



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council

Panel on Financial Affairs

6 May 2025
[Translation]



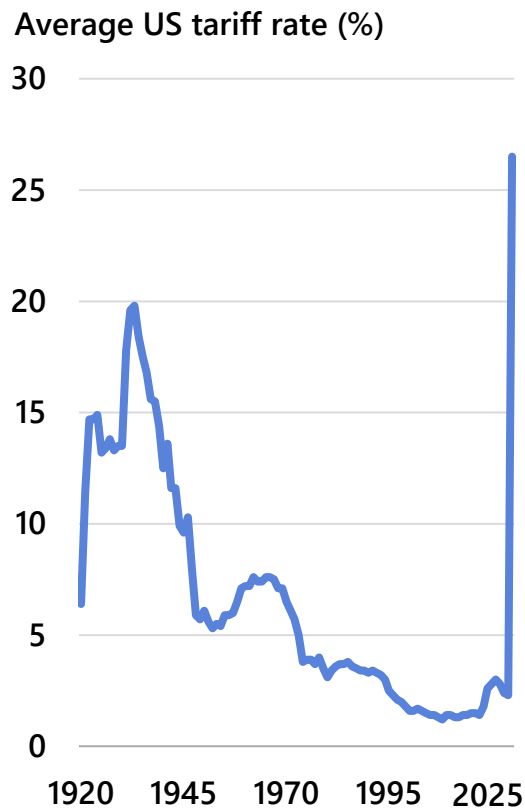
1. Assessment of Risk to Hong Kong's Financial Stability

2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
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US tariff actions exert downward pressure on the global economic outlook



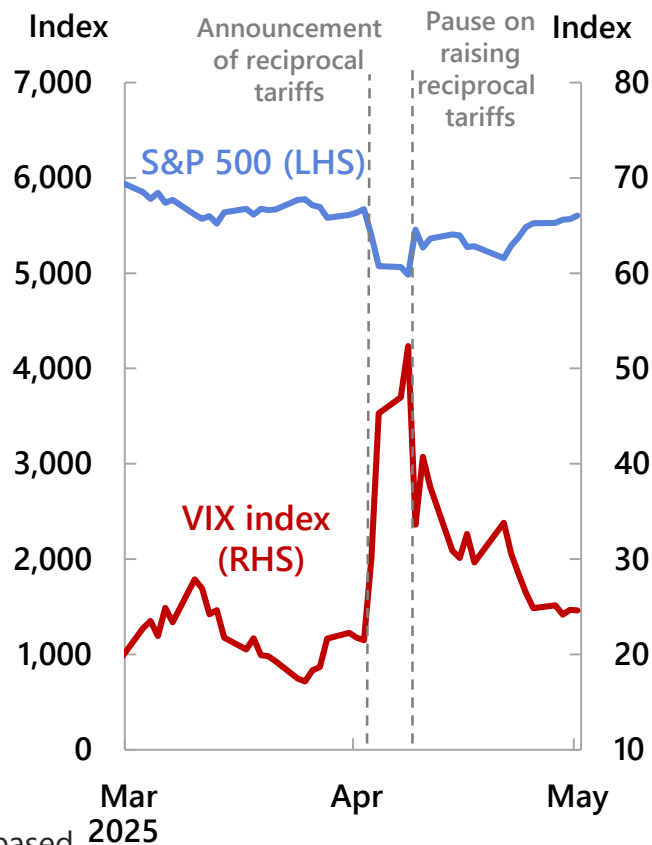
US tariffs on imports spike



Note: The estimated average tariff rate is based on the tariff implemented as of 16 April with pre-substitution imports share. Actual tariff rate may be lower as a result of import substitution.

