



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

**3 February 2025
[Translation]**



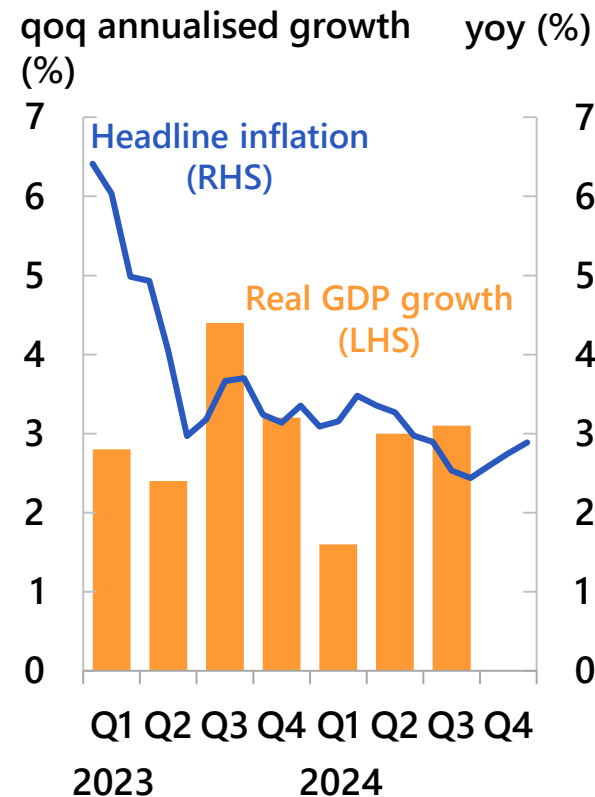
1. Assessment of Risk to Hong Kong's Financial Stability

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 and trade policies add further uncertainties to the Fed's pace of future rate cuts



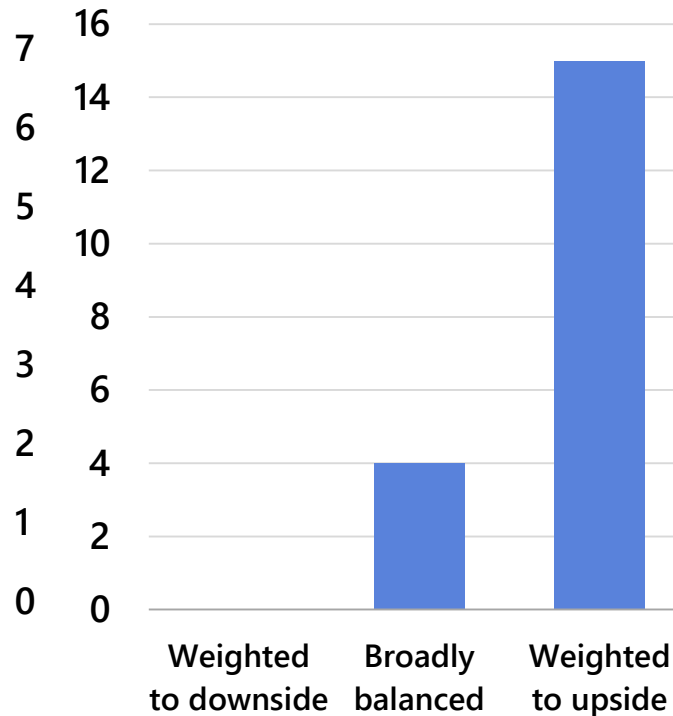
US economy and inflation remain resilient



Sources: US Bureau of Economic Analysis and US Bureau of Labour Statistics

Inflation outlook is facing upside risks

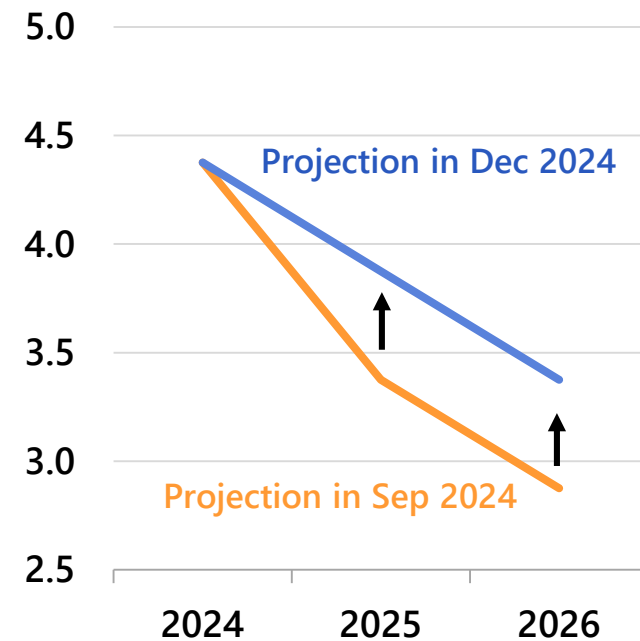
Inflation risk assessment by US Fed FOMC members



Source: US Federal Reserve

US Fed is expected to reduce the extent of rate cuts

Fed funds rate (%)

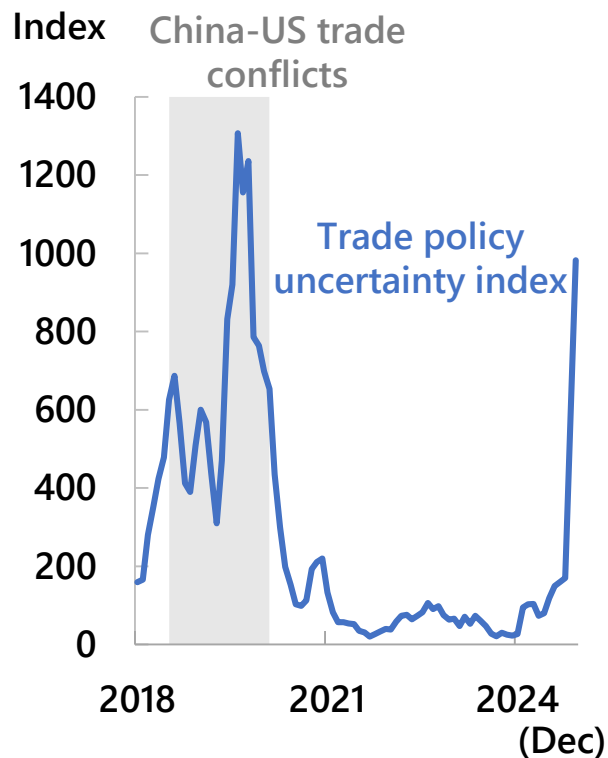


Source: US Federal Reserve

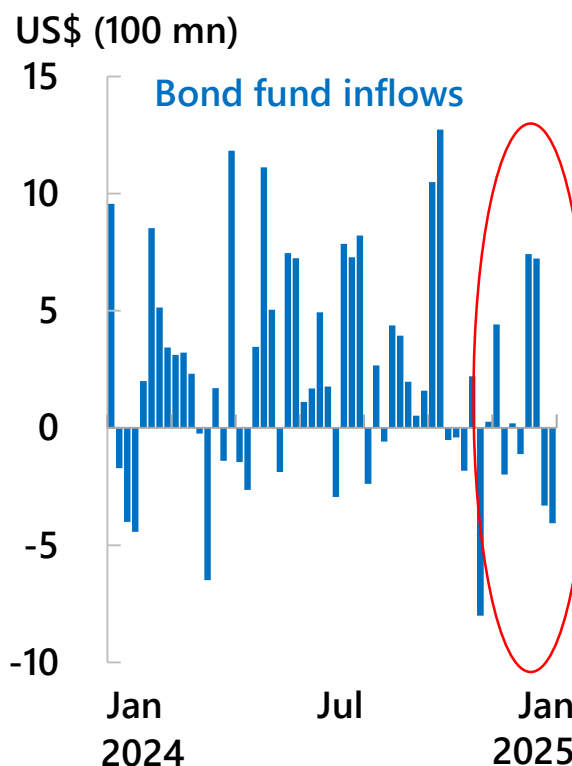
Asia-Pacific region will be facing an even more complex and volatile external environment



