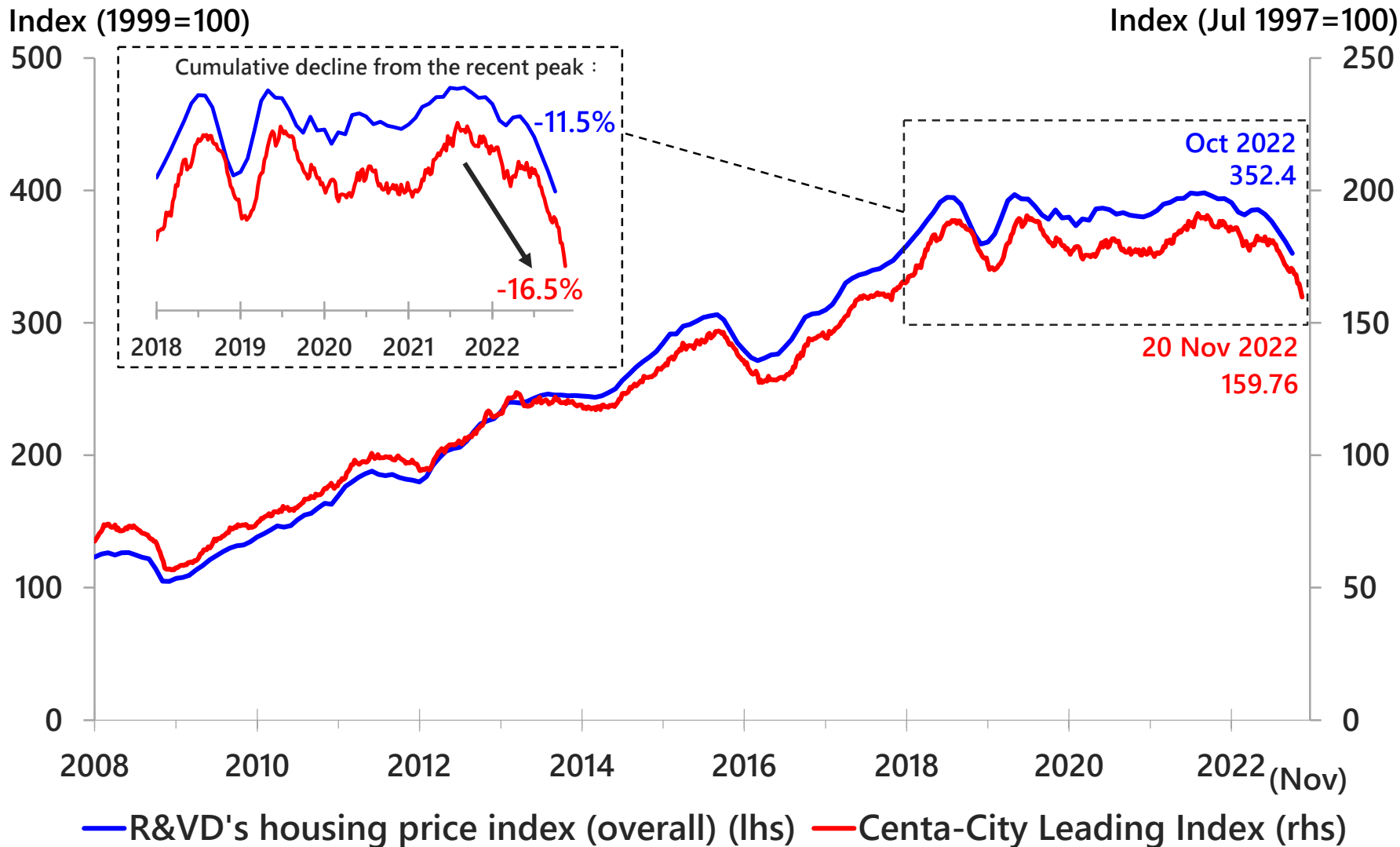
Assessment of risks to Hong Kong's financial stability: Bank deposits remain stable



Change during the period(%)

	Total deposits	HKD deposits
First half of 2022	+0.4%	+2.3%
July	+0.2%	-0.7%
August	0.0%	-0.9%
September	0.0%	-1.1%
Year to end-September	+0.6%	-0.5%