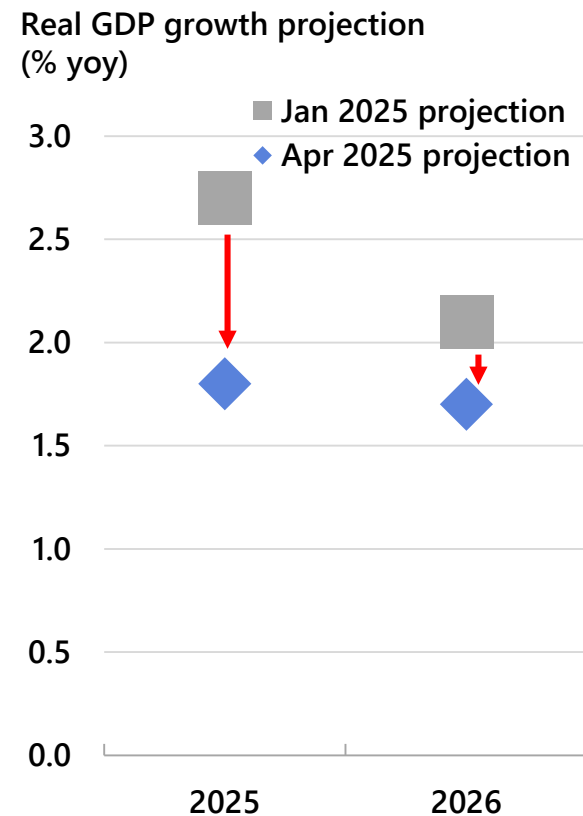
Source: Bloomberg

Wild swings in financial markets



Source: Bloomberg

US growth outlook deteriorates



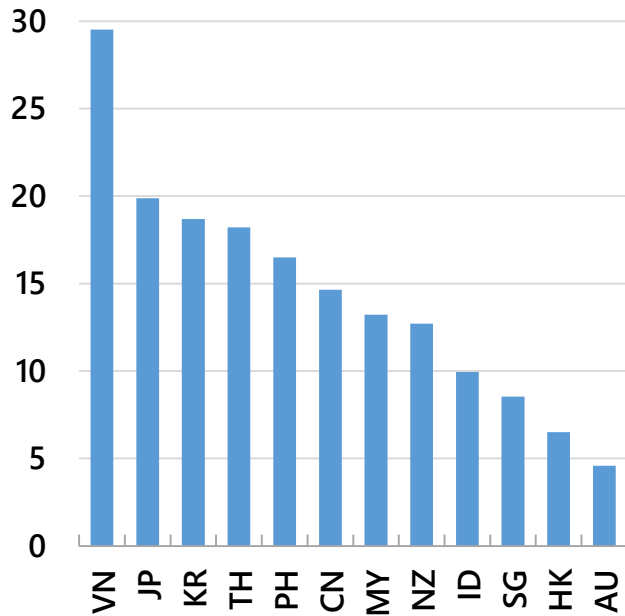
Source: International Monetary Fund

Economic outlook in the Asia-Pacific region under pressure



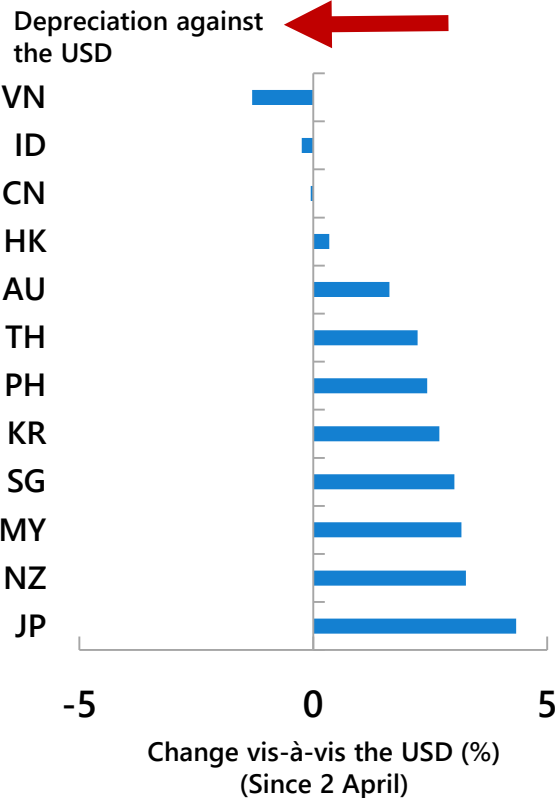
US reciprocal tariffs will weigh on exports in the region

Share of exports to US to total exports (%)



Note: The shares refer to 2024 figures.
Sources: CEIC and HKMA staff calculations

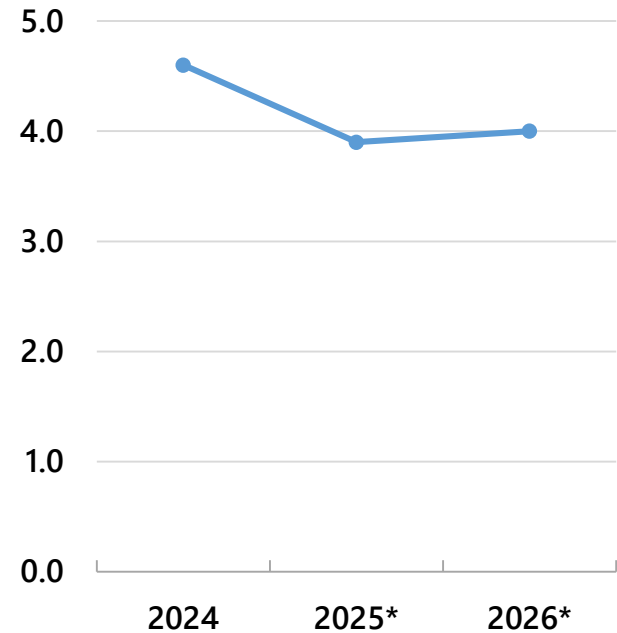
Movements in regional currencies diverge



Note: Data as of 30 April.
Source: Bloomberg

Regional economic growth will slow down

Real GDP growth (%yoy)

