



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

**4 November 2024
[Translation]**



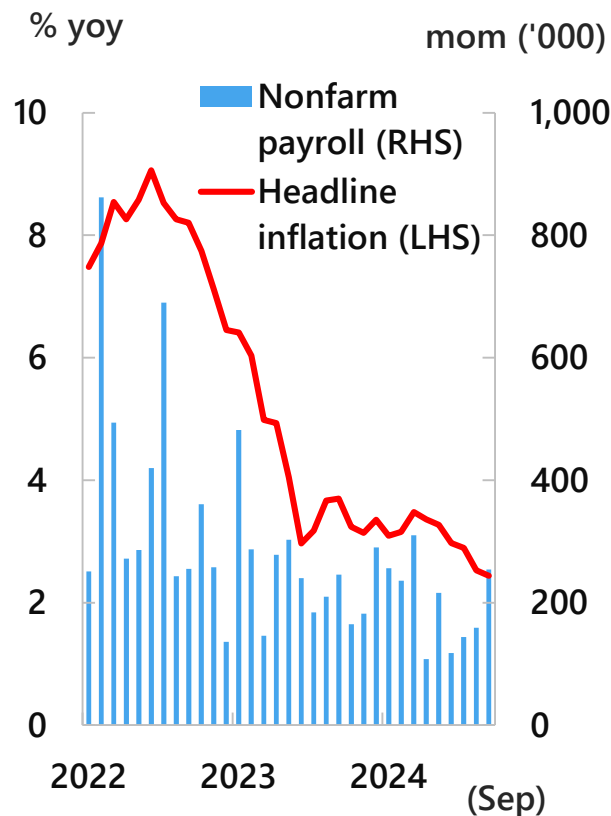
1. Assessment of Risk to Hong Kong's Financial Stability

2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
6. The Hong Kong Mortgage Corporation Limited

US economic policy outlook is uncertain

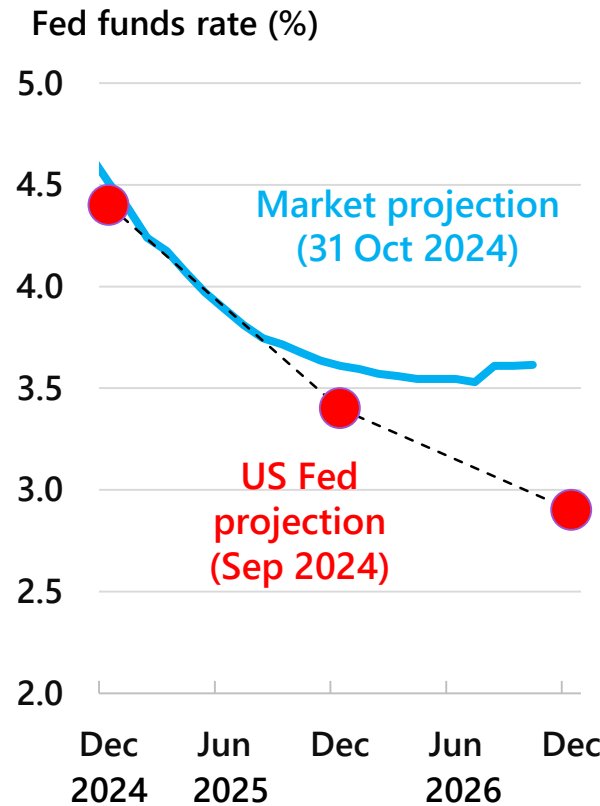


Job market data were mixed while inflation eased



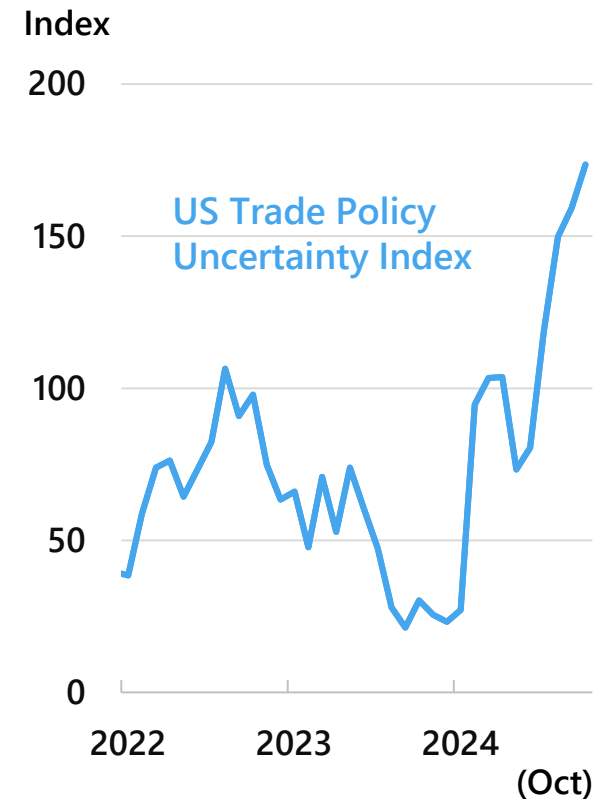
Source: US Bureau of Labour Statistics

US Fed is expected to continue with rate cuts



Sources: US Federal Reserve and Bloomberg

Uncertainties over US trade policy grew



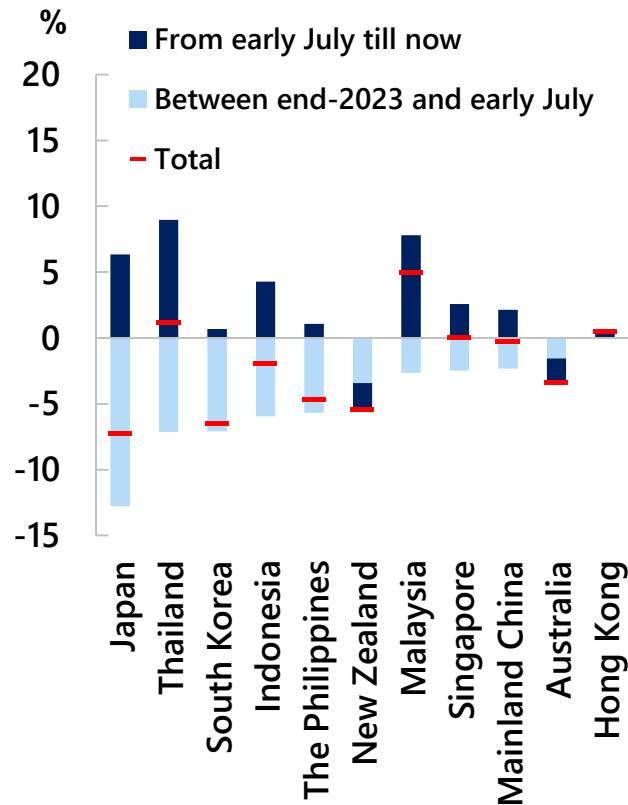
Note: The index is constructed based on the number of mentions of US trade policy uncertainty in major US newspapers each month. The more mentions, the higher the index. The chart shows the 3-month moving average.

Source: Economic Policy Uncertainty

Asia-Pacific financial markets stay steady, unaffected by unwinding of Japanese yen carry trades