US trade policy uncertainty increases

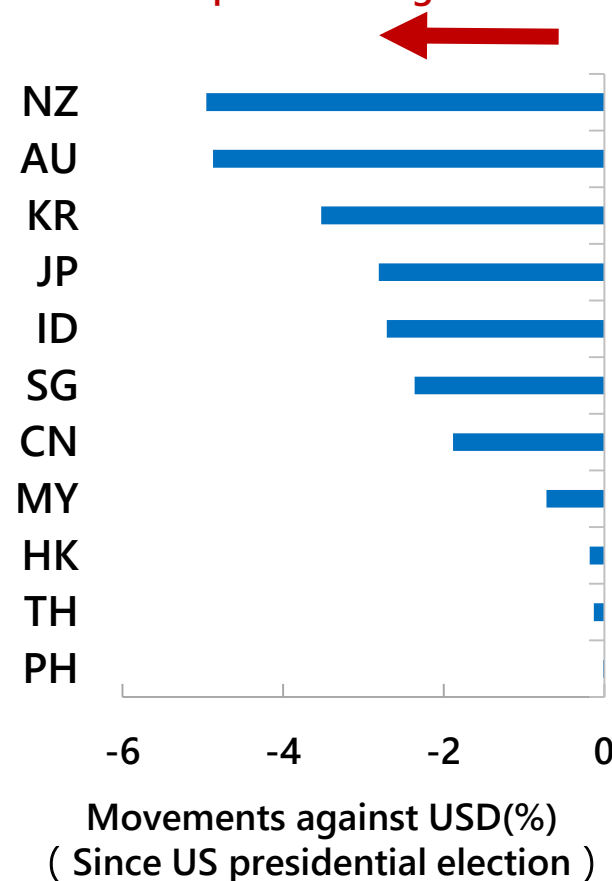


Asia-Pacific bond fund flows become volatile



Regional currencies have weakened since US presidential election

Depreciation against USD



Note: The index is based on the frequency trade policy uncertainty is mentioned in major newspapers in the US each month. The more frequent it is mentioned, the higher the index. The chart shows the three-month moving average.

Source: Economic Policy Uncertainty

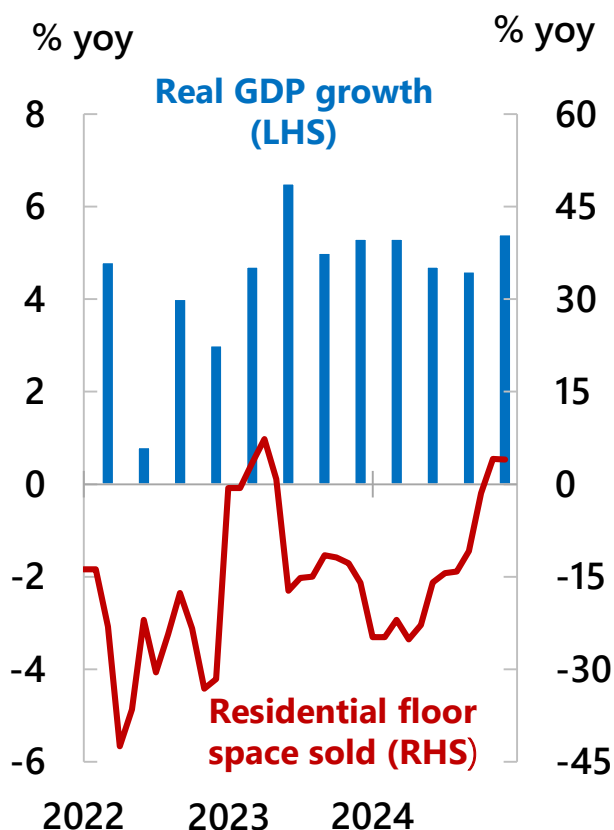
Source: EPFR

Source: Bloomberg

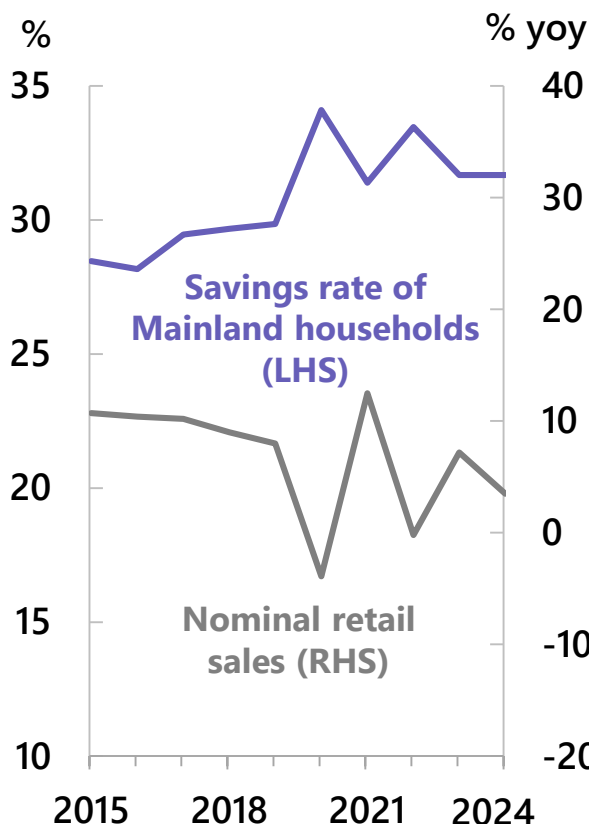
Mainland implements more proactive macro policies to promote sustained economic recovery



Signs of stabilisation in economic growth and real estate market



Consumption rises, while savings rate remains high



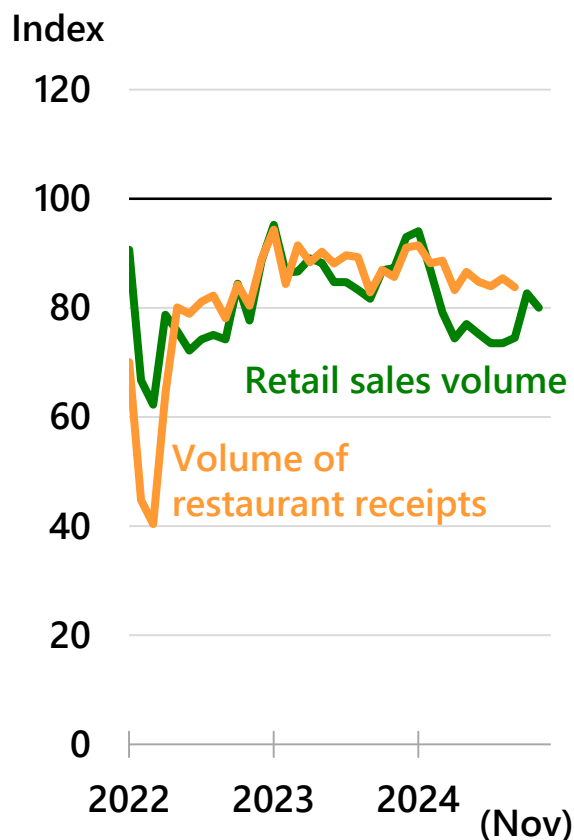
Mainland continues to implement broad policy package

Monetary policy	Implementing moderately loose monetary policy ; lowering RRR and interest rates in a timely manner
Fiscal policy	Implementing more proactive fiscal policy ; raising budget deficit ratio, vigorously boosting consumption, as well as promoting large-scale equipment upgrades and trade-in of consumer goods
Property market policy	Continuing to support the real estate market to stabilise and halt declines
Capital market policy	Deepening consolidated reform of investment and financing in the capital market; encouraging medium- and long-term funds into the capital market; refining SFISF and the relending facility