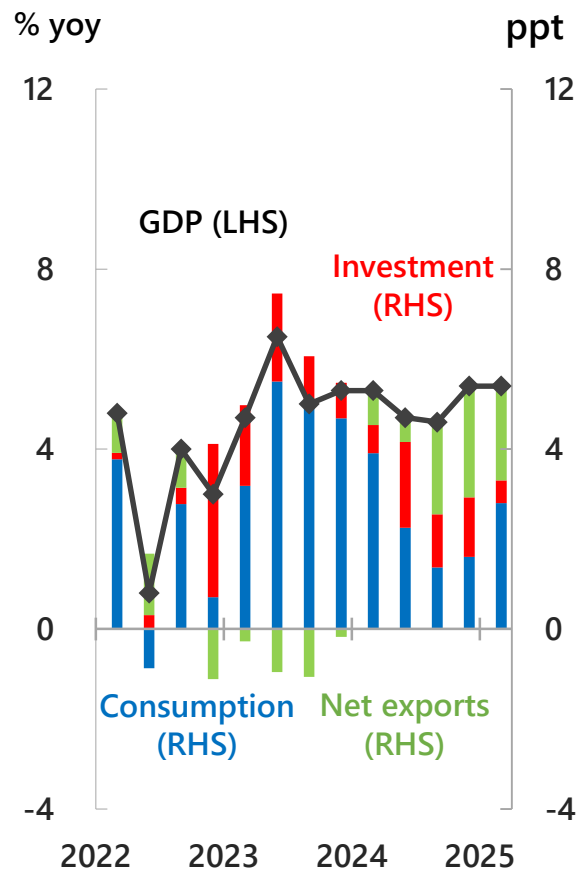


Note: * refers to the IMF's April 2025 World Economic Outlook forecast for economic growth in the Asia Pacific.
Source: International Monetary Fund

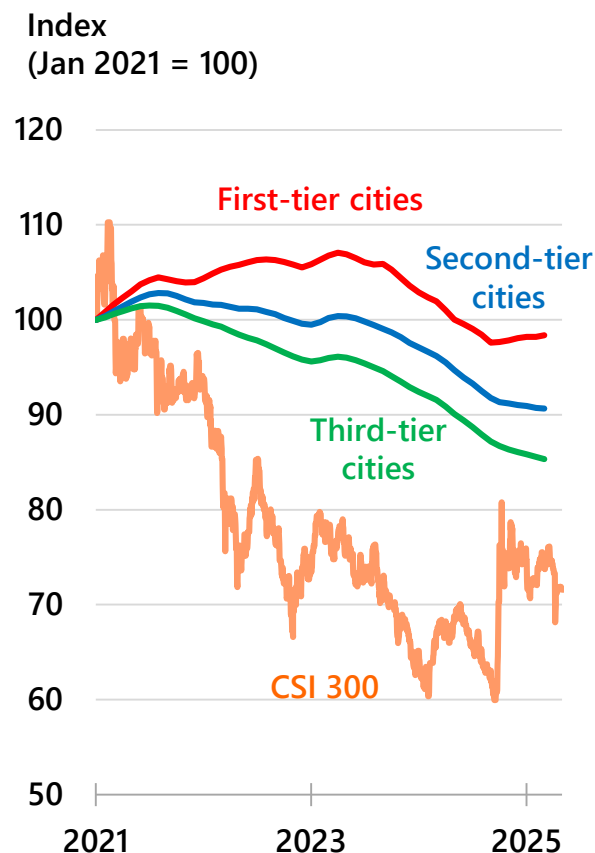
Mainland authorities will strive to stabilise the economy and asset markets



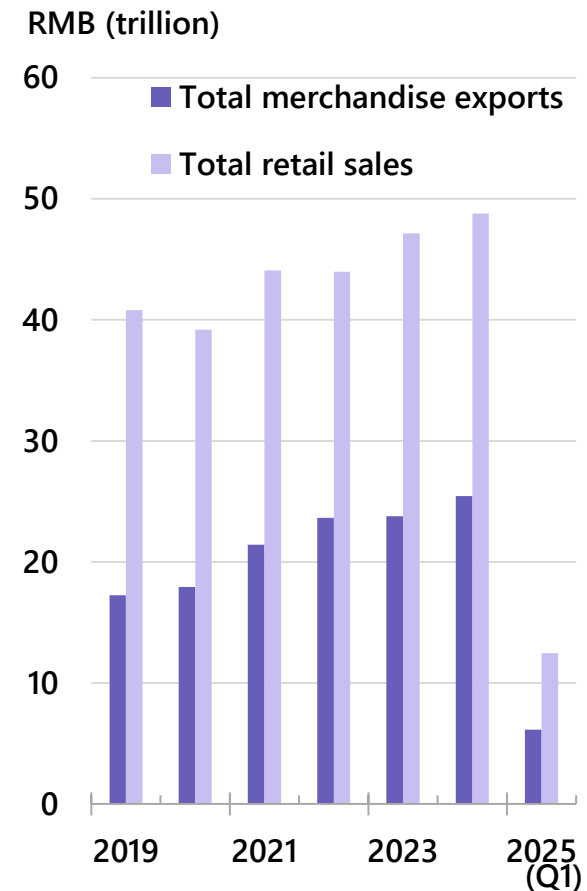
Growth in the first quarter remained resilient