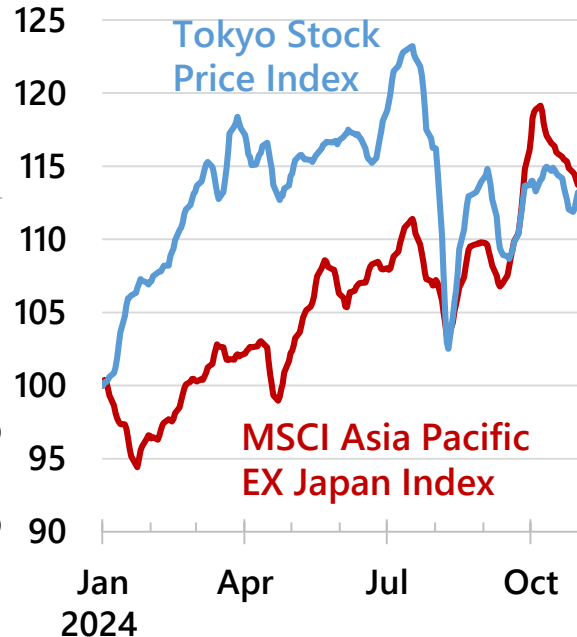


Strengthening in most regional currencies since July



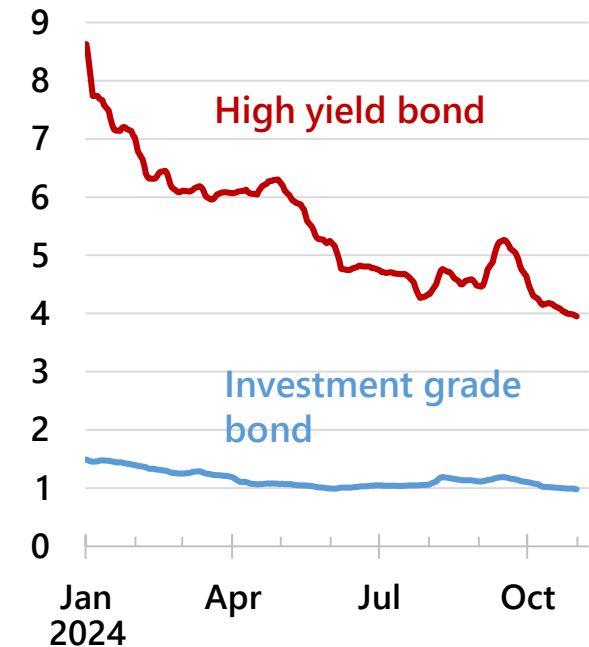
Short-term volatilities in regional stock markets

Index (5-day moving average, Early Jan 2024=100)



Regional corporate bond yield spreads remain narrow

Spread (5-day moving average, ppt)



Note: The chart shows the movements of Asia-Pacific currencies against the US dollar.

Source: Bloomberg

Source: Bloomberg

Note: The chart shows the z-spread of constituent corporate bonds of Bloomberg Asia Ex-Japan USD credit corporate index.

Source: Bloomberg



New policy package in Mainland China will help strengthen economic growth

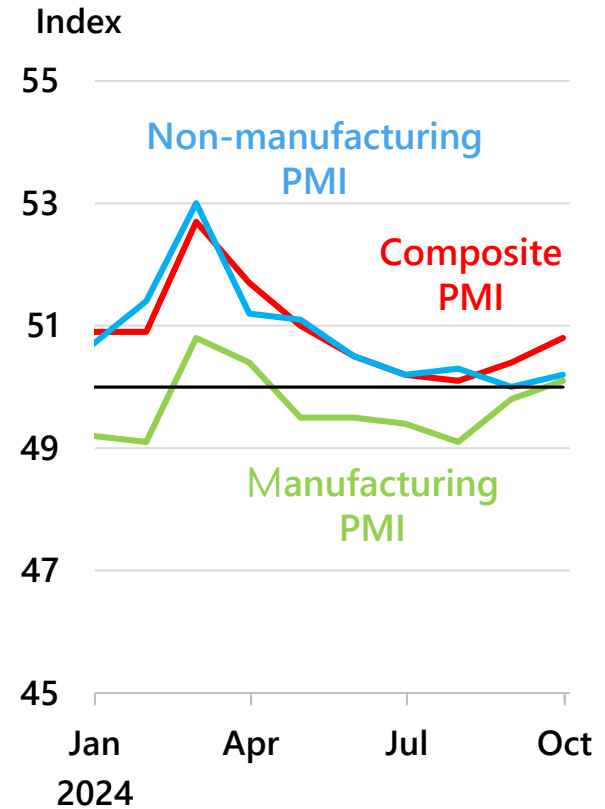
Mainland China launches broad policy package

Monetary policy	Lowering interest rates and required reserve ratio (RRR); providing forward-looking guidance
Property market policy	Supporting the real estate market in bottoming out; reducing interest rates for existing mortgages and minimum down payment ratios; relaxing purchase limits; urban village renovation
Capital market policy	Instilling confidence in capital market; introducing SFISF and a relending facility; guiding medium and long-term capital into stock market
Fiscal policy	Boosting counter-cyclical adjustment of fiscal policies, with capital injection in state-owned banks and additional issuance of special government bonds to support economy

Stock market sentiment improves



Impetus for economic activity will gradually materialise

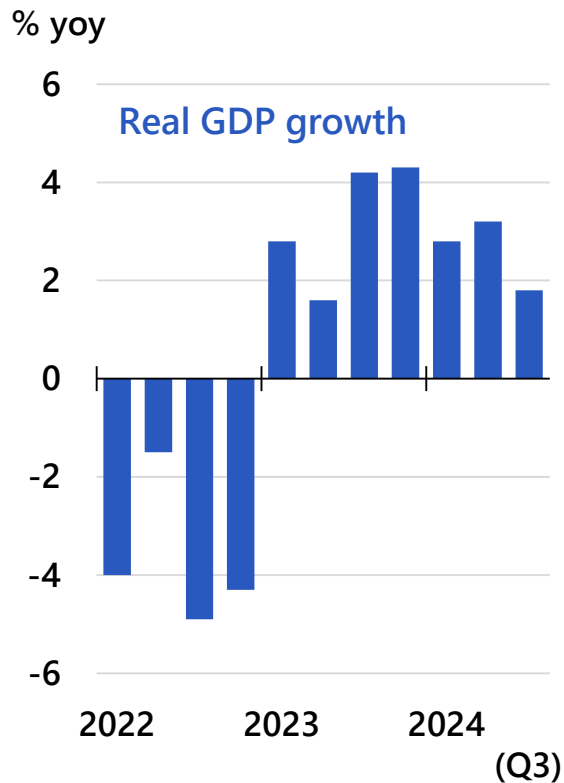


Note: SFISF refers to Securities, Funds and Insurance companies Swap Facility.
Sources: National Bureau of Statistics, CEIC, WIND and HKMA staff estimates

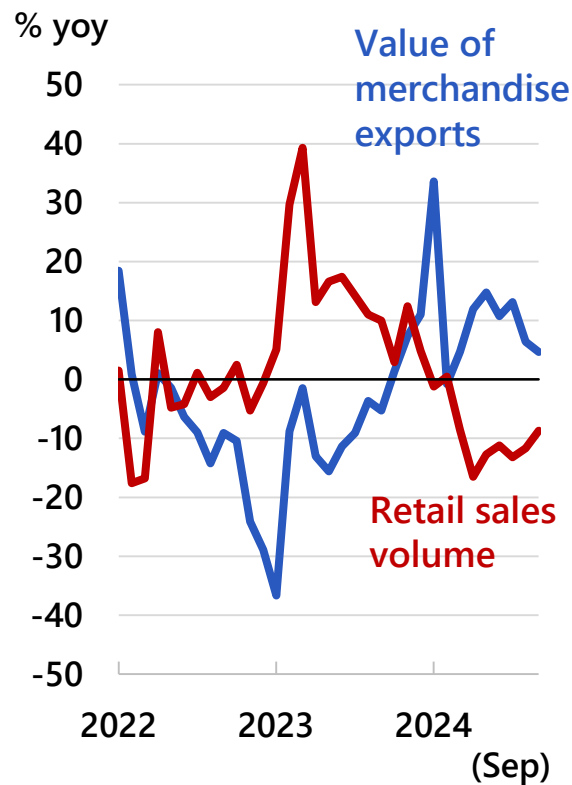
Hong Kong economy continued to grow at a moderate pace, with pressure in some sectors