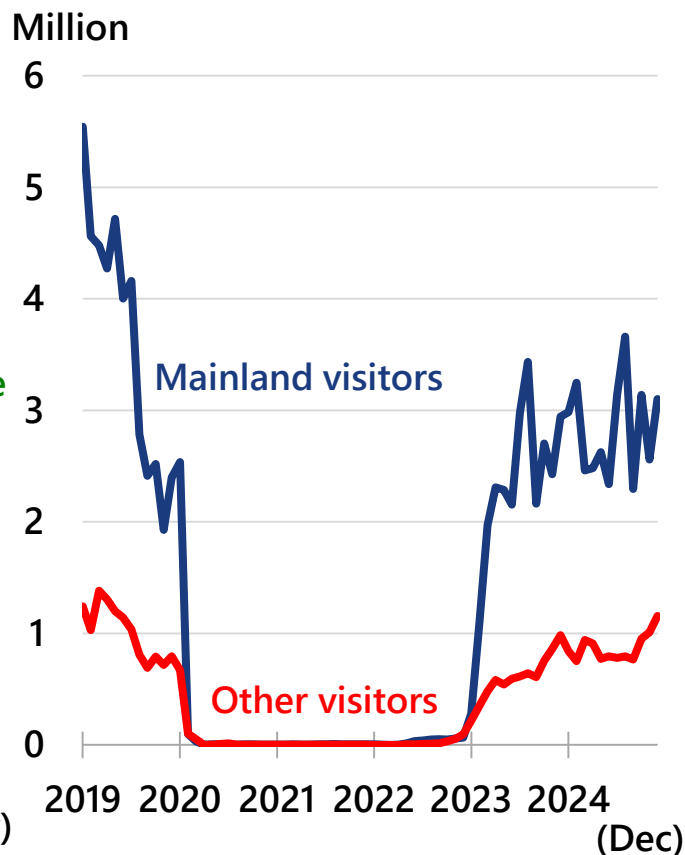
A series of measures introduced by the Mainland will boost Hong Kong's economy and market confidence



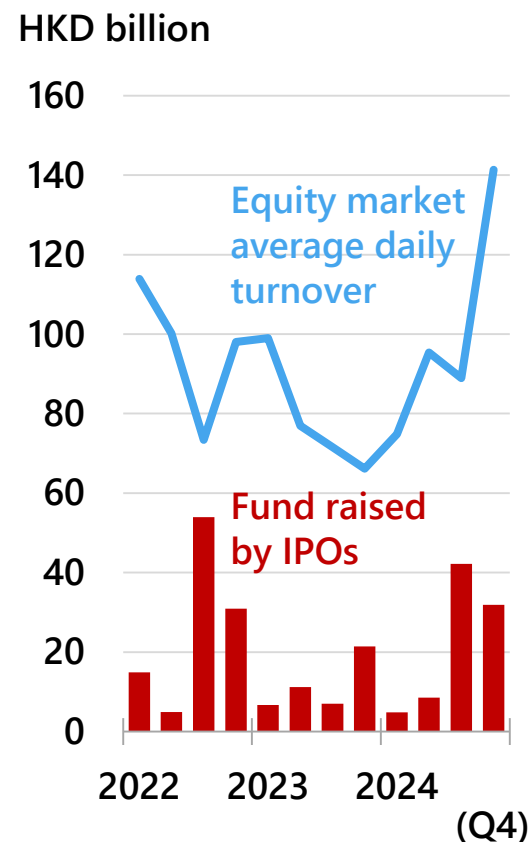
Retail and catering sectors remained weak



Visitor arrivals increased further



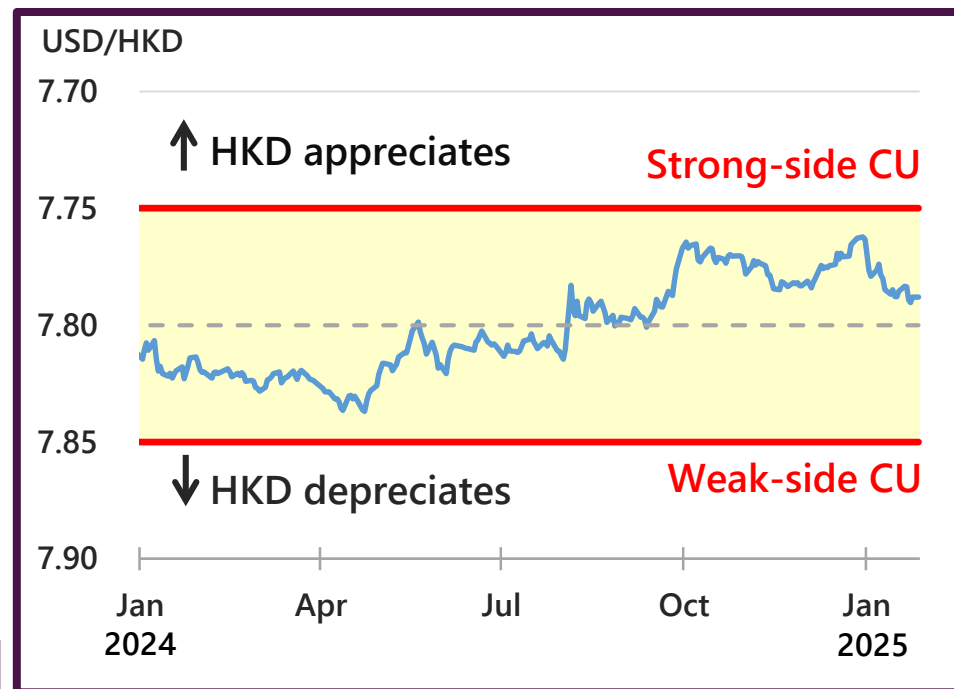
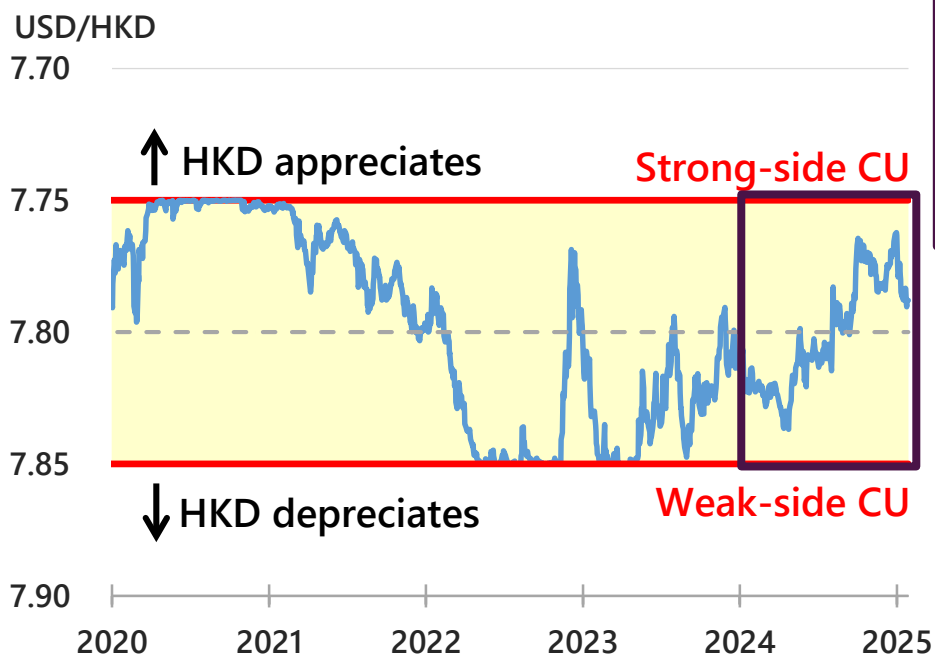
Financial markets regained momentum



Note: Retail sales volume and restaurant receipts volume index are defined as their monthly value as a percentage of their respective monthly average in 2019.