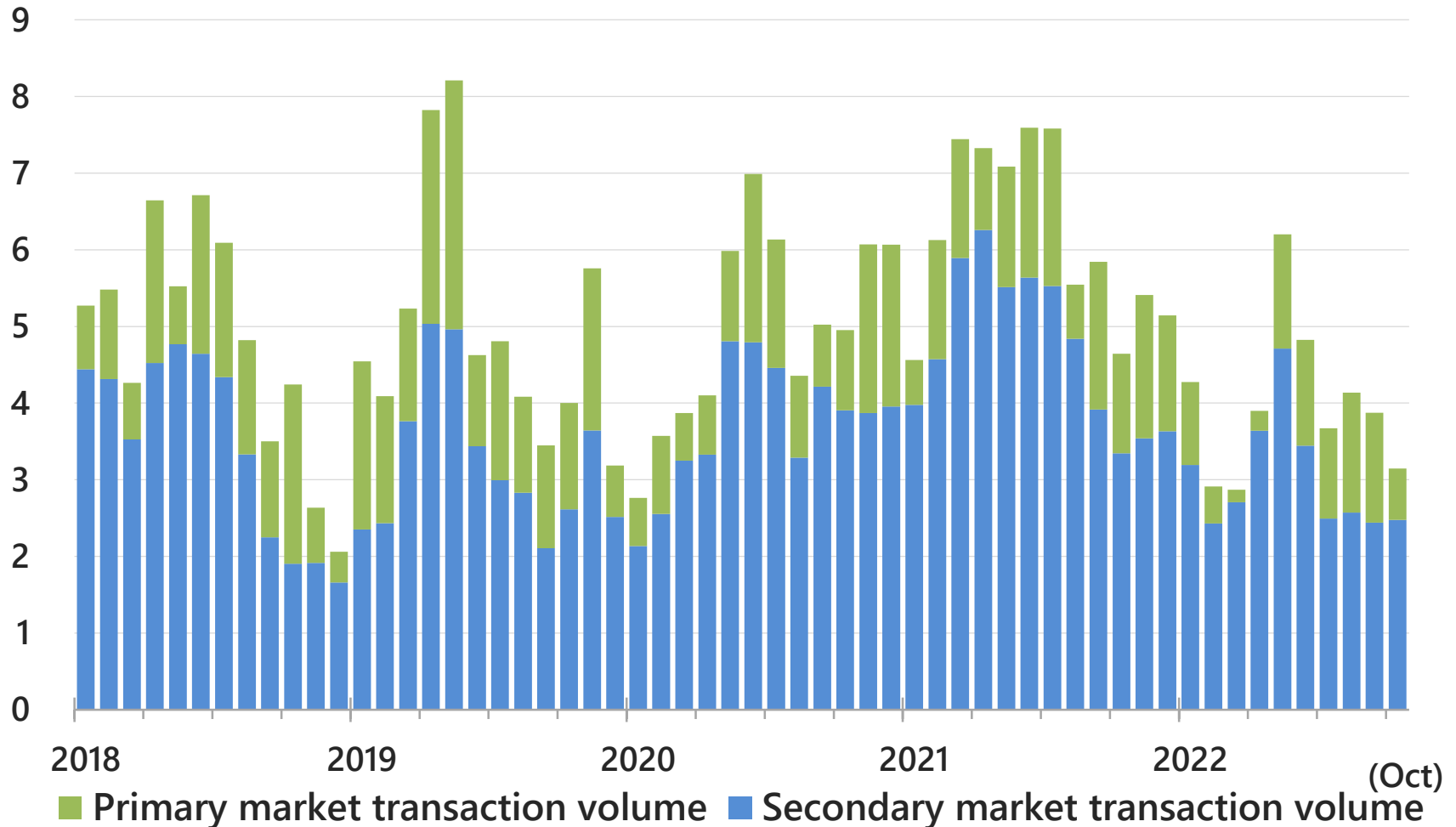
Assessment of risks to Hong Kong's financial stability: Property prices decline



Assessment of risks to Hong Kong's financial stability: Property transactions drop



Number of transactions ('000)



Hong Kong's financial system remains robust



- With elevated inflation, central banks in the US and Europe may maintain their monetary tightening for a longer time, increasing downside risks to the global economy
- As global liquidity tightens, financial markets may continue to experience high volatilities, and some economies, especially emerging markets, may see debt problems
- While the labour market and consumption activities stabilise somewhat, the Hong Kong economy has not yet fully recovered, with the outlook facing a host of uncertainties from the external environment
- As HIBORs gradually rise alongside LIBORs, the public should carefully assess the relevant risks when making investment and borrowing decisions
- Hong Kong's financial system has strong buffers and resilience to counter adverse shocks. The HKMA also has the capability and commitment to safeguard the monetary and financial stability of Hong Kong