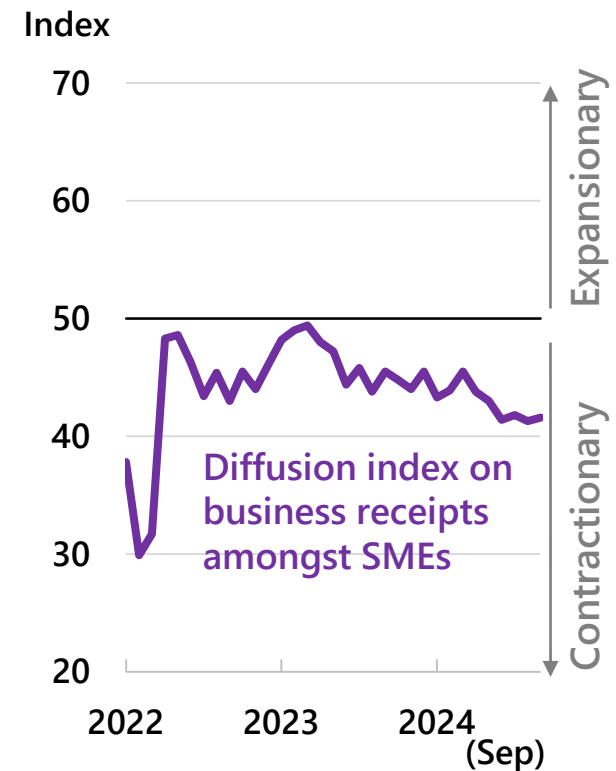
Steady growth in overall economy



Solid merchandise exports but retail sector remained sluggish

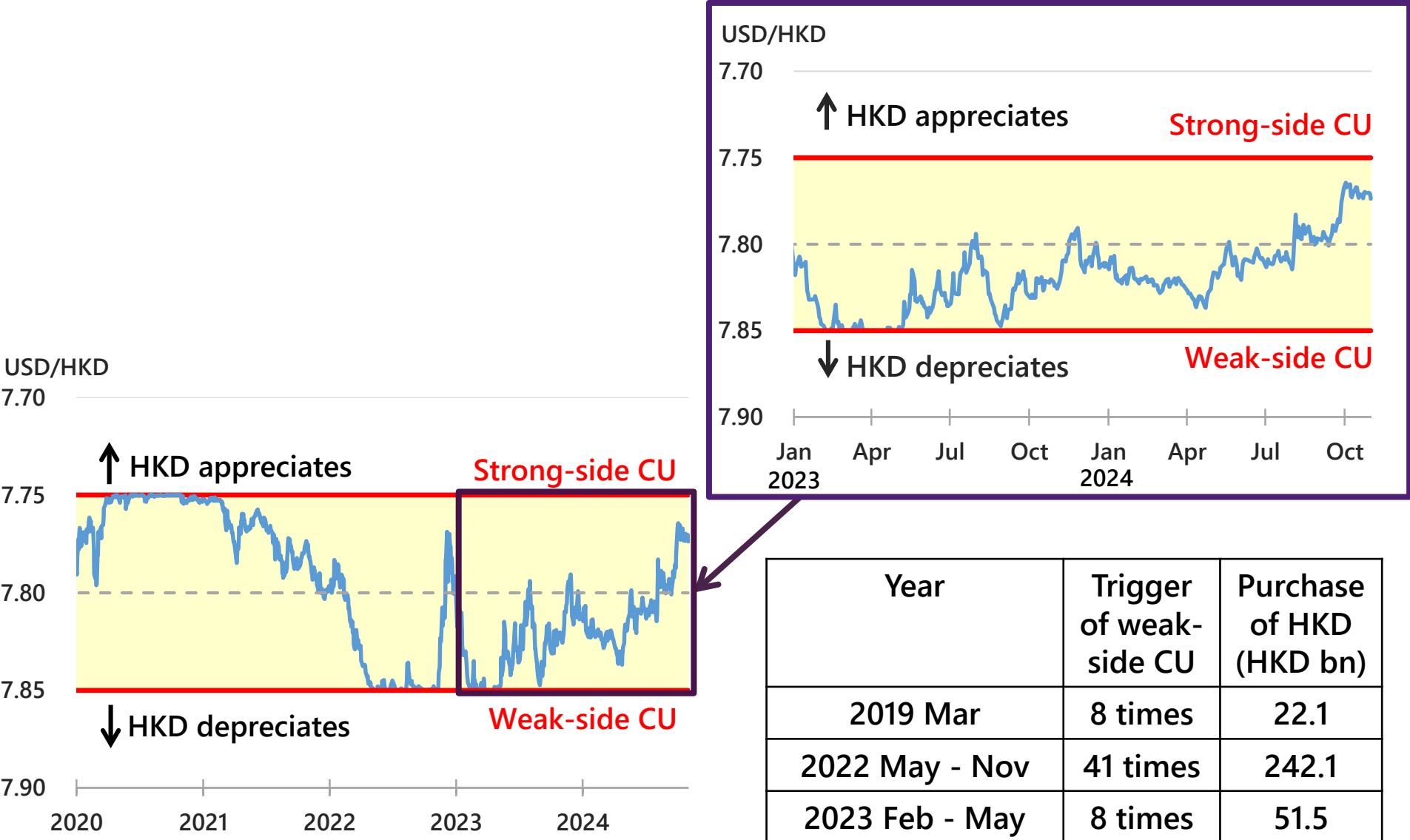


Weak business environment for SMEs



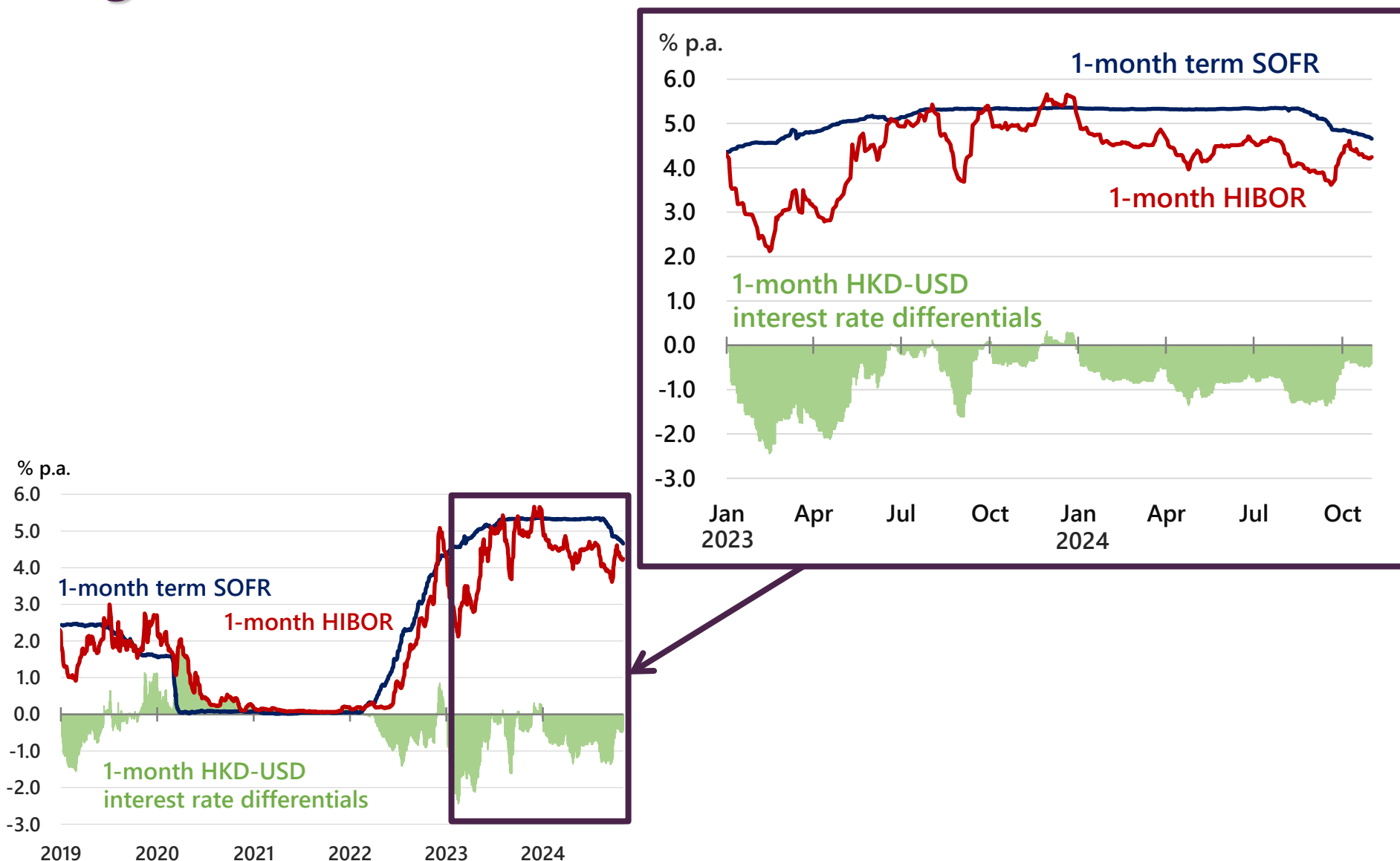


HKD exchange rate strengthens



Source: HKMA

HKD interest rates continue to stay at high levels



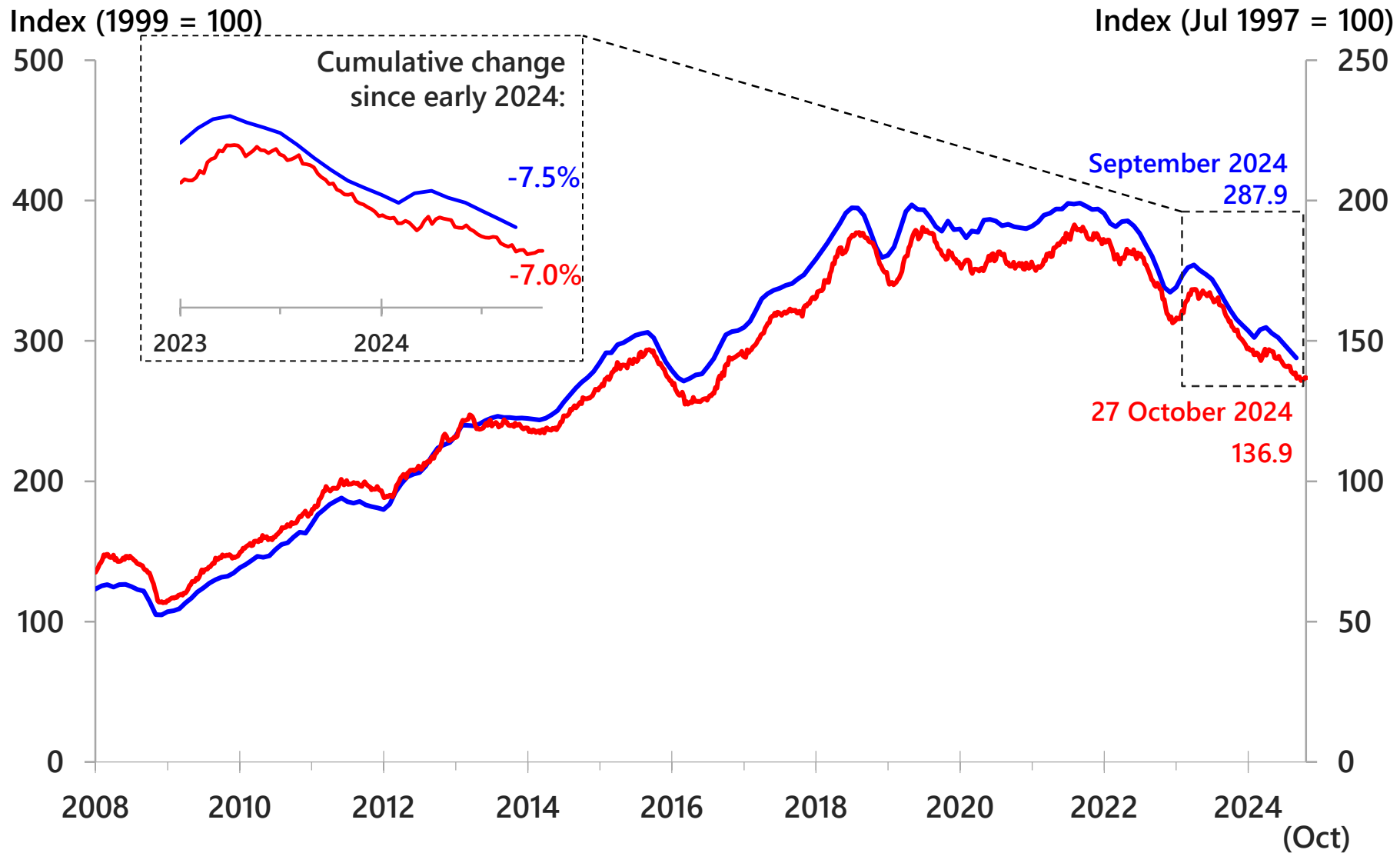


Bank deposits on the rise

Change during the period (%)