Sources: Census and Statistics Department, Hong Kong Exchanges and Clearing Limited and Hong Kong Tourism Board

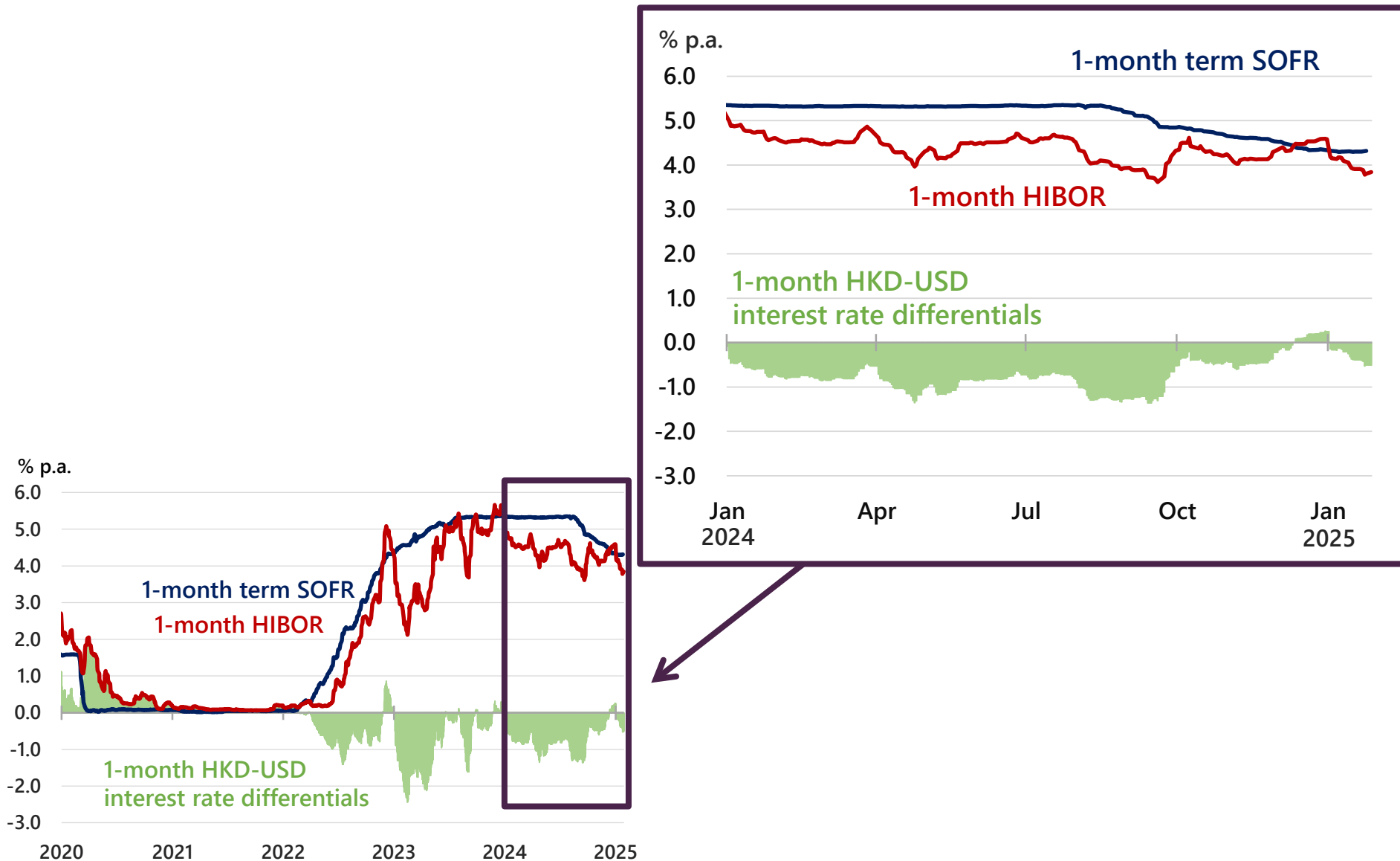
HKD exchange rate remains stable



Year	Trigger of weak-side CU	Purchase of HKD (HKD bn)
2022 May - Nov	41 times	242.1
2023 Feb - May	8 times	51.5



HKD interest rates eased slightly





Bank deposits increase

Change during the period (%)

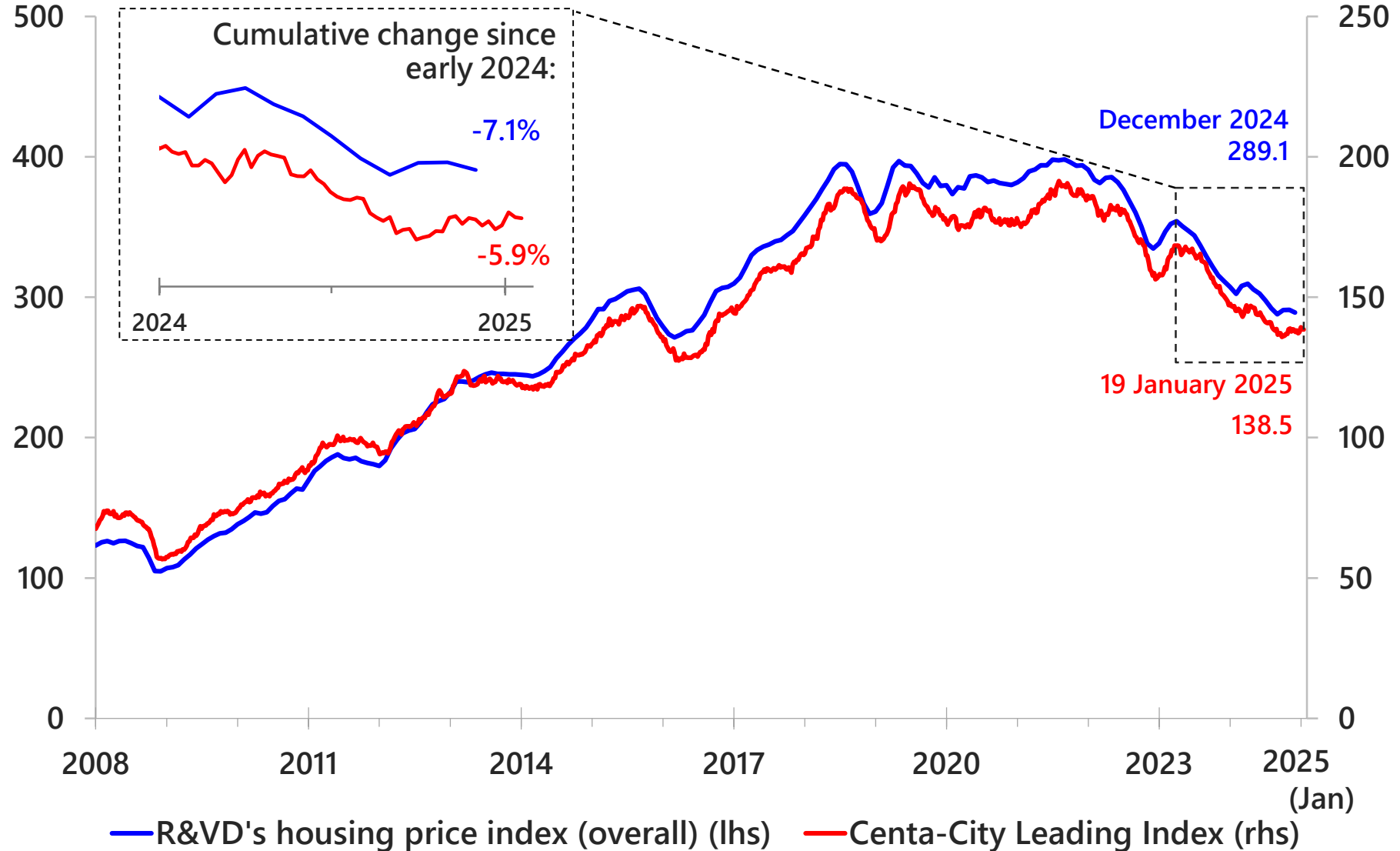
	Total deposits	HKD deposits
First three quarters of 2024	+5.8%	+2.5%
October 2024	+0.0%	+0.4%
November	+0.3%	-0.9%
December	+0.9%	+0.9%
Full year 2024	+7.1%	+2.8%



Housing prices turn steady

Index (1999 = 100)