Equity market were volatile, property market stabilised



Boost private consumption to reduce tariff impact

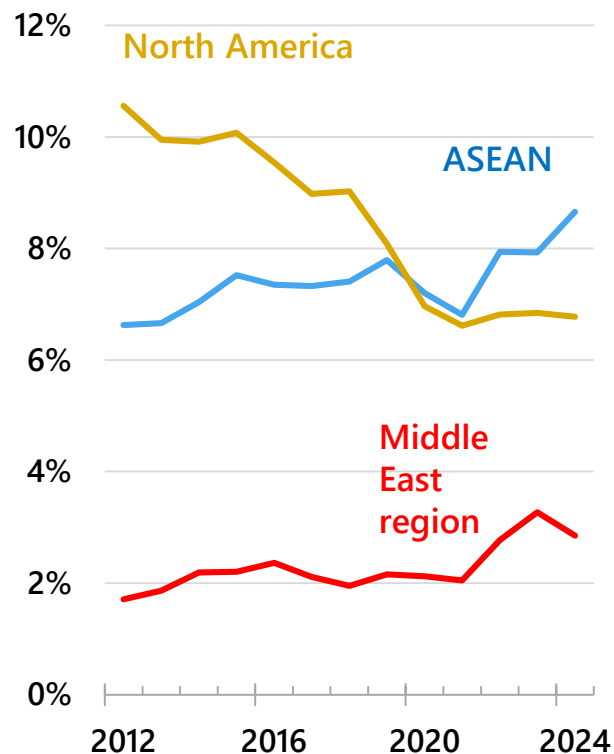


Various policies will provide certain support to Hong Kong's economy



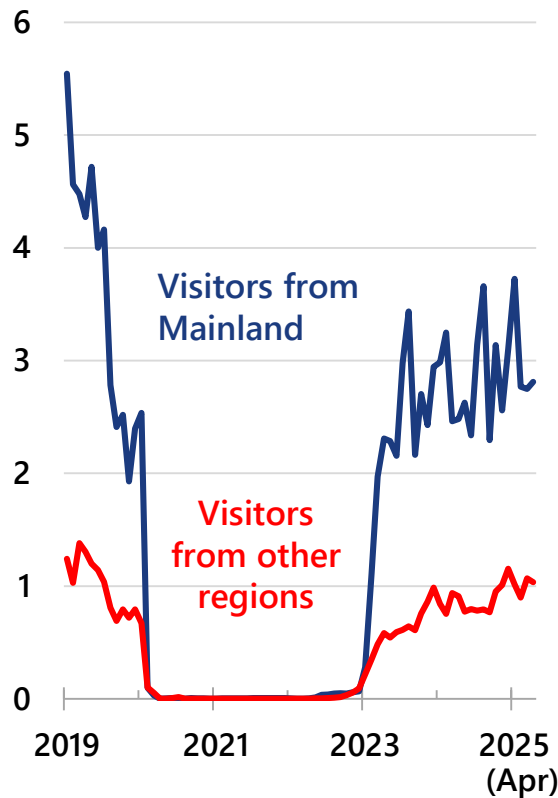
Export markets continued to diversify

Share of Hong Kong merchandise export value



Inbound visitors further increased

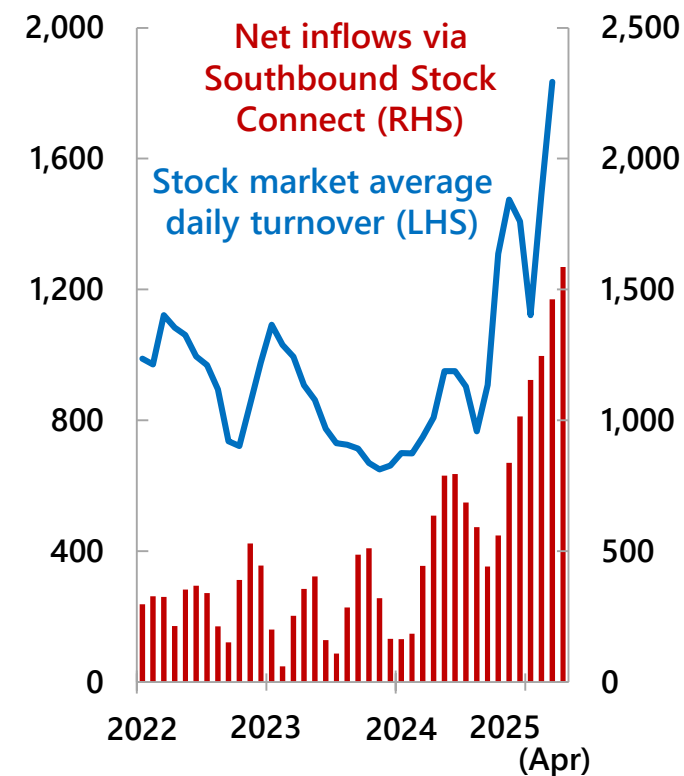
Million persons



Continued equity inflows under Southbound Stock Connect