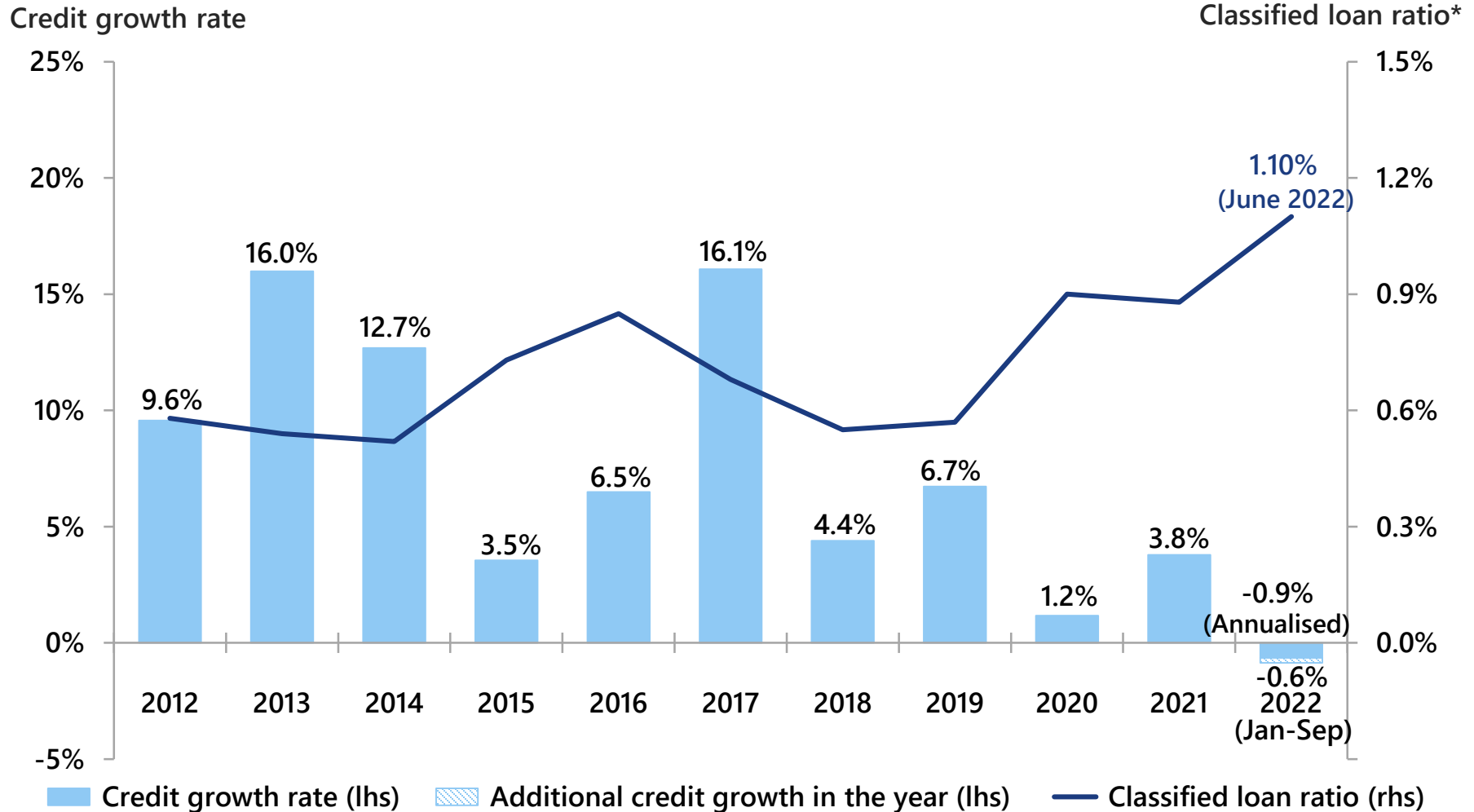


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Banking sector performance

Loan growth slowed, while asset quality stays at healthy levels



* Classified loan ratio of all authorized institutions

Source: HKMA



Supporting the SMEs

Pre-approved Principal Payment Holiday Scheme

- Announced in October the extension of the Scheme by six months to July 2023
- Enhanced the partial principal repayment arrangement by introducing a two-year 50% principal repayment option
- Participation rate of eligible corporates dropped to 2.1% from 16% at the initial stage



International standards implementation

Basel III final reforms

- Adjustment of implementation timelines
- Q2 2023: Amendments to Banking (Capital) Rules and Banking (Disclosure) Rules

Consequential and other updates

- Q2 2023: Amendments to Banking (Exposure Limits) Rules and Banking (Liquidity) Rules

Facilitative measures for reactivation of Mainland bank accounts



- Provided guidance to banks to encourage facilitative measures for reactivating Mainland bank accounts
- Hong Kong banks and relevant Mainland banks successively introduced various facilitative measures
- Around 500,000 Mainland bank accounts of Hong Kong customers have been reactivated
- Number of requests for assistance received by Hong Kong banks: Around 12,000, of which around 10,000 have been resolved
- Number of requests for assistance received by the HKMA: 31, of which 28 have been resolved