	Total deposits	HKD deposits
First half of 2024	+3.2%	+1.1%
July	+0.6%	+0.2%
August	+1.1%	+0.2%
September	+0.8%	+0.9%
Year to September	+5.8%	+2.5%

Property prices have stabilised recently



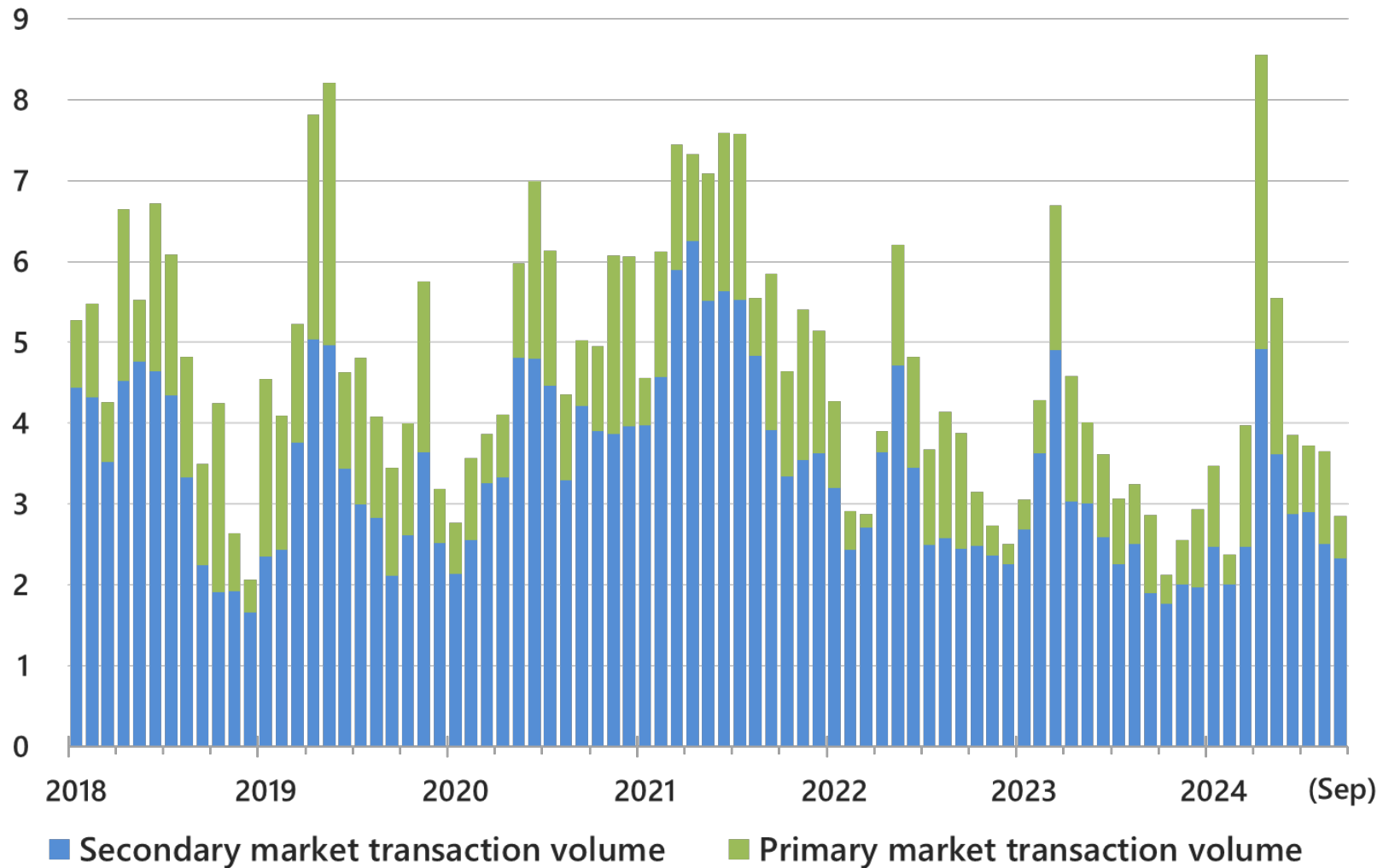
— R&VD's housing price index (overall) (lhs) — Centa-City Leading Index (rhs)

Sources: Rating and Valuation Department and Centaline Property Agency Limited

Property market transactions have recovered recently



Number of transactions ('000)