HKD hundred mn

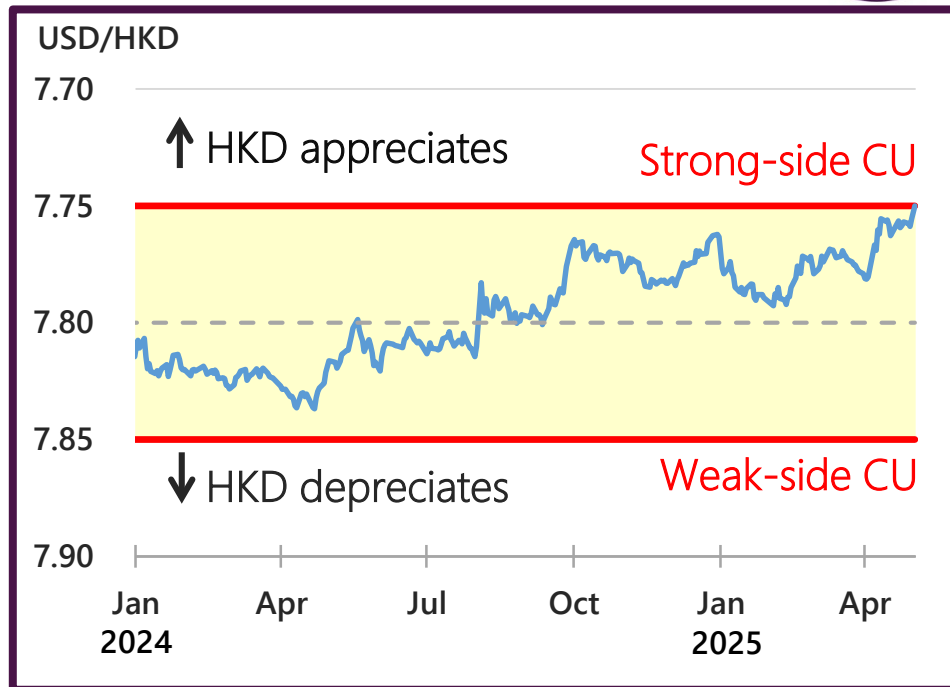
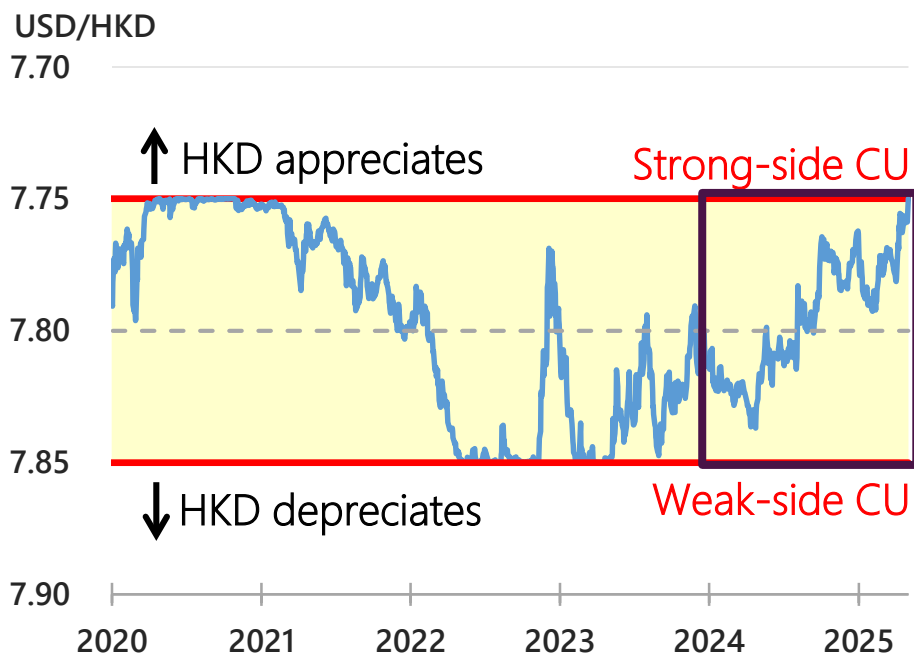
HKD hundred mn



Note: both stock market average daily turnover and net inflows through the Southbound Stock Connect refer to their three-month moving averages; Southbound net buying is the sum of such buying on the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Sources: Census and Statistics Department, Hong Kong Tourism Board, Immigration Department and HKEX