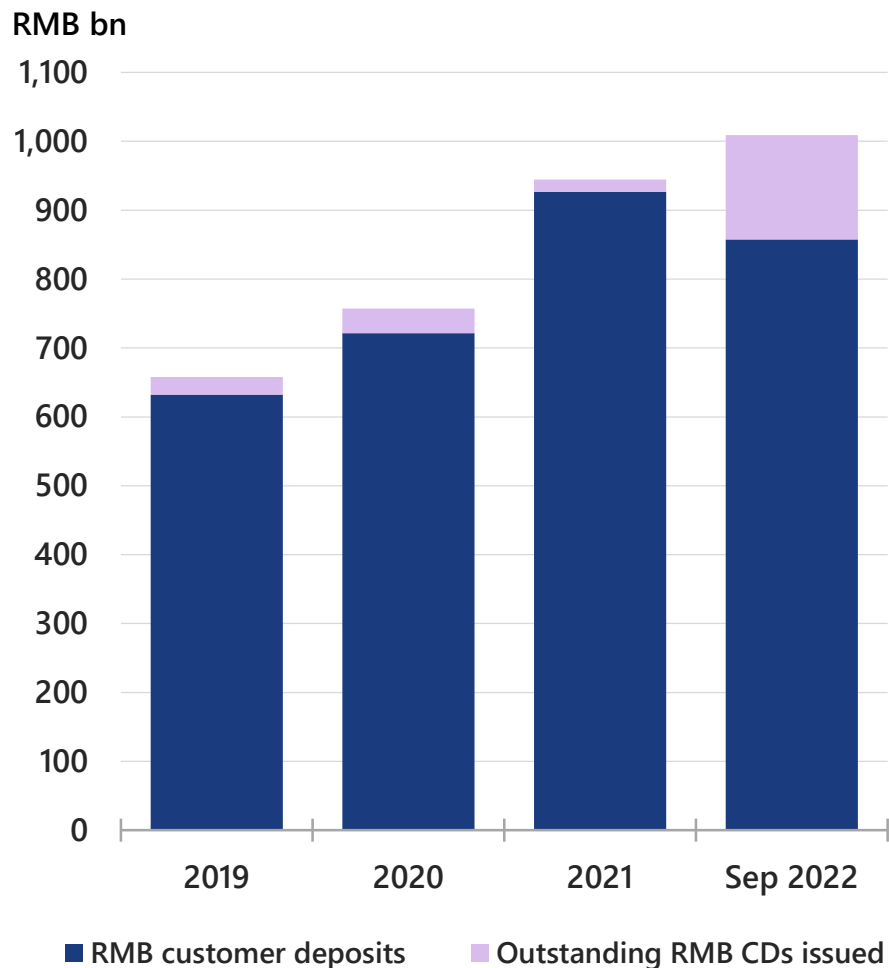


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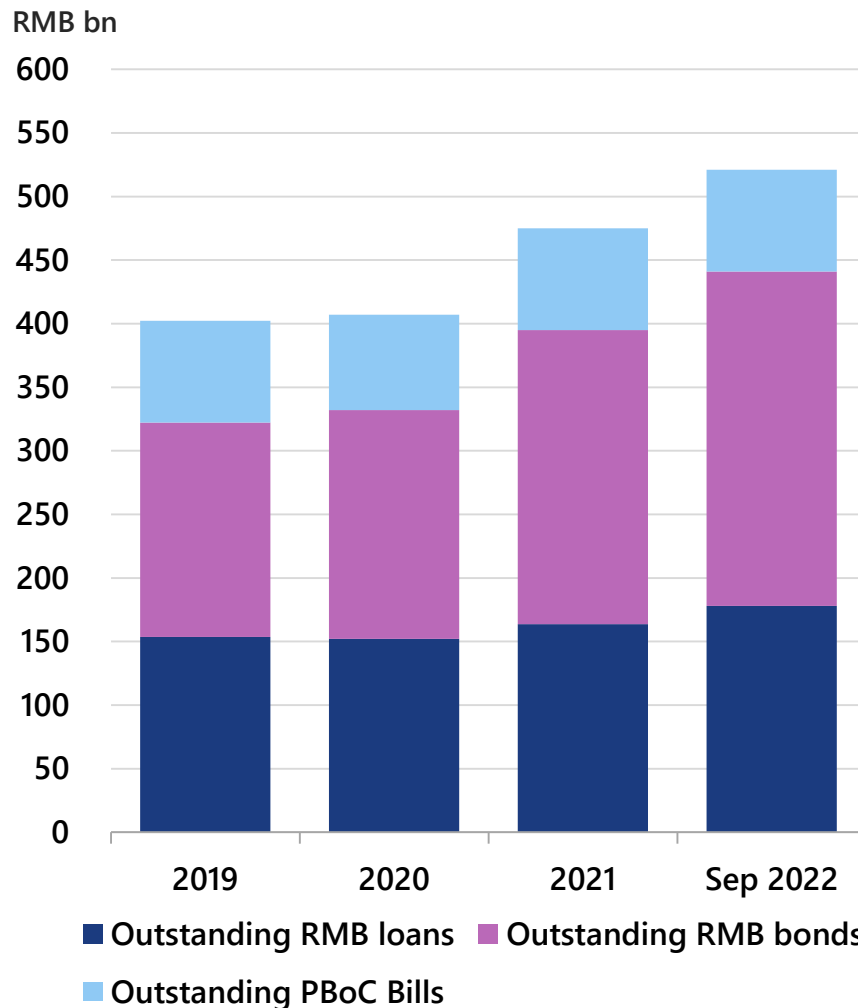
Hong Kong's offshore renminbi (RMB) business recorded steady growth