Hong Kong's financial and money markets continue to operate in an orderly manner



- US Fed's pace of future rate cuts remains uncertain. As the markets are expected to be highly sensitive to economic data and political risks, investors should stay alert to the risk of market volatilities
- Under the Linked Exchange Rate System, US interest rate cuts have created room for HKD interest rates to ease. But short-term HIBORs may be affected by seasonal effects, capital market activities and other developments
- US Fed's rate cuts and economic stimulus package in the Mainland will have positive effects on the local economy, but Hong Kong's economic outlook is still subject to geopolitical developments and other uncertainties
- HKD interest rates will remain at relatively high levels in the short term. Interest rate levels are not the only factor affecting the property market development, with housing supply and demand among the other key factors. The public should carefully assess and continue to manage the relevant risk when making property purchase, mortgage or other borrowing decisions
- The HKMA will continue to closely monitor the financial and money market developments and further our work via the Taskforce on SME Lending in assisting SMEs in obtaining bank financing



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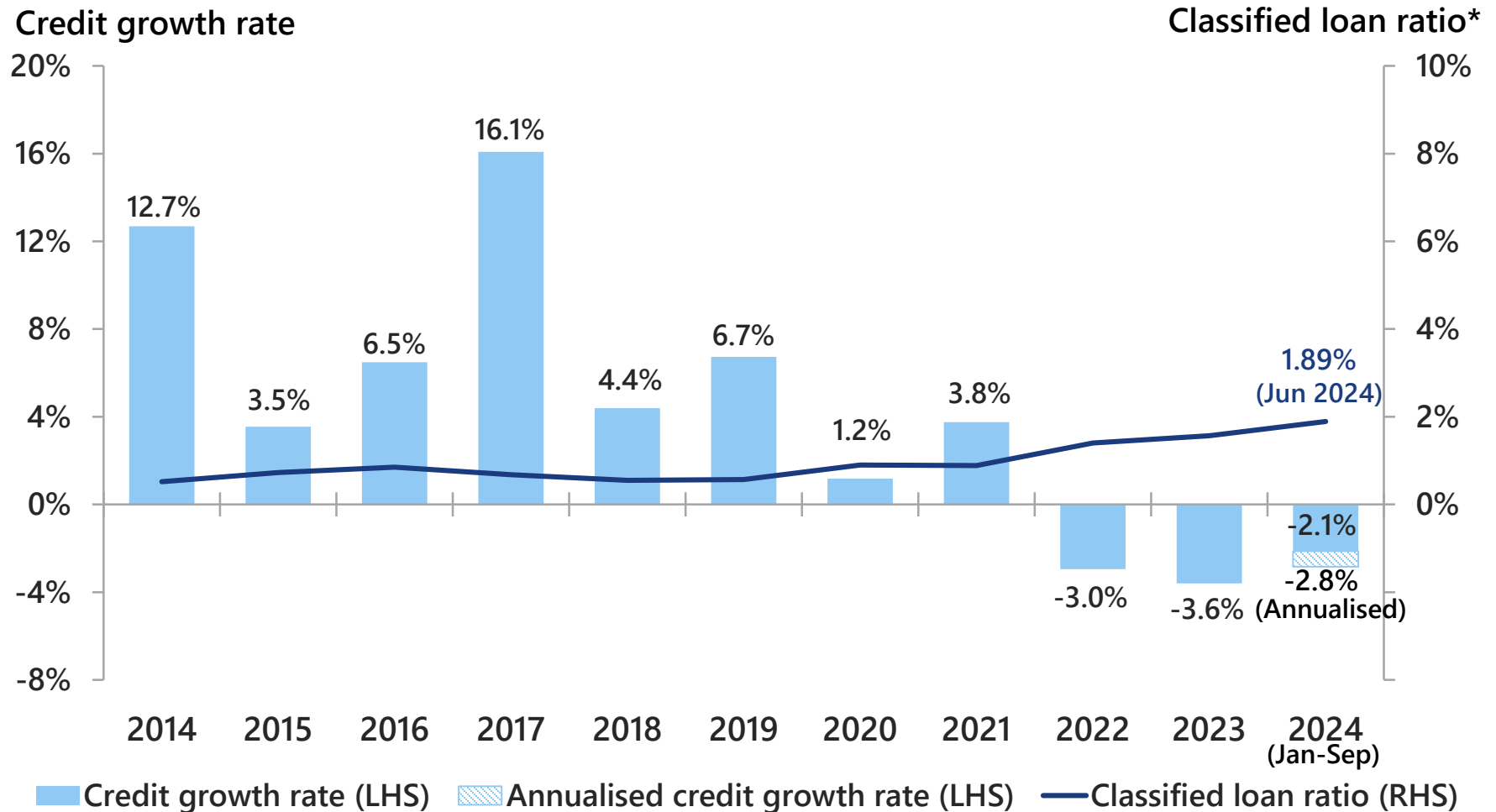
5. Investment Performance of the Exchange Fund

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Banking sector performance

Loan demand subdued while asset quality risks are manageable



* Classified loan ratio of all authorized institutions

Source: HKMA



Supporting SMEs

- The HKMA and Hong Kong Association of Banks established the Taskforce on SME Lending in August 2024 to further strengthen the work for supporting SMEs at the individual case and industry levels
- 16 banks that are active in SME lending stated no change in risk appetite for SME financing and related credit approval standards
- The HKMA together with the banking sector rolled out five new measures in October 2024:
 - Release of bank capital to facilitate SMEs' financing needs
 - Set aside over HK\$370 billion of dedicated funds to support SMEs, and launch more credit products/services to assist SMEs' transformation
 - Increase the partial principal repayment options, and devote sufficient resources to implement the enhancements to SME Financing Guarantee Scheme as soon as possible



Legislative Proposals

International Standards Implementation

- **Basel III final reforms**
 - Commencement notice tabled to the LegCo on 16 October 2024
 - Effective date: 1 January 2025
- **Prudential treatment of banks' cryptoasset exposures**
 - Amendment rules expected to be tabled to the LegCo in H2 2025

Review of the Banking Ordinance

- Plan to amend the Banking Ordinance
- Consultation conclusions for two of the major proposals have been issued
- Target to introduce prioritised amendments to LegCo in the first half of 2025



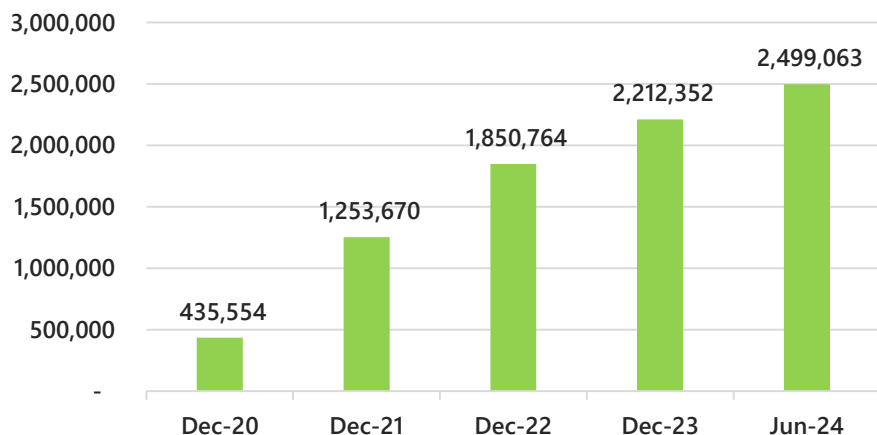
Sustainable Finance Action Agenda

- Set eight goals in the below four areas, enabling Hong Kong to play a central role in supporting the sustainability of Asia and beyond:
 1. Banking for net zero
 2. Investment in a sustainable future
 3. Financing net zero
 4. Making sustainability more inclusive

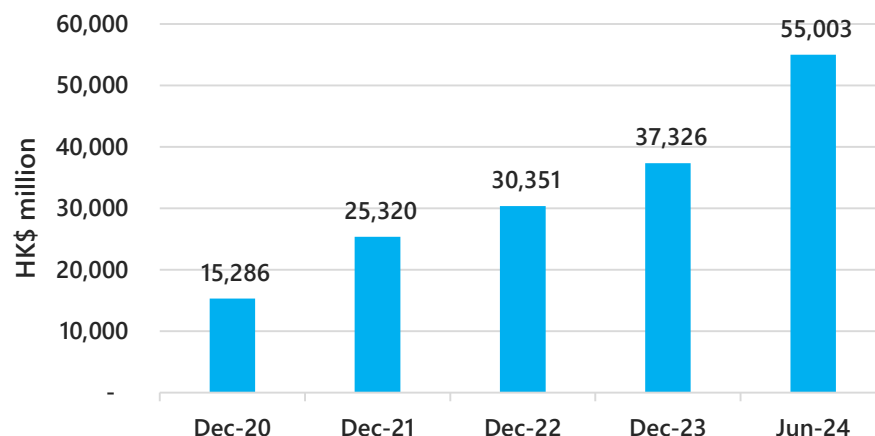
Digital banks have demonstrated robust growth and gained acceptance in Hong Kong