HKD exchange rate strengthens

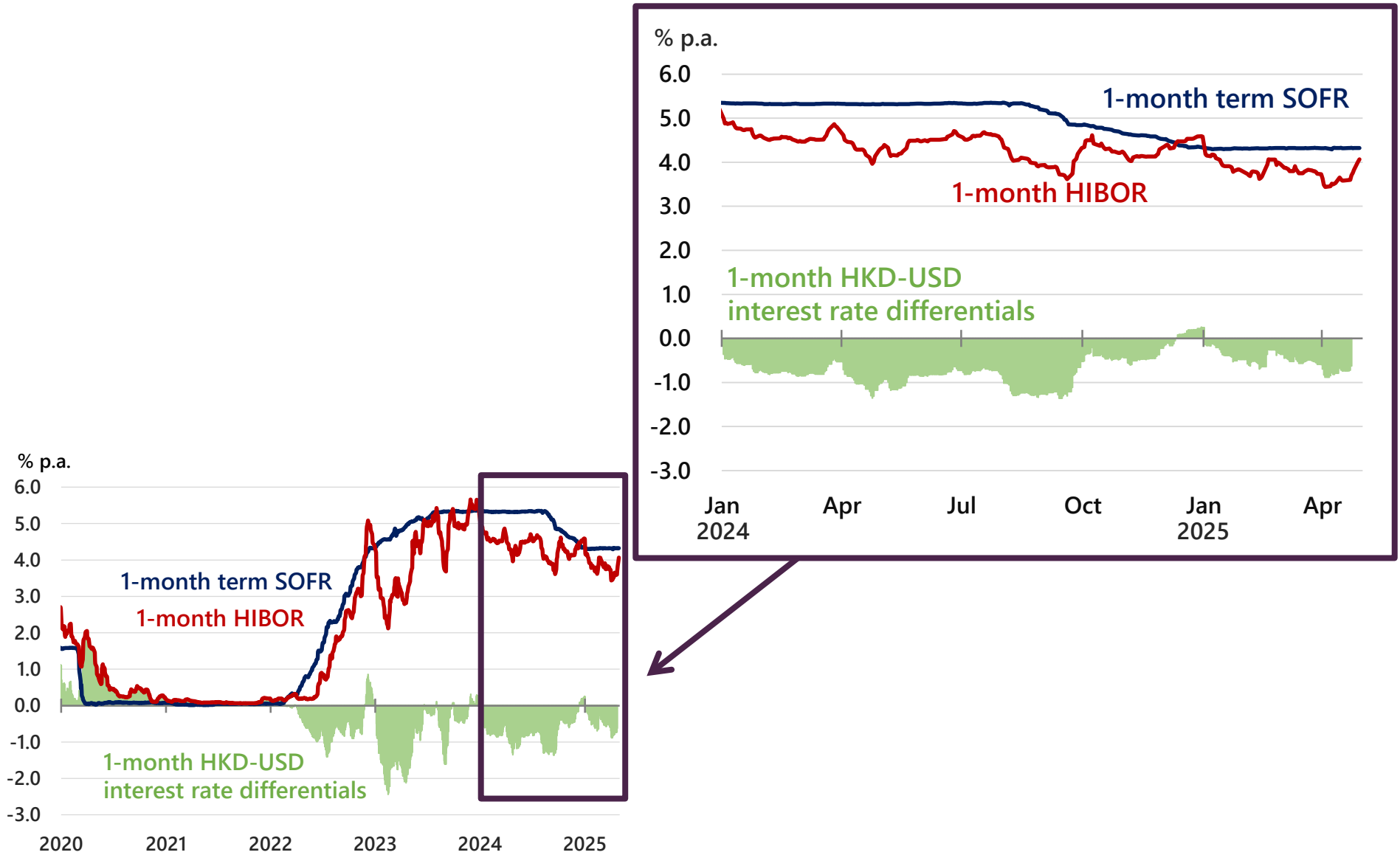


Year	Trigger of weak-side CU	Purchase of HKD (HKD bn)
2022 May - Nov	41 times	242.1
2023 Feb - May	8 times	51.5