RMB liquidity pool continued to expand



RMB financing activities remained active





Mutual market connect schemes

- **Northbound Trading under Bond Connect** remained active. In the first ten months of 2022, average daily turnover amounted to RMB32.3 billion, up by 27% year on year. **Southbound Trading** has been smooth and well received by the market
- **Cross-boundary Wealth Management Connect** has been operating smoothly. To date, 24 eligible Hong Kong banks have launched services. We are liaising closely with Mainland authorities on enhancement measures (e.g. expanding the scope of eligible products and improving sales arrangements)
- Preparation for **Swap Connect** is under way, with a view to launching Northbound Trading of interest rate swaps as soon as practicable
- **Dual-counter market maker regime** to facilitate the trading of Hong Kong-listed stocks in RMB is making good progress, with target launch in 1H 2023
- Mainland authorities expressed support for **deepening the cooperation between financial markets in Hong Kong and the Mainland**. We will actively pursue, in collaboration with concerned agencies, the relevant initiatives, including broadening the scope of Southbound Trading of Stock Connect to include RMB counters as well as Hong Kong-listed foreign companies, and the launch of offshore China Treasury bond futures

Developing Hong Kong's financial platform



Outreach

- The Global Financial Leaders' Investment Summit was held successfully and achieved its expected outcomes. Many global financial institutions are preparing to organise their board or senior management meetings in Hong Kong and resuming flagship international or regional events here, as well as promoting Hong Kong's development opportunities internally

Green finance

- Total green and sustainable bonds and loans issued in Hong Kong quadrupled from a year ago to reach US\$57 billion in 2021*
- The Green and Sustainable Finance Cross-Agency Steering Group has set up the Centre for Green and Sustainable Finance to strengthen the talent and data related work with a view to enhancing the capacity building on green finance
- The HKMA continues to assist the Government in administering the Green and Sustainable Finance Grant Scheme to attract more green and sustainable financing activities to Hong Kong. By November 2022, the scheme has provided financial support for over 170 green and sustainable debt instruments issued in Hong Kong, covering both pre-issuance and post-issuance external review expenses
- The HKMA is working with the Government to prepare for the launch of the Pilot Green and Sustainable Finance Capacity Building Support Scheme later this year, to provide subsidies for the training and acquisition of relevant professional qualifications in sustainable finance

Asset and wealth management

- The HKMA is supporting FSTB in the drafting of the family office tax concession bill, with a view to introducing the draft bill into the Legislative Council in Q4 2022



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Financial infrastructures and fintech initiatives



Financial Infrastructures

- Operation of all financial infrastructures remains safe and efficient
- Number of registrations and turnover of the Faster Payment System growing steadily
- Enhancement work of the Central Moneymarkets Unit in good progress