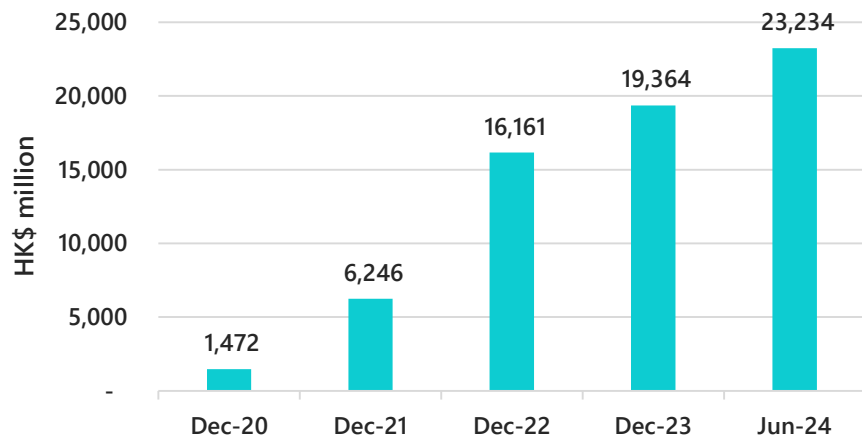
Total customers



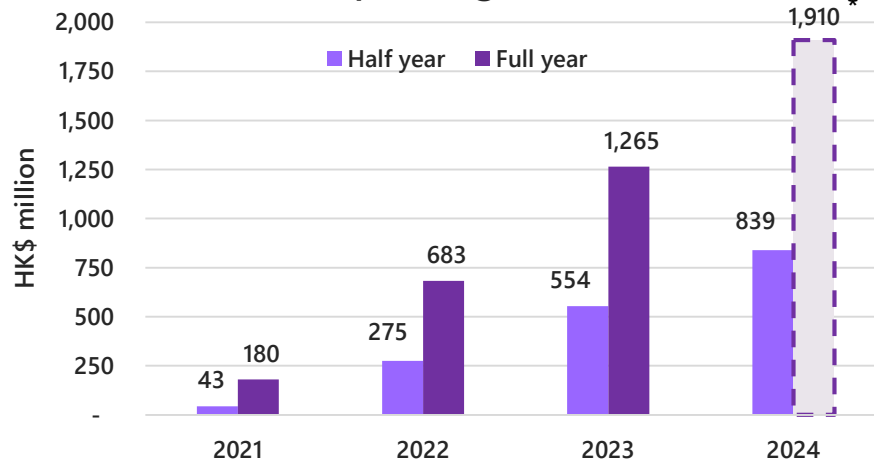
Total deposits



Total loans



Total operating income



* H1/2024 growth annualised



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Steady growth of Hong Kong's offshore renminbi (RMB) business



- Growth momentum of offshore RMB market continued in the first three quarters of 2024. Various businesses saw increasing trends

(RMB bn)	Sep 2024	Sep 2023	Growth
RMB deposits (incl. outstanding certificates of deposit)	1,122.3	1,071.8	5%
Outstanding RMB loans	649.3	383.0	70%
RMB trade settlement*	11,231.3	8,250.1	36%
RMB bond issuance^ (Figures of 1H)	465.7	363.4	28%

*Figures of Jan-Sep period.

^ Since June 2024, the methodology of the HKMA to compile RMB bond data have been adjusted to cover wider scope of RMB bonds issued in Hong Kong.

Promoting the development of Hong Kong's offshore RMB market



- The Chief Executive's Policy Address has proposed several measures to promote the development of Hong Kong's offshore RMB market and deepen the mutual connectivity of the financial markets of Hong Kong and the Mainland. The HKMA is actively following up and participating in the relevant work:
 - **Enhancing offshore RMB liquidity**, including:
 - enhancing HKMA's RMB Liquidity Facility and exploring more diversified RMB financing channels for Hong Kong banks
 - promoting the development of the RMB-denominated repo market; broadening the use of RMB bonds as collateral
 - **Promoting the development of RMB-denominated products**, such as facilitating the issuance of offshore central and local governments RMB bonds, and supporting further development of RMB-denominated fixed-income, equity and risk management products
 - **Improving infrastructure**, including expanding the night-time cross-boundary service capability of the RMB Real-time Gross Settlement system, and upgrading the Central Moneymarkets Unit

Connectivity with the Mainland financial market



- Northbound Trading under Bond Connect remained active. In the first three quarters of 2024, average daily turnover amounted to RMB43.9 billion (8% year-on-year growth). Southbound Trading has been in order, contributing to the growth in dim sum bond issuance and trading. The HKMA is actively liaising with the Mainland authorities to expand the Southbound Trading as appropriate, including expanding the scope of eligible Mainland investors to non-bank financial institutions such as securities firms and insurance companies
- Since the enhancement measures of the Cross-boundary Wealth Management Connect (WMC) Scheme went into effect on 26 February 2024, operations have been smooth so far with positive market response. The HKMA is working with stakeholders to step up educational efforts on investors, as well as continuing to explore further enhancements on WMC
- The HKMA and the Mainland announced in July 2024 to support offshore investors to use onshore bonds issued by the Ministry of Finance and policy banks on the Mainland and held under Northbound Bond Connect as margin collateral for Northbound Swap Connect transactions, with a view to implementation as soon as practicable. The HKMA is exploring more use cases of onshore bonds as collateral in the offshore market

Developing Hong Kong's financial platform (1)



Bond market

- The HKMA is supporting the Government in the implementation of the 2024-25 bond issuance plan, including the issuance of institutional green bonds in July 2024, followed by the issuance of Silver Bond and the launch of HKD and RMB institutional bond tenders in October 2024
- Building on the success of the two batches of Government tokenised green bonds since 2023, the HKMA will launch a Digital Bond Grant Scheme to incentivise digital bond issuance in Hong Kong and encourage more financial institutions and issuers to adopt tokenisation technology in capital market transactions

Green finance

- Following the success of the inaugural Hong Kong Green Week in February 2024, the HKMA plans to host the Hong Kong Green Week in 2025, and will partner with public and private sector stakeholders on other sustainability-themed events

Developing Hong Kong's financial platform (2)



Outreach

- In 2024, the HKMA conducted a series of visits to key cities across North America, Europe and Australia to engage with the local financial and business sectors and keep them informed about opportunities in Hong Kong's financial market. In addition, the HKMA is actively pursuing collaboration initiatives with central banks in the Middle East and ASEAN. Following a visit to Qatar in October 2024, the HKMA is planning to visit Indonesia next year, with a view to exploring new market opportunities for Hong Kong's development as an international financial centre
- Preparations for the Global Financial Leaders' Summit to be held in November 2024 are under way

Stablecoin

- Published in July 2024 the consultation conclusions on the legislative proposal to regulate stablecoin issuers. Aiming to introduce the Bill into LegCo by end-2024
- Launched the stablecoin issuer sandbox and admitted the first batch of participants in July 2024. Proposed primary use cases include payments, supply chain management and applications in capital markets



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Financial infrastructures and fintech initiatives (1)



Financial infrastructures

- Operation of all financial infrastructures remains safe and efficient
- Faster Payment System (FPS):
 - Registrations and turnover have been growing steadily
 - Working closely with the PBoC to establish a cross-boundary linkage of fast payment systems in the two places to facilitate real-time, small-value, cross-boundary remittances
- Enhancement work of the Central Moneymarkets Unit (CMU) in good progress

Fintech – Commercial Data Interchange (CDI)

- Company search records from the Companies Registry are available to pilot banks through the connection between Commercial Data Interchange (CDI) and the Government's Consented Data Exchange Gateway (CDEG), effectively streamlining the "Know-Your-Customer" (KYC) process

Financial infrastructures and fintech initiatives (2)