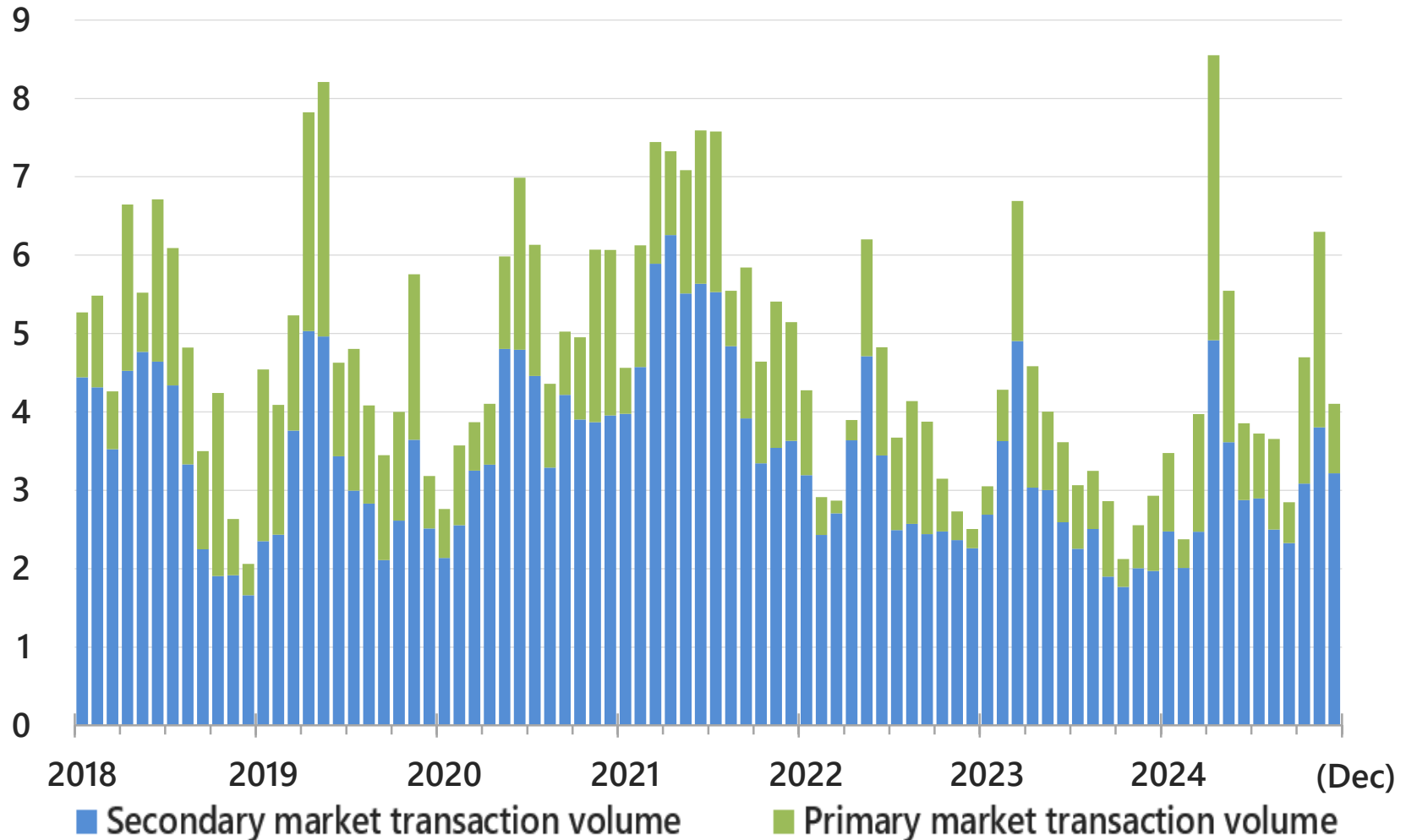
Index (Jul 1997 = 100)





Housing market transactions stabilise

Number of transactions ('000)



Hong Kong's financial system remains highly resilient



- Amid uncertain US policies, geopolitical risks may increase further, with asset markets and fund flows potentially exhibit sharp volatility
- The Central Government will implement more proactive macro policies to alleviate the impact resulting from possible US tariff hikes
- With the broad policy package introduced by the Central Government and the HKSAR government vigorously pursuing economic growth, it is expected that Hong Kong can continue to grow moderately this year
- USD interest rates will remain at relatively high levels for some time. The HKMA will continue to work with the banking sector to support SMEs in securing finance
- Hong Kong's financial system has strong buffers and resilience. The HKMA has no intention and sees no need to change the LERS



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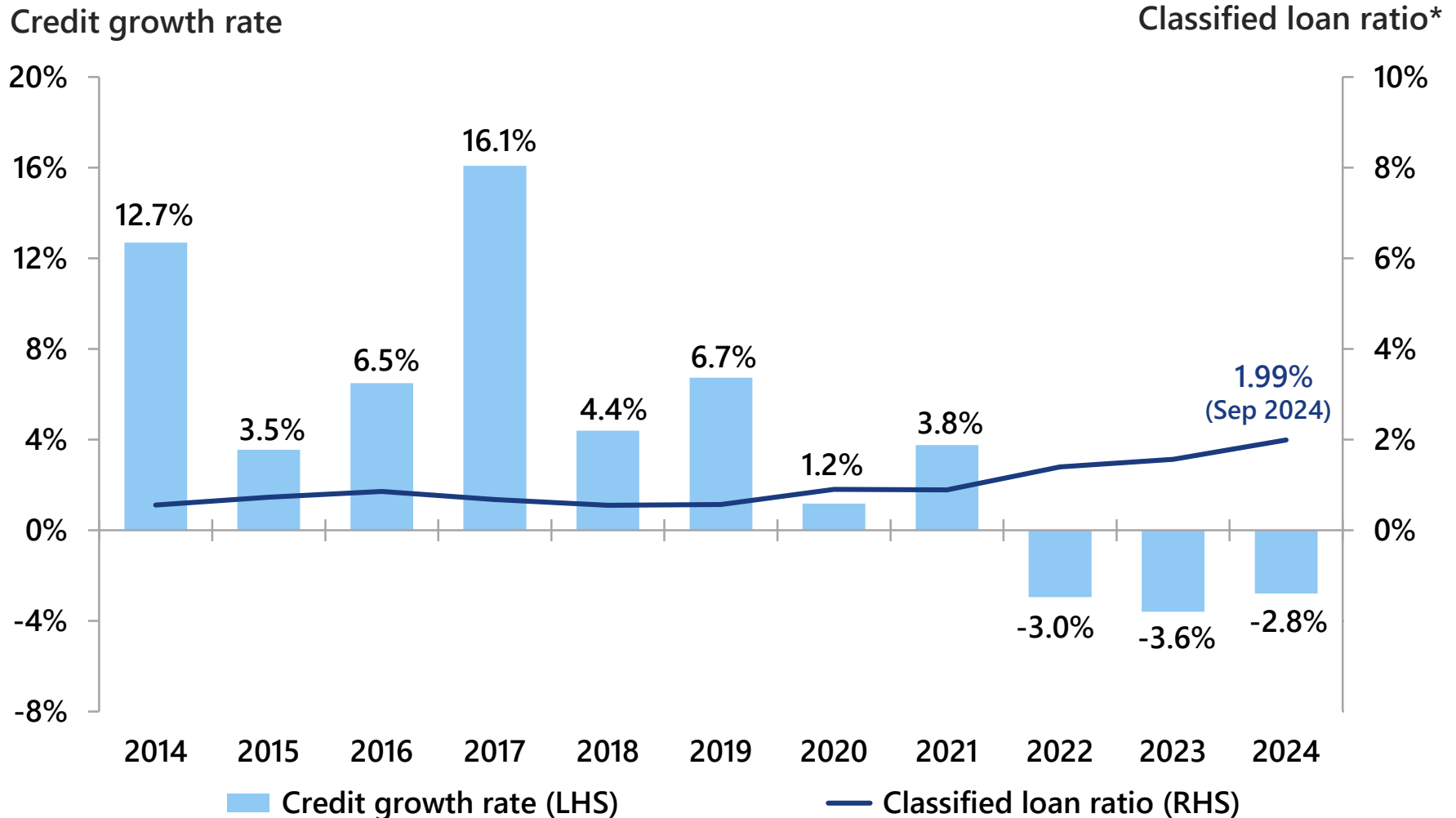
5. Investment Performance of the Exchange Fund

6. The Hong Kong Mortgage Corporation Limited



Banking sector performance

Loan demand remained subdued while asset quality is manageable



* Classified loan ratio of all authorized institutions

Source: HKMA



Supporting SMEs

- Over 31,000 SMEs have benefitted from the nine SME support measures in the first nine months since their launch, involving an aggregate credit limit of over HK\$73 billion
- Five new measures to support SMEs' upgrade and transformation:
 - 11 banks committed to offering fast-approval loans for SMEs that have applied for the Government's related funding schemes (e.g. Digital Transformation Support Pilot Programme), while other banks active in SME lending are considering to do so
 - The HKMA-HKAB Taskforce on SME Lending will organise more outreach activities to support for SMEs' digital and green transformation as well as cross-border business expansion



Fraud Prevention and Detection

- Frauds and scams remain widespread and serious
- In collaboration with the industry, substantial anti-fraud resources being deployed to:
 - Strengthen Internet banking security controls, banks' monitoring and surveillance systems, and intelligence sharing
 - Alert customers of suspicious transactions and empower customers to take actions to protect themselves
 - Raise public awareness and step up consumer education



Legislative Proposals

International Standards Implementation

- Prudential treatment of cryptoasset exposures
 - Currently seeking industry's comments on proposed rule amendments for the local implementation of the corresponding standard from the Basel Committee
 - Updates will be made to Banking (Capital) Rules, as well as Banking (Disclosure) Rules, Banking (Exposure Limits) Rules, etc
 - Target implementation date: 1 January 2026



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



- Various businesses of offshore RMB market saw increasing trends in 2024

(RMB bn)	2024	2023	Growth
RMB deposits (incl. outstanding certificates of deposit)	1,075.3	1,045.3	3%
Outstanding RMB loans	724.0	441.2	64%
RMB trade settlement	15,184.6	11,668.6	30%
RMB bond issuance [^] (Figures of the first three quarters)	776.8	574.8	35%

[^] Since June 2024, the methodology for compiling RMB bond data has been adjusted to cover wider scope of RMB bonds issued in Hong Kong.