Fintech Initiatives

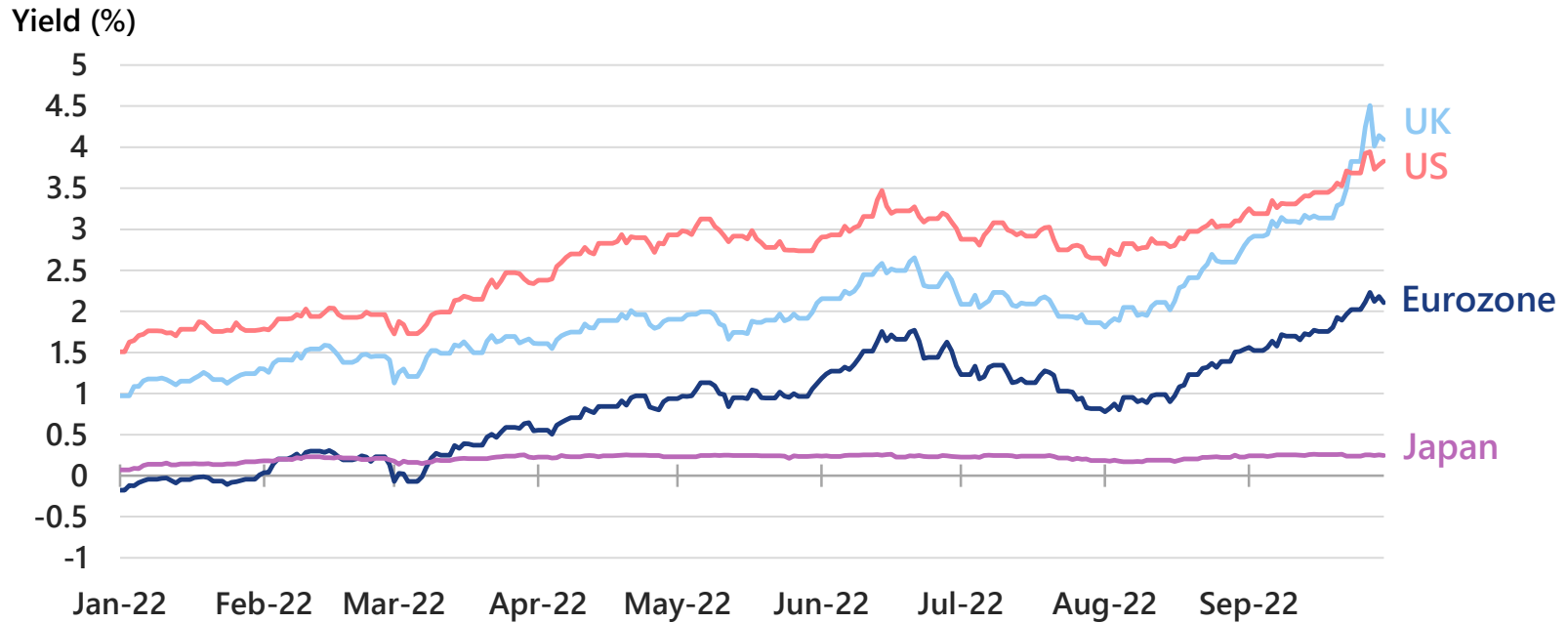
- Successfully completed six-week pilot using wholesale Central Bank Digital Currency (CBDC) under Project mBridge in Q3 2022 on international trade settlement use cases, involving four jurisdictions and real-value transactions
- Released study findings and position paper on retail CBDC, i.e. e-HKD, in September 2022, started making preparations for possible future issuance of e-HKD through a three-rail approach
- Production launch of Commercial Data Interchange in October 2022



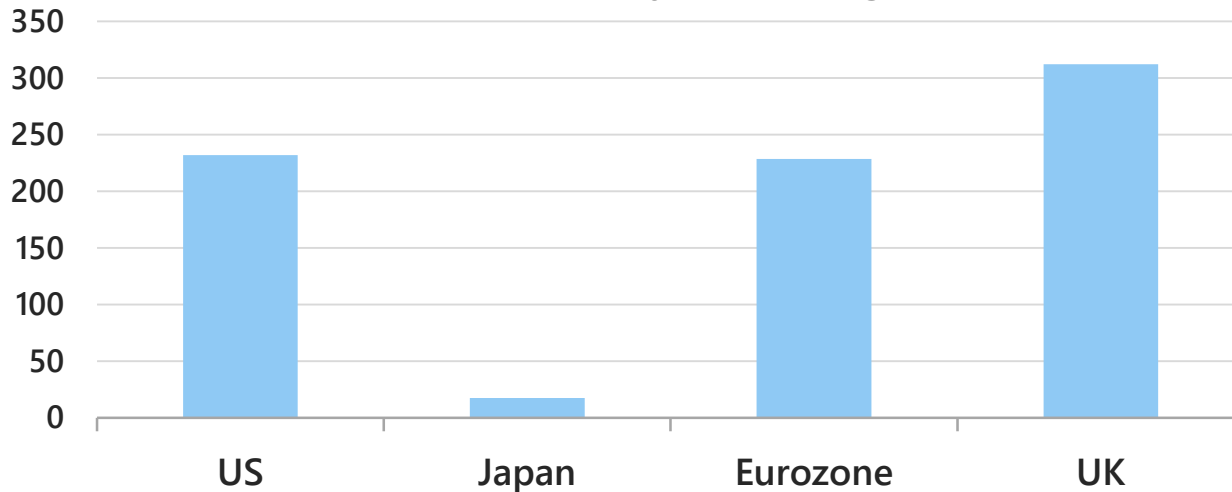
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Major sovereign bond yields surged