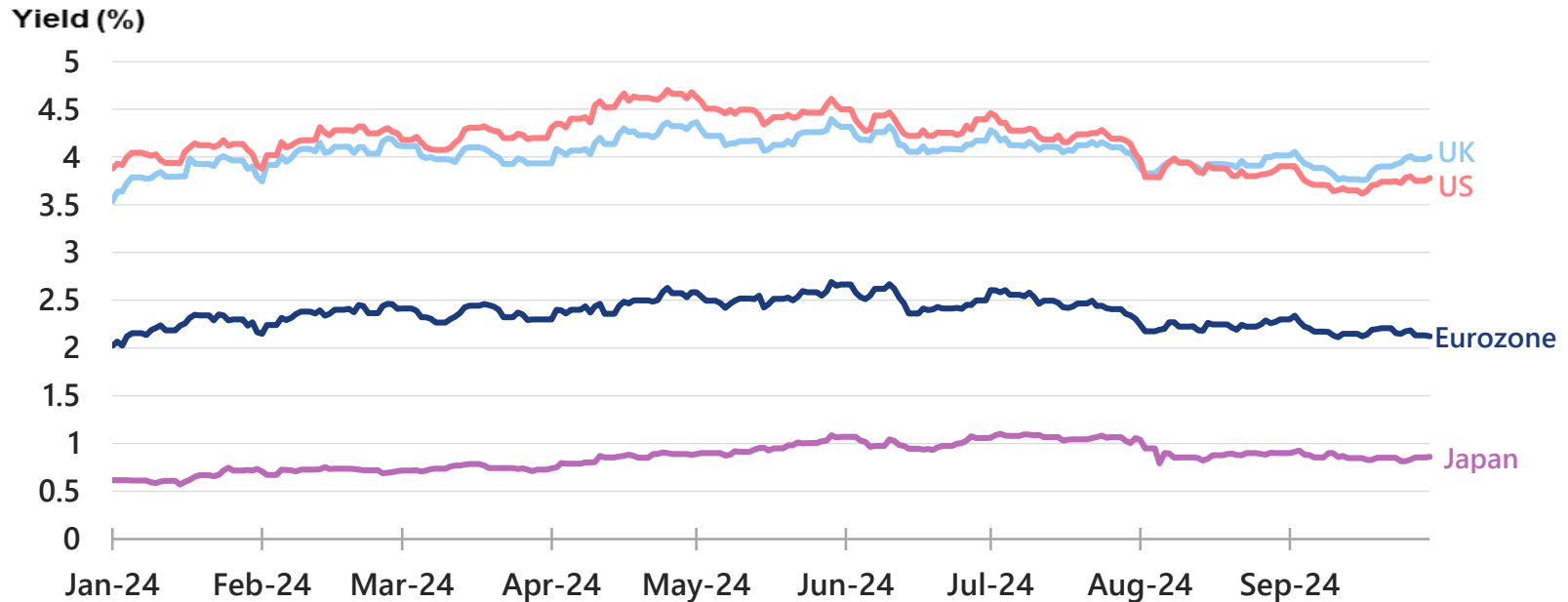
Central Bank Digital Currency (CBDC)

- For wholesale CBDC
 - Project mBridge: completed the development of the Minimum Viable Product (MVP); will enter into the MVP phase soon
 - Project Ensemble: commenced in March 2024 to render support to the development of the tokenisation market in Hong Kong
- For retail CBDC
 - Project e-HKD: announced the commencement of Phase 2 of the e-HKD Pilot Programme in March 2024

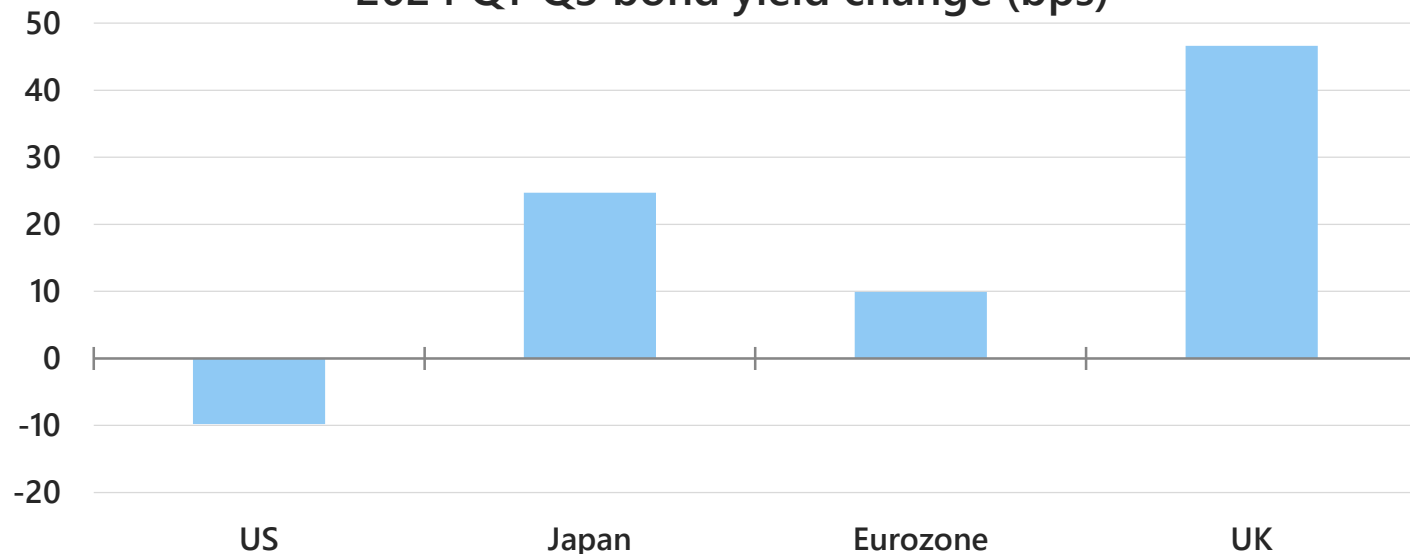


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Major 10-year sovereign bond yields trended downwards



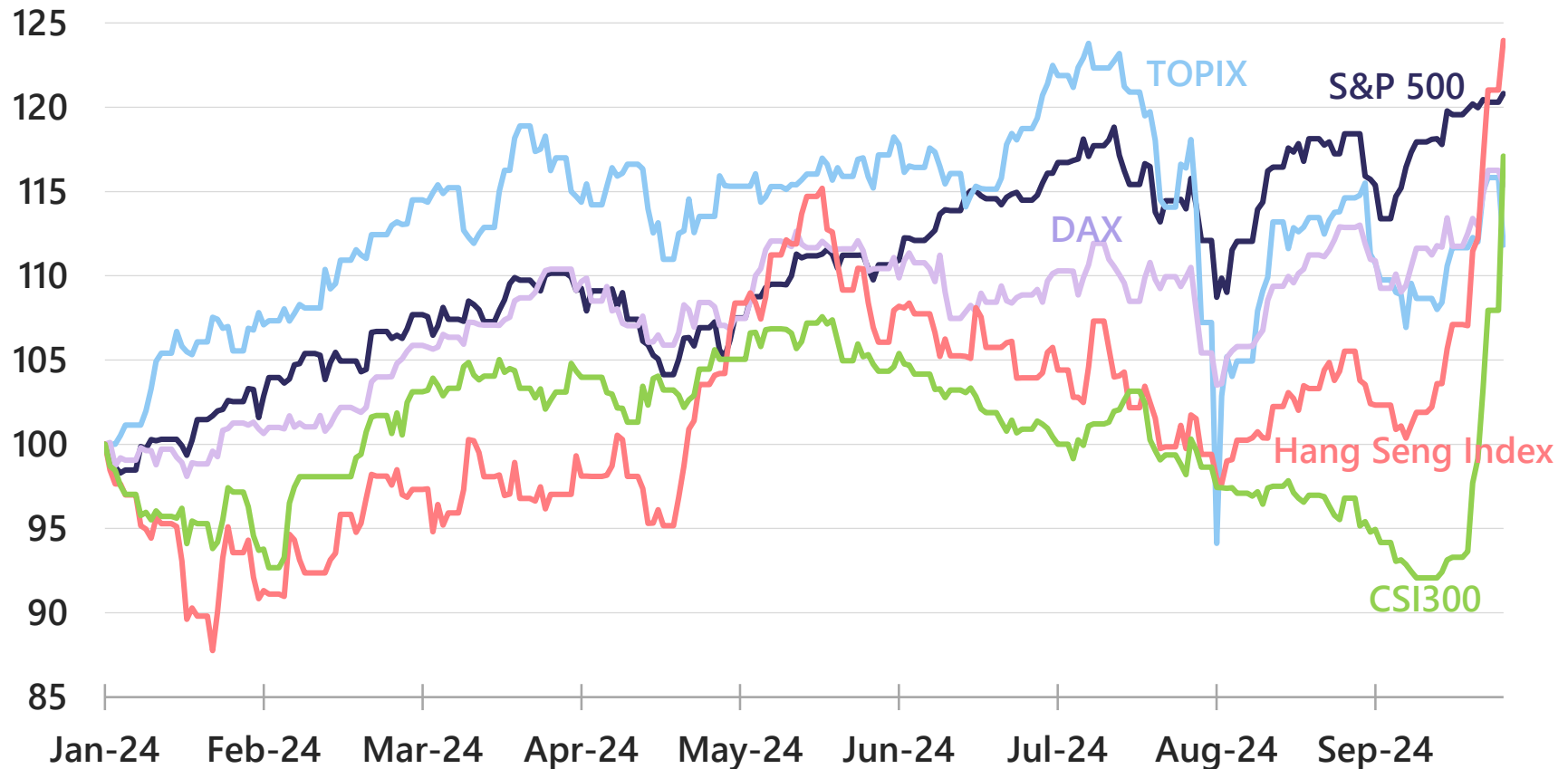
2024 Q1-Q3 bond yield change (bps)