Key directions for developing Hong Kong's offshore RMB business



In response to market needs, HKMA has been working with Mainland's and Hong Kong's financial regulators to actively promote the development of Hong Kong's offshore RMB business in the following four aspects:

- **Liquidity** – continuously increasing the scale of Hong Kong's offshore RMB liquidity pool; enhancing operational efficiency
- **Products** – continuously developing and enhancing the connectivity between the Mainland and Hong Kong in the areas of equities, bonds, wealth management and risk management; supporting the development of offshore RMB-denominated products
- **Infrastructure** – enhancing Hong Kong's central securities depository; promoting cross-boundary application of RMB digital currency
- **Outreach** – collaborating with financial institutions to promote Hong Kong's offshore RMB business in overseas markets

New Measures to Deepen Financial Co-operation between Hong Kong and the Mainland (1)



On 13 January, 2025, the HKMA and the PBoC announced six new policy measures:

Enhancing offshore RMB liquidity to support real economy

1. Introducing the HKMA RMB Trade Financing Liquidity Facility, with a total size of RMB100 billion and terms of up to six months, to support banks in providing RMB trade financing services to corporates

Enhancing Bond Connect

2. Further enhancing Southbound Bond Connect: Extending the settlement time and supporting the settlement of bonds denominated in US dollar and euro in addition to RMB and Hong Kong dollar through market infrastructure linkage, and, further out, expanding the range of eligible Mainland investors in due course

New Measures to Deepen Financial Co-operation between Hong Kong and the Mainland (2)



3. Developing offshore RMB repurchase business using Northbound Bond Connect bonds as collateral
4. Supporting the use of Northbound Bond Connect bonds as margin collateral at OTC Clearing Hong Kong Limited

Facilitating corporates and benefiting individuals

5. Promoting the linkage of the Mainland's Internet Banking Payment System (IBPS) and Hong Kong's Faster Payment System (FPS) in facilitating cross-boundary payments
6. Adding Hong Kong banks to offer Mainland bank account opening by attestation services for Hong Kong residents and publishing an FAQ clarifying and explaining the current policy arrangements for various cross-boundary remittance scenarios

Developing Hong Kong's financial platform



Bond market

- Supported the Government in the implementation of the 2024-25 bond issuance plan, and launched the tender arrangement for RMB HKSAR Government bonds
- Following the success of the two batches of Government tokenised green bonds, launched the Digital Bond Grant Scheme and a digital bond knowledge repository to promote broader adoption of tokenisation technology in Hong Kong's capital markets

Green finance

- 2025 Hong Kong Green Week will take place in the week of 8-12 September. Preparations are underway

Stablecoin and Digital Asset

- The Stablecoins Bill was introduced into the LegCo for scrutiny in December 2024



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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 with the People Bank of China to implement linkage of fast payment systems in Hong Kong and the Mainland to facilitate real-time, small-value, cross-boundary remittances
- Enhancement of the Central Moneymarkets Unit (CMU) in good progress. The CMU OmniClear Limited was set up and came into operation in 2025 to pursue commercialisation of the CMU

Fintech – Commercial Data Interchange (CDI)

- Working to connect with the Land Registry in phases from 2025, leveraging the linkage between CDI and Consented Data Exchange Gateway

Financial infrastructures and fintech initiatives (2)



Hong Kong FinTech Week 2024

- The event attracted a record high of over 37,000 attendees from over 100 economies

Central Bank Digital Currency (CBDC)

- Project mBridge: Reached the Minimum Viable Product (MVP) stage in June 2024
- Project Ensemble: Launched the Project Ensemble Sandbox in August 2024; connected with the relevant system of the Banque de France and completed experiments in September 2024; commenced two new collaborations with the Central Bank of Brazil and the Central Bank of Thailand in October 2024
- Project e-HKD+: Commenced Phase 2 of the e-HKD Pilot Programme in September 2024