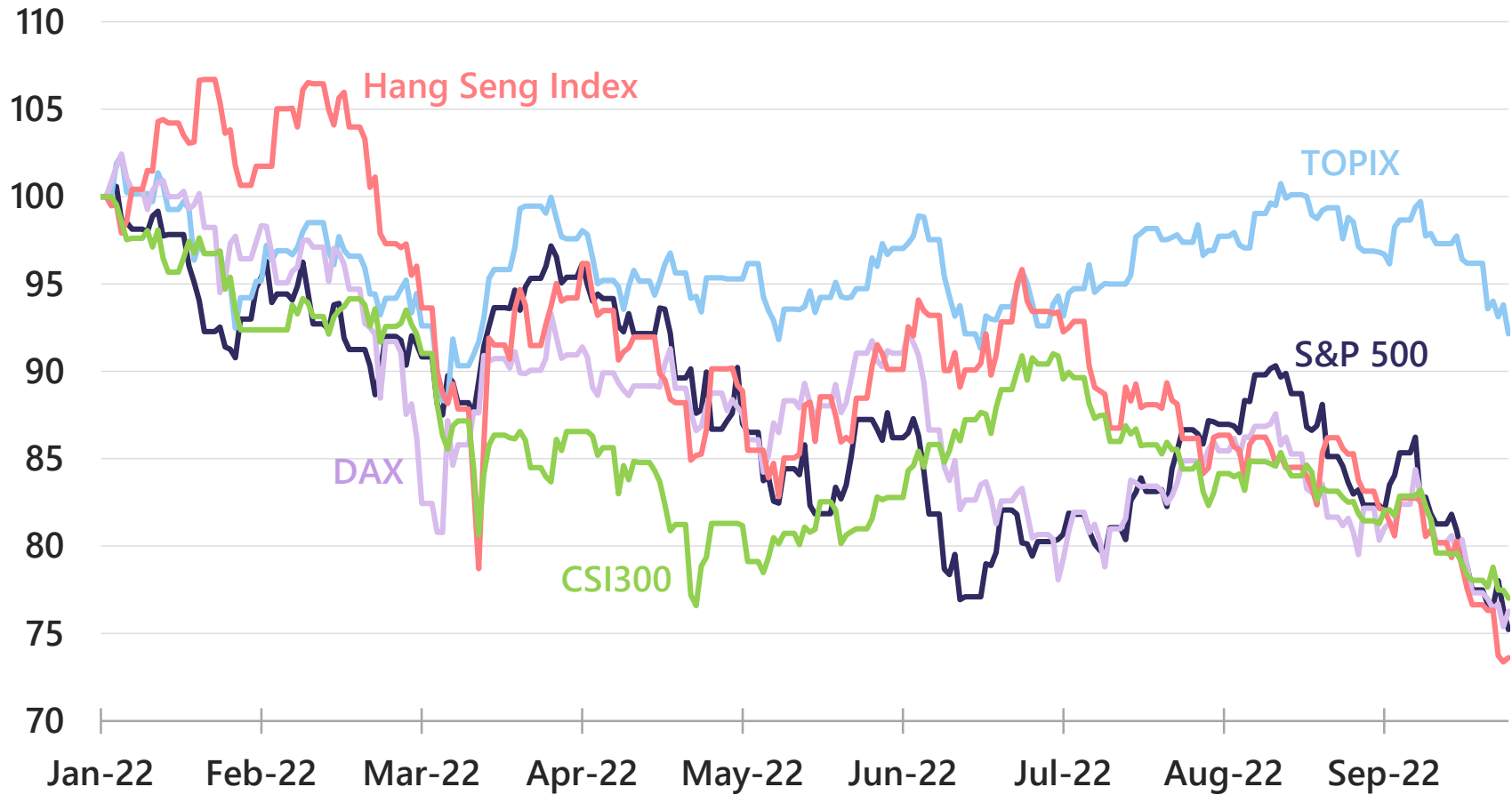
2022 Q1 - Q3 bond yield change (bps)





Major equity markets dipped

Normalised Index Level (2021 year-end = 100)



Extremely challenging investment environment



- The investment environment was extremely harsh in the first three quarters of 2022, with prices of multiple asset classes falling at the same time, reducing the conventional complementary effects of bonds and equities. This was also the only time in almost half a century where returns from equities, bonds and FX all recorded negative returns simultaneously
- Worse still, the magnitude of the fall in asset prices was significant. US Treasuries and major non-dollar currencies posted their worst performance in nearly half a century, while US equities also posted their third-worst performance