Year	Trigger of strong-side CU	Sale of HKD (HKD bn)
2025 May	3 times	116.6



HKD interest rates remain stable



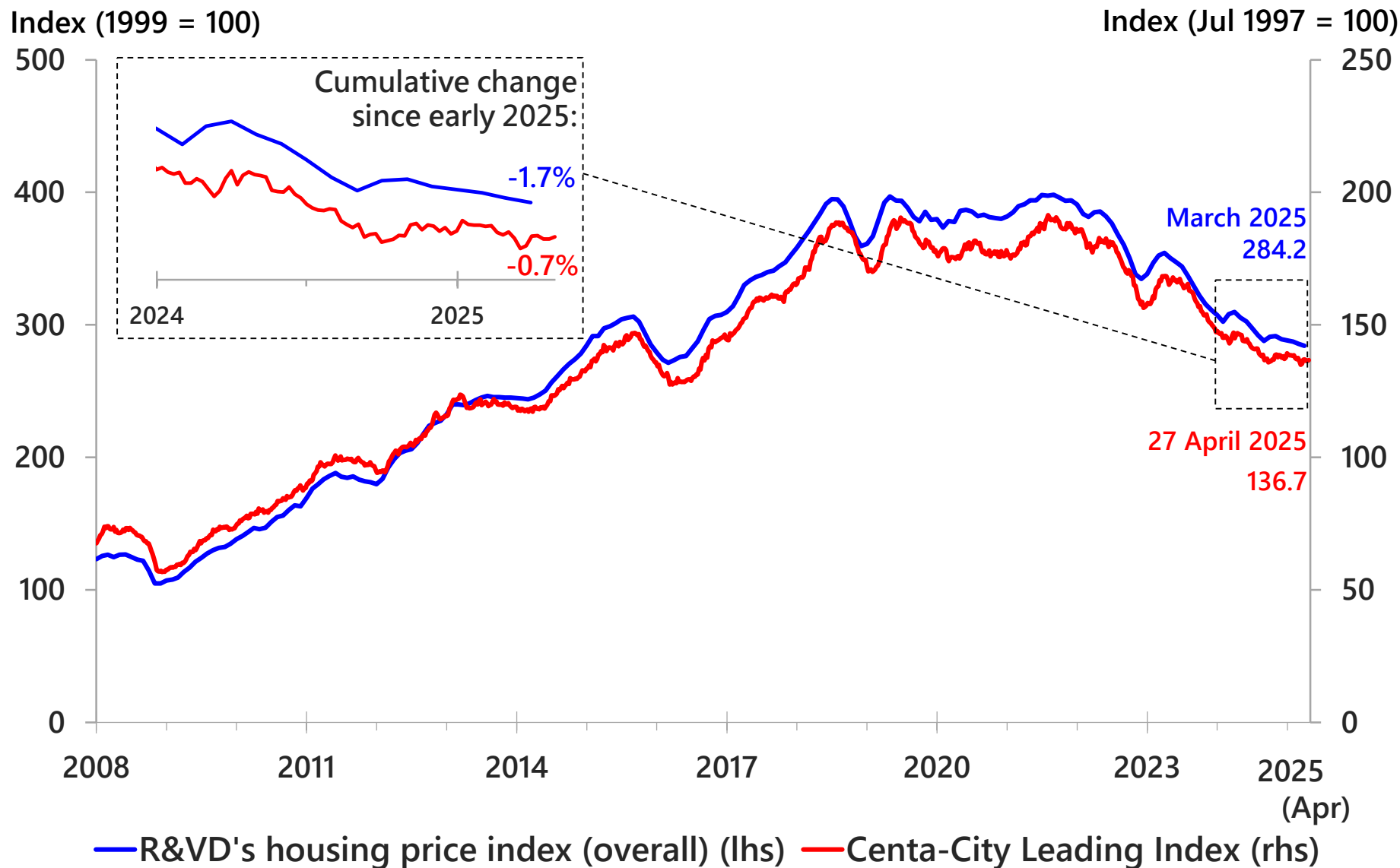
Bank deposits continue to grow



Change during the period (%)

	Total deposits	HKD deposits
Full year 2024	+7.1%	+2.8%
First quarter of 2025	+3.5%	+5.1%
January	+1.4%	+1.3%
February	+1.3%	+2.1%
March	+0.8%	+1.6%

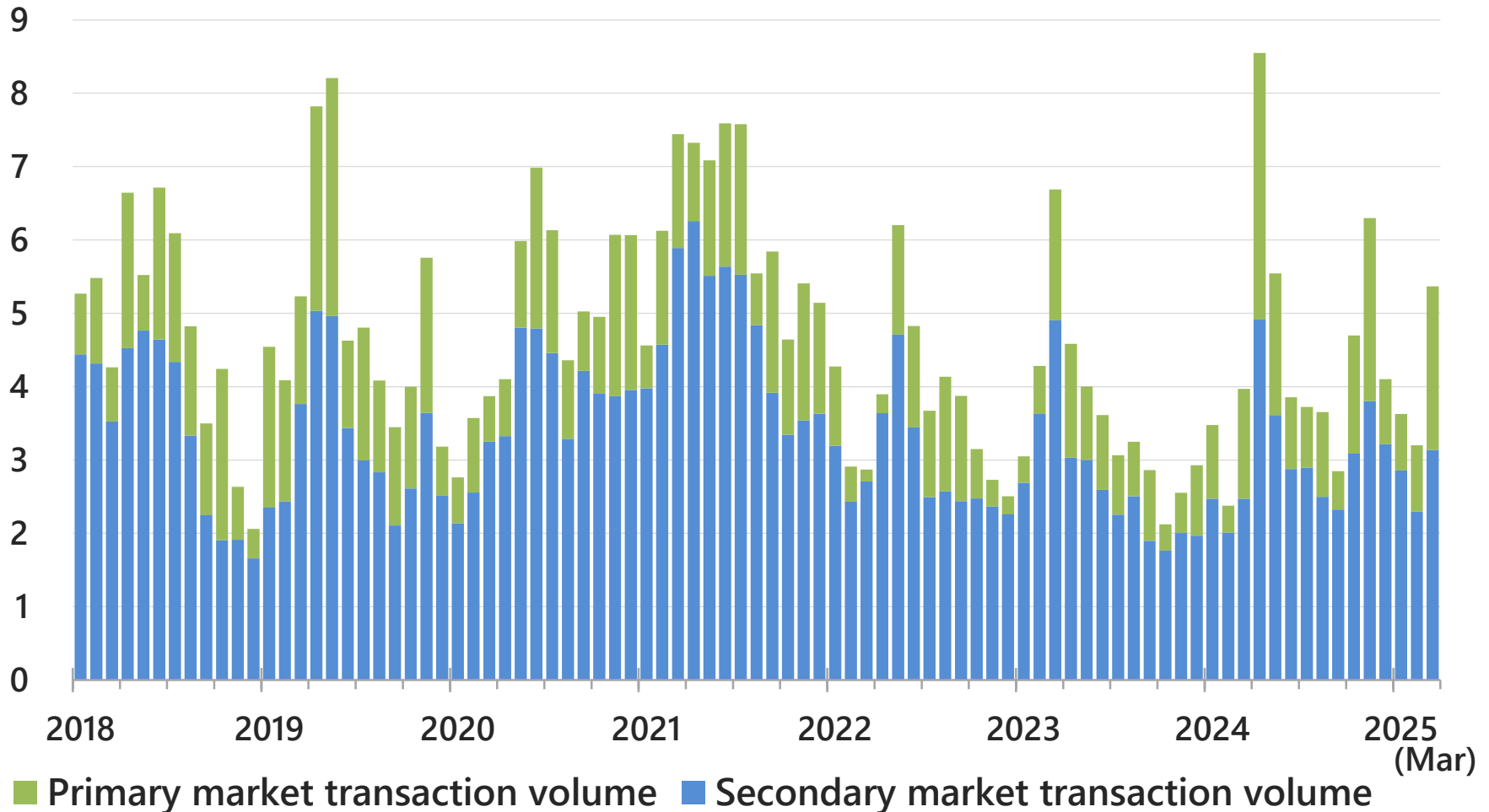
Housing prices fluctuate





Housing market transactions stabilise

Number of transactions ('000)