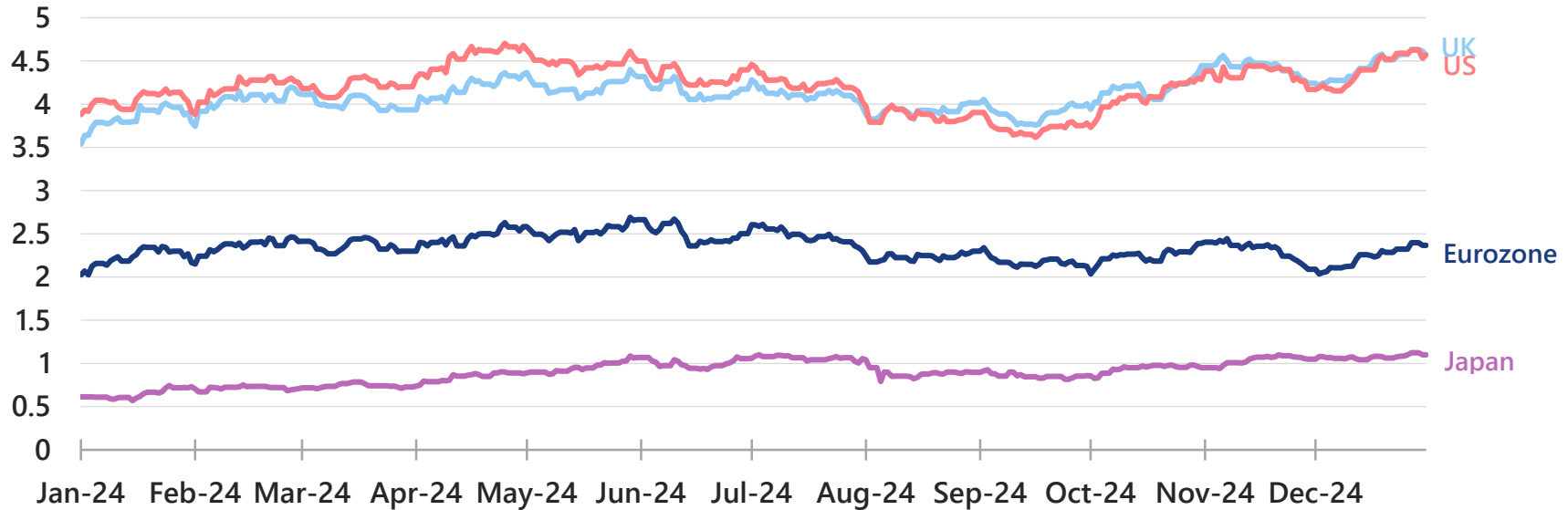


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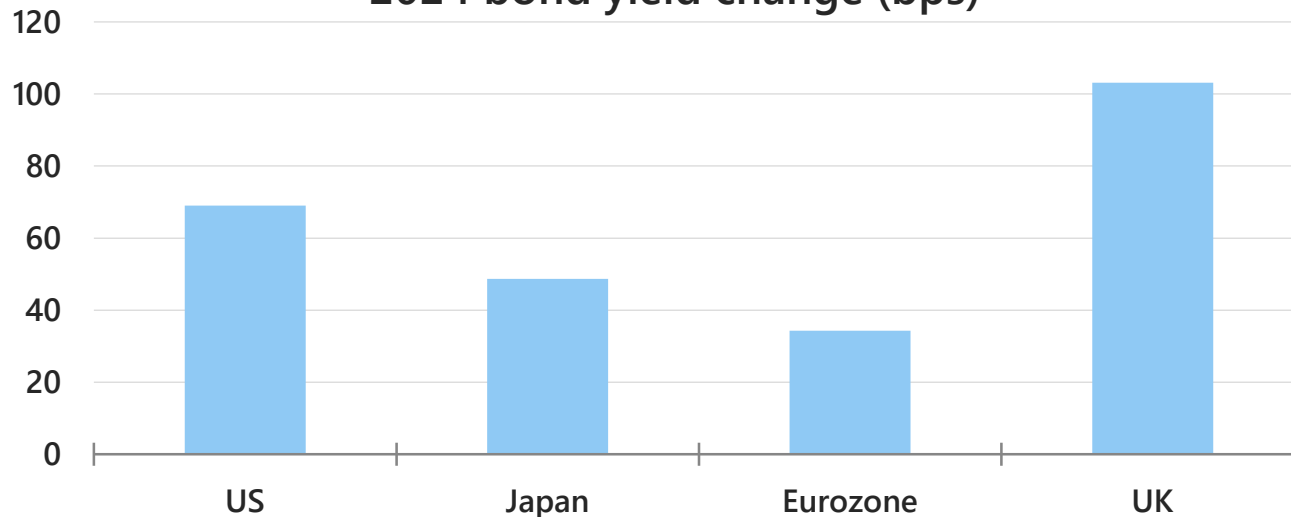
Major 10-year sovereign bond yields remained high



Yield (%)



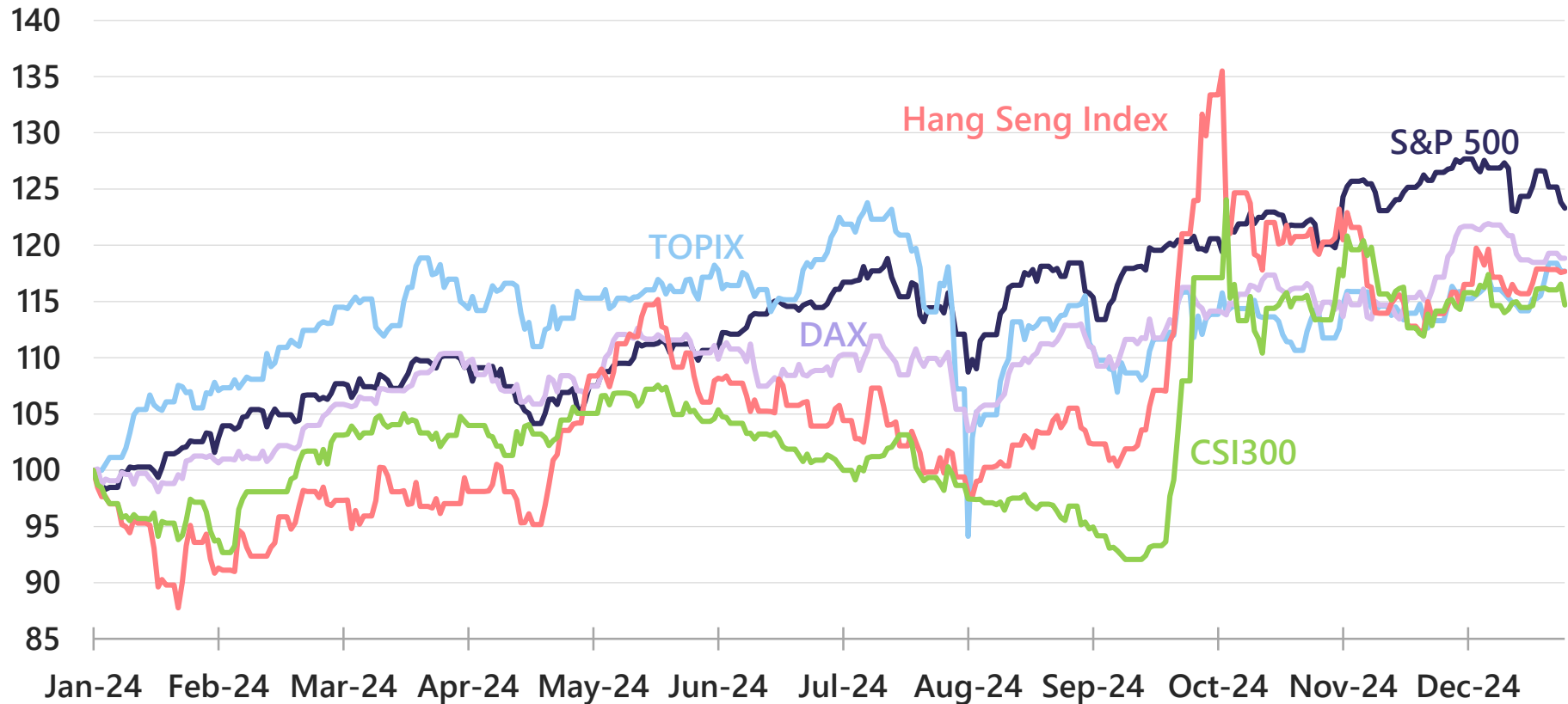
2024 bond yield change (bps)



Major equity markets generally trended up with volatility at times



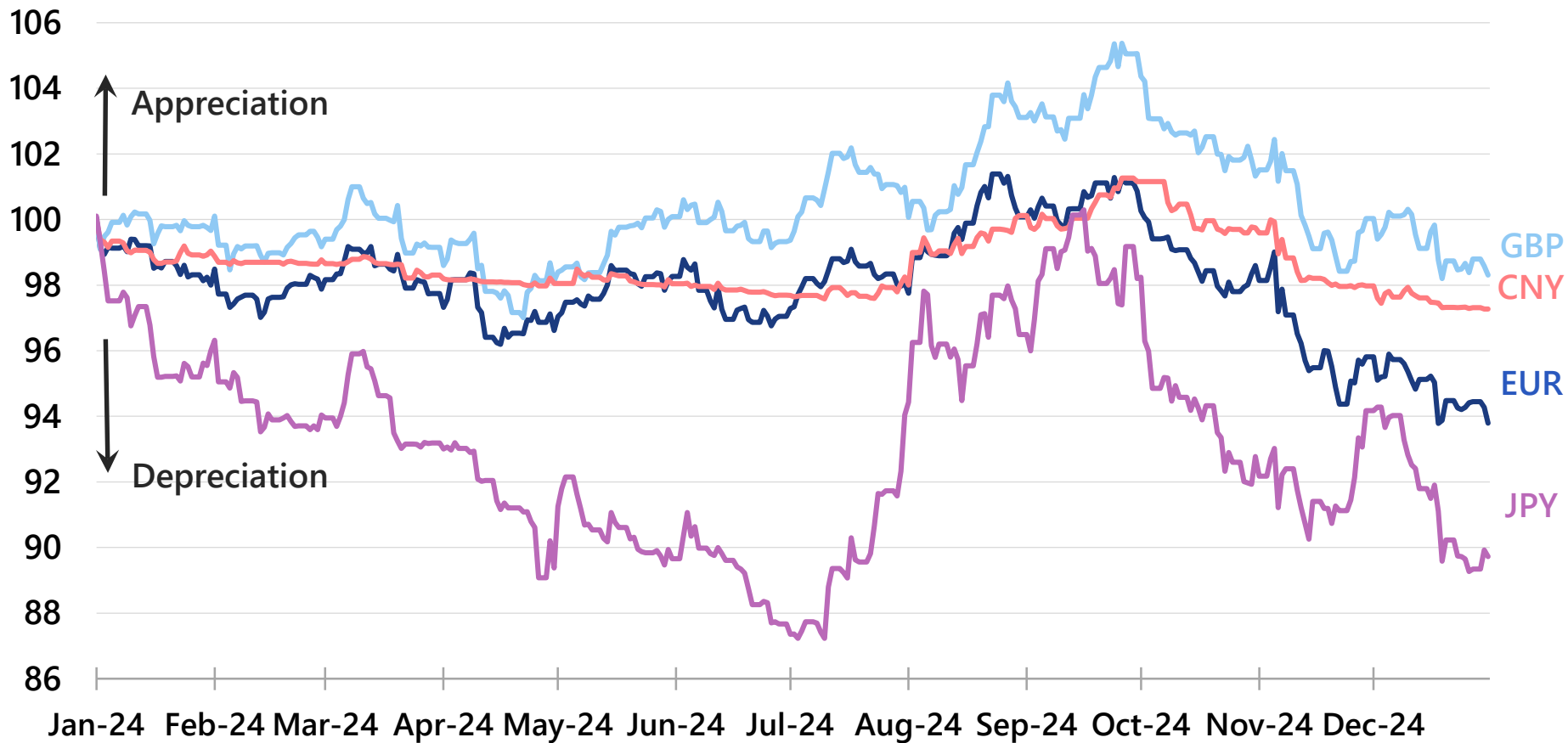
Normalised Index Level (2023 year-end = 100)