Performance of different indices in a given year

Asset class		1974	1977	1981	1990	2000	2001	2002	2008	2011	2015	2018	2022 (Jan-Sep)
Equity	MSCI World	-27.8%	-2.5%	-7.9%	-18.7%	-14.1%	-17.8%	-21.1%	-42.1%	-7.6%	-2.7%	-10.4%	-26.4%
	S&P 500 Index	-29.7%	-11.5%	-9.7%	-6.6%	-10.1%	-13.0%	-23.4%	-38.5%	0.0%	-0.7%	-6.2%	-24.8%
	Hang Seng Index	-60.5%	-9.8%	-4.6%	6.6%	-11.0%	-24.5%	-18.2%	-48.3%	-20.0%	-7.2%	-13.6%	-26.4%
Bonds	Bloomberg US Treasury Index	7.1%	2.7%	9.2%	8.5%	13.5%	6.7%	11.8%	13.7%	9.8%	0.8%	0.9%	-12.8%
FX (vs USD)	EUR	N/A	5.9%	-16.8%	13.3%	-6.3%	-5.6%	18.0%	-4.2%	-3.2%	-10.2%	-4.5%	-13.8%
	GBP	1.1%	12.7%	-19.8%	19.7%	-7.7%	-2.6%	10.7%	-26.5%	-0.4%	-5.4%	-5.6%	-17.5%
	JPY	-6.9%	22.1%	-7.6%	5.9%	-10.4%	-13.1%	10.8%	23.2%	5.5%	-0.5%	2.8%	-20.5%



Maintaining defensive measures

- The majority of mixed-asset funds in the market, irrespective of their investment strategies (i.e. with different bond to equity ratios), suffered significant losses of more than 20% in the first three quarters of 2022
- The Exchange Fund registered loss of around 6% of its assets over the same period

Common investment portfolios in the market	Investment return Q1 to Q3 2022*
20% bonds, 80% equities (more aggressive allocation)	-25%
50% bonds, 50% equities (balanced allocation)	-23%
80% bonds, 20% equities (more conservative allocation)	-21%
Exchange Fund	Around -6%

* Assuming investment portfolios of different equity-bond mixes being invested in the Bloomberg Global Aggregate Total Return Index and MSCI All Country World Index

Investment income



	← 2022 →		2021	2020
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full Year	Full Year
Hong Kong equities*	(35.8)	(27.3)	(21.0)	4.0
Other equities	(92.4)	(19.2)	68.8	69.9
Bonds	(78.7)	(22.8)	12.6	92.7
Foreign exchange#	(43.6)	(30.8)	16.8	9.6
Other investments@	(15.0)	-	114.7	59.6
Investment (loss)/income	(265.5)	(100.1)	191.9	235.8

* Excluding valuation changes of the Strategic Portfolio

This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. This figure reflects the valuations at the end of June 2022. Valuation changes of these investments from July to September are not yet available



Income and expenditure

	← 2022 →		2021	2020
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
Investment (loss)/income	(265.5)	(100.1)	191.9	235.8
Other income	0.1	-	0.2	0.2
Interest and other expenses	<u>(8.6)</u>	<u>(4.5)</u>	<u>(6.1)</u>	<u>(14.6)</u>
Net (loss)/income	(274.0)	(104.6)	186.0	221.4
Fee payment to Fiscal Reserves*#	(28.4)	(8.0)	(93.0)	(69.8)
Fee payment to HKSAR Government funds and statutory bodies*	(16.1)	(5.5)	(16.8)	(11.5)

* The rate of fee payment is 5.6% for 2022, 4.7% for 2021 and 3.7% for 2020

This does not include the 2022 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2022 is available (The composite rate was 17.8% for 2021 and 12.3% for 2020. Fee payable to the Future Fund was HK\$58.6 billion for 2021 and HK\$37.2 billion for 2020)



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Mortgage Insurance Programme (MIP)

- In 2022, as of 31 October, around 37,100 applications were approved, of which 6,677 were under the new coverage after the MIP revisions in February 2022. Around 90% of approved applications were from first-time homebuyers
- Principal moratorium or extension of repayment schedules is available to borrowers to help reduce their repayment burden

SME Financing Guarantee Scheme (SFGS)



Special 100% Loan Guarantee

- As of 31 October 2022, over 56,600 applications were approved, amounting to about HK\$109.2 billion. The average loan amount per application was HK\$1.93 million, and the average approved loan amount per borrower was HK\$3.21 million. Over 39,300 applications (around 70%) have chosen the principal moratorium option

80% and 90% Guarantee Products

- As of 31 October 2022, around 30,700 applications were approved, amounting to about HK\$115.7 billion. Over 2,300 applications have chosen the principal moratorium option

100% Personal Loan Guarantee Scheme (PLGS)



- As of 31 October 2022, around 57,700 applications were approved, amounting to about HK\$3.9 billion. Average loan size per borrower was about HK\$77,000. Over 48,300 applications (around 84%) have chosen the principal moratorium option