Hong Kong's financial system is capable of addressing various challenges



- US tariff war has increased both the downside risk to global economic growth and uncertainty surrounding the US interest rate path
- US policy uncertainty could lead to continued market volatility and exacerbate risk aversion
- The Central Government may increase policy support for the economy and help preserve the multilateral trading system
- Hong Kong will expedite its exploration of emerging markets and help SMEs tide over the difficult time
- HKMA will collaborate closely with other financial regulators to maintain the monetary and financial stability of Hong Kong



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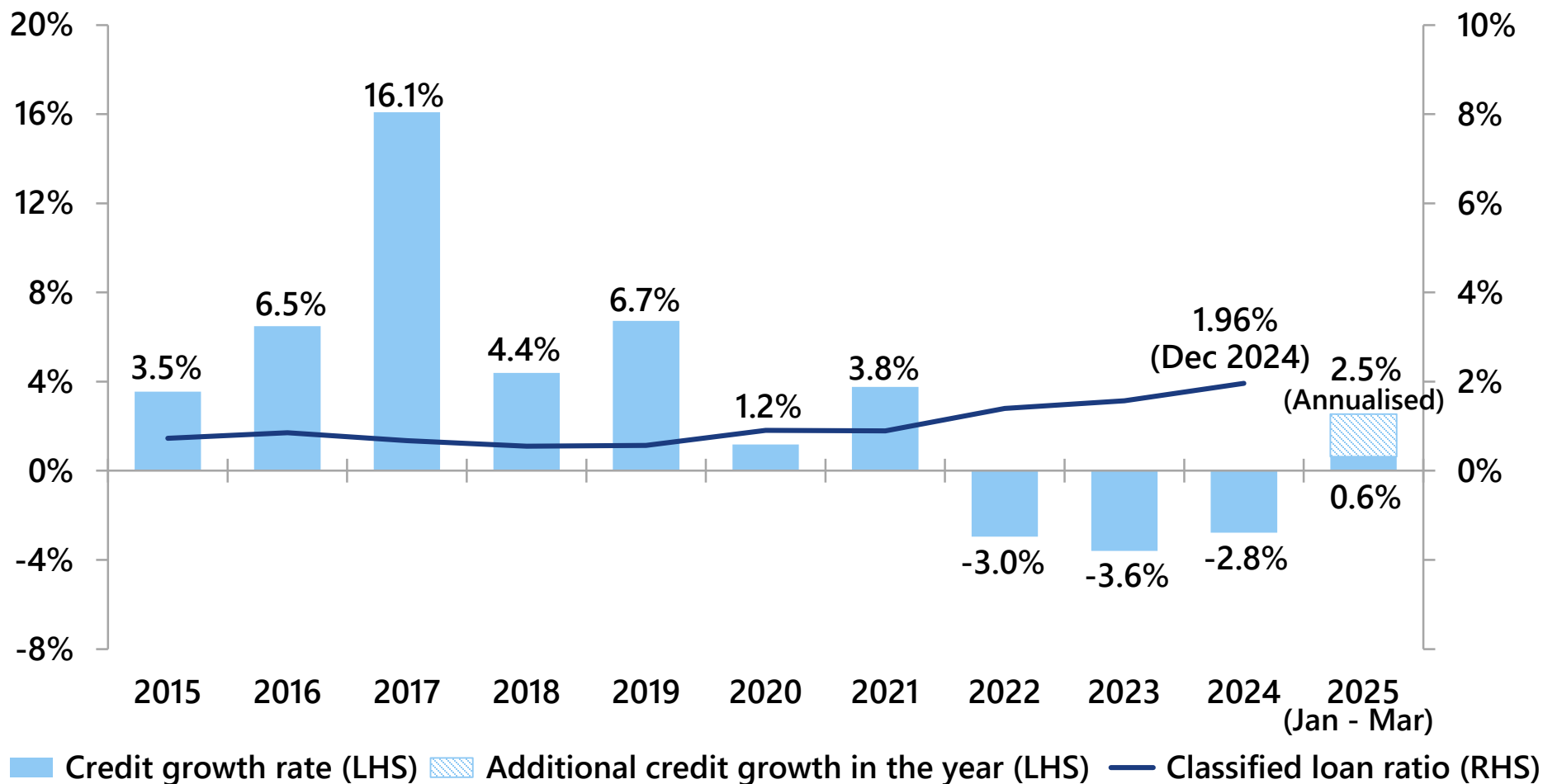
Banking sector performance



Total loans grew slightly while credit risk remains manageable

Credit growth rate

Classified loan



* Classified loan ratio of all authorized institutions

Source: HKMA