USD strengthened against major currencies



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





Investment Income

←————— 2024 —————→
 (unaudited)

(HK\$ billion)	Full year	Q4	Q3	Q2	Q1	Full year	Full year
Bonds	135.6	11.3	66.4	32.8	25.1	144.7	(53.2)
Hong Kong equities*	21.8	(6.7)	21.9	8.9	(2.3)	(15.5)	(19.5)
Other equities	68.7	2.7	18.2	11.5	36.3	73.6	(61.0)
Foreign exchange[#]	(35.6)	(27.4)	8.1	(11.5)	(4.8)	(0.5)	(40.0)
Other investments[@]	<u>28.5</u>	<u>-</u>	<u>14.4</u>	<u>6.1</u>	<u>8.0</u>	<u>23.7</u>	<u>(31.7)</u>
Investment income/(loss)	219.0	(20.1)	129.0	47.8	62.3	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 September 2024. Valuation changes of these investments from October to December are not yet available.



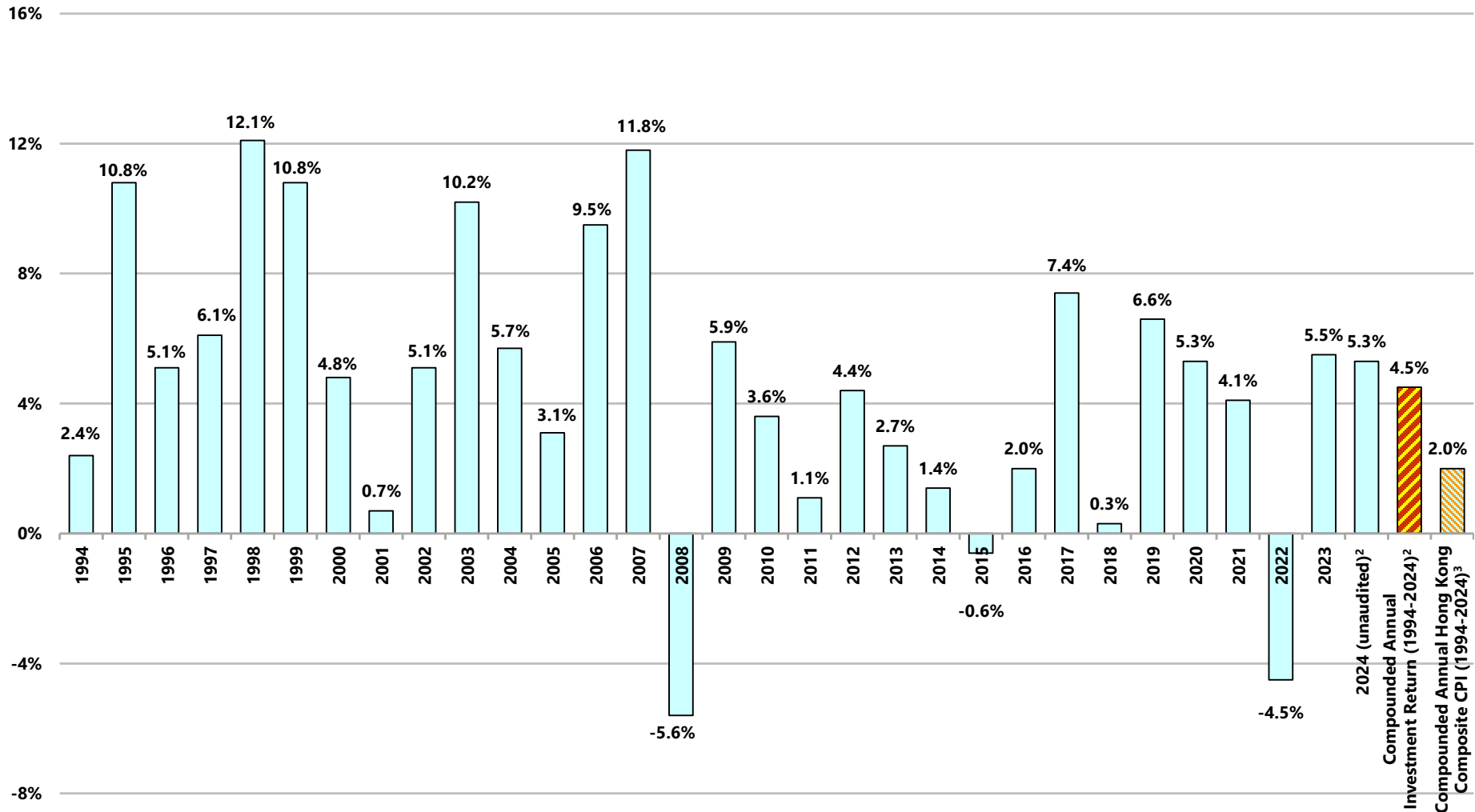
Income and Expenditure

	← 2024 →					2023	2022
	(unaudited)						
(HK\$ billion)	Full year	Q4	Q3	Q2	Q1	Full year	Full year
Investment income/(loss)	219.0	(20.1)	129.0	47.8	62.3	226.0	(205.4)
Other income	0.2	0.1	-	0.1	-	0.2	0.2
Interest and other expenses	<u>(63.0)</u>	<u>(15.3)</u>	<u>(16.4)</u>	<u>(15.8)</u>	<u>(15.5)</u>	<u>(54.5)</u>	<u>(18.8)</u>
Net income/(loss)	156.2	(35.3)	112.6	32.1	46.8	171.7	(224.0)
Fee (payment to)/reversed from Fiscal Reserves							
– Operating and Capital Reserves*	(13.2)	(3.2)	(3.0)	(3.1)	(3.9)	(17.5)	(35.0)
– Future Fund	- #	- #	- #	- #	- #	(18.0)	9.0
Fee payment to HKSAR Government funds and statutory bodies*	(15.7)	(3.5)	(3.8)	(4.1)	(4.3)	(16.5)	(22.1)

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

The 2024 fee payment to the Future Fund will be disclosed when the composite rate for 2024 is available.
(The composite rate was 4.8% for 2023 and -3.0% for 2022.)

Investment Return of The Exchange Fund (1994-2024)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 2024. The audited full year return will be disclosed in the 2024 annual report.

³ Composite CPI is calculated based on the 2019/2020-based series.



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Mortgage Insurance Programme (MIP)

- In 2024, around 20,600 applications were approved, of which 3,224 were under the new coverage after the programme revisions in July and September 2023. Over 90% of approved applications were from first-time homebuyers. In 2025, as of 15 January, around 620 applications were approved
- From 8 August 2024, eligible homeowners' applications for renting out their self-occupied properties may be approved on case-by-case basis to help them meet special needs arising from changes in personal or family circumstances. As of 15 January 2025, 825 applications were approved

SME Financing Guarantee Scheme (SFGS)



- The enhancements set out in *The Chief Executive's 2024 Policy Address* took effect on 18 November 2024: principal moratorium for existing and new loans; extended maximum loan guarantee periods of the 80% and 90% Guarantee Products; partial principal repayment options for new loans under the two products
- As of 15 January 2025, around 42,500 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$145.4 billion. The application period for these products has been extended to the end of March 2026

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. The application period ended on 28 October 2024. 227 applications amounting to about HK\$0.22 billion were approved under the two schemes.
- 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 January 2025, 131 applications were approved, amounting to about HK\$45.35 million