Major equity markets rose after a sharp dip



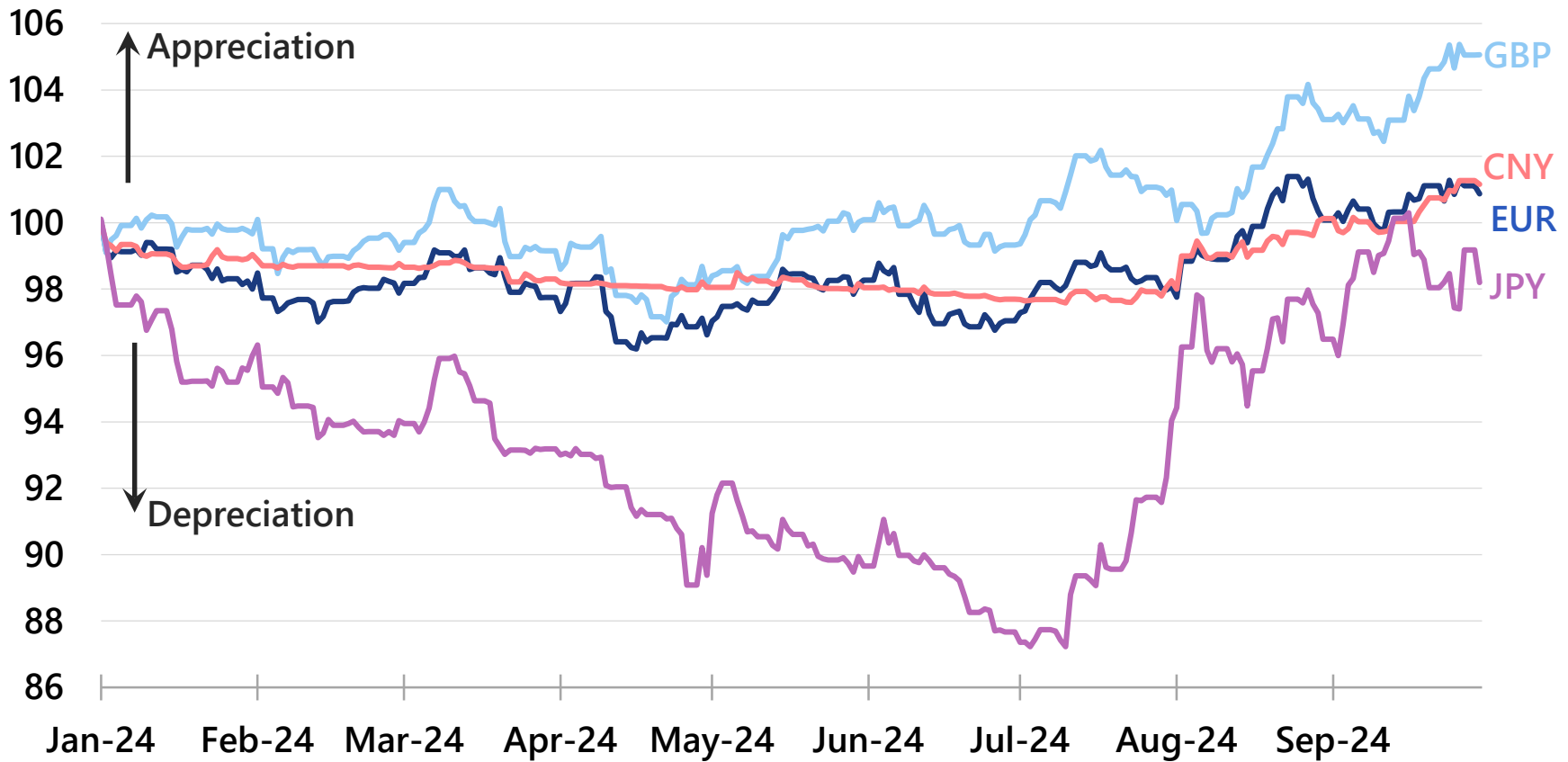
Normalised Index Level (2023 year-end=100)



Major currencies appreciated against USD



Normalised FX Level Against USD (2023 year-end=100)





Investment income

	◄ 2024 ►		2023	2022
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
Bonds	124.3	66.4	144.7	(53.2)
Hong Kong equities*	28.5	21.9	(15.5)	(19.5)
Other equities	66.0	18.2	73.6	(61.0)
Foreign exchange[#]	(8.2)	8.1	(0.5)	(40.0)
Other investments[@]	14.1	-	23.7	(31.7)
Investment income/(loss)	224.7	114.6	226.0	(205.4)

* 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 2024. Valuation changes of these investments from July to September are not yet available.



Income and expenditure

	←2024→		2023	2022
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
Investment income/(loss)	224.7	114.6	226.0	(205.4)
Other income	0.1	-	0.2	0.2
Interest and other expenses	<u>(47.7)</u>	<u>(16.4)</u>	<u>(54.5)</u>	<u>(18.8)</u>
Net income/(loss)	177.1	98.2	171.7	(224.0)
Fee payment to Fiscal Reserves*#	(10.0)	(3.0)	(35.5)	(26.0)
Fee payment to HKSAR Government funds and statutory bodies*	(12.2)	(3.8)	(16.5)	(22.1)

* The rate of fee payment is 3.7% for 2024, 3.7% for 2023 and 5.6% for 2022.

This does not include the 2024 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2024 is available.

The composite rate was 4.8% for 2023 and -3.0% for 2022. Fee payable to/(reversed from) the Future Fund was HK\$18.0 billion for 2023 and HK\$(9.0) billion for 2022.



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Mortgage Insurance Programme (MIP)

- In 2024, as of 15 October, around 17,200 applications under the MIP were approved, of which 2,683 were under the new coverage after the MIP revisions in July and September 2023. Over 90% of approved applications were from first-time homebuyers
- From 8 August 2024, HKMC Insurance Limited may approve on a case-by-case basis eligible homeowners' applications for renting out their self-occupied properties, so as to help them meet their special needs arising from changes in personal or family circumstances. As of 15 October 2024, 288 applications were approved

SME Financing Guarantee Scheme (SFGS)



- *The Chief Executive's 2024 Policy Address* announced that, for both existing and new loans, borrowing enterprises under the SFGS will be allowed to apply for principal moratorium for up to 12 months while the maximum loan guarantee periods of the 80% and 90% Guarantee Products will be extended to ten years and eight years respectively. In addition, the partial principal repayment options will be offered to new loans under the two guarantee products
- As of 15 October 2024, around 40,900 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$141.9 billion. The application period for these products has been extended to the end of March 2026
- The application period for the Special 100% Loan Guarantee has expired in end-March 2024. Over 67,000 applications were approved, amounting to about HK\$143.6 billion

Dedicated 100% Loan Guarantee Schemes



- The schemes for the cross-boundary passenger transport trade and the travel sector were launched on 29 April 2023 to support their business resumption. As of 15 October 2024, 224 applications were approved, amounting to about HK\$0.22 billion. The application period of the schemes ended on 28 October 2024
- The scheme for battery electric taxis was launched on 4 September 2023 to encourage taxi owners to replace their existing taxis with battery electric taxis. As of 15 October 2024, 28 applications were approved, amounting to about HK\$9.4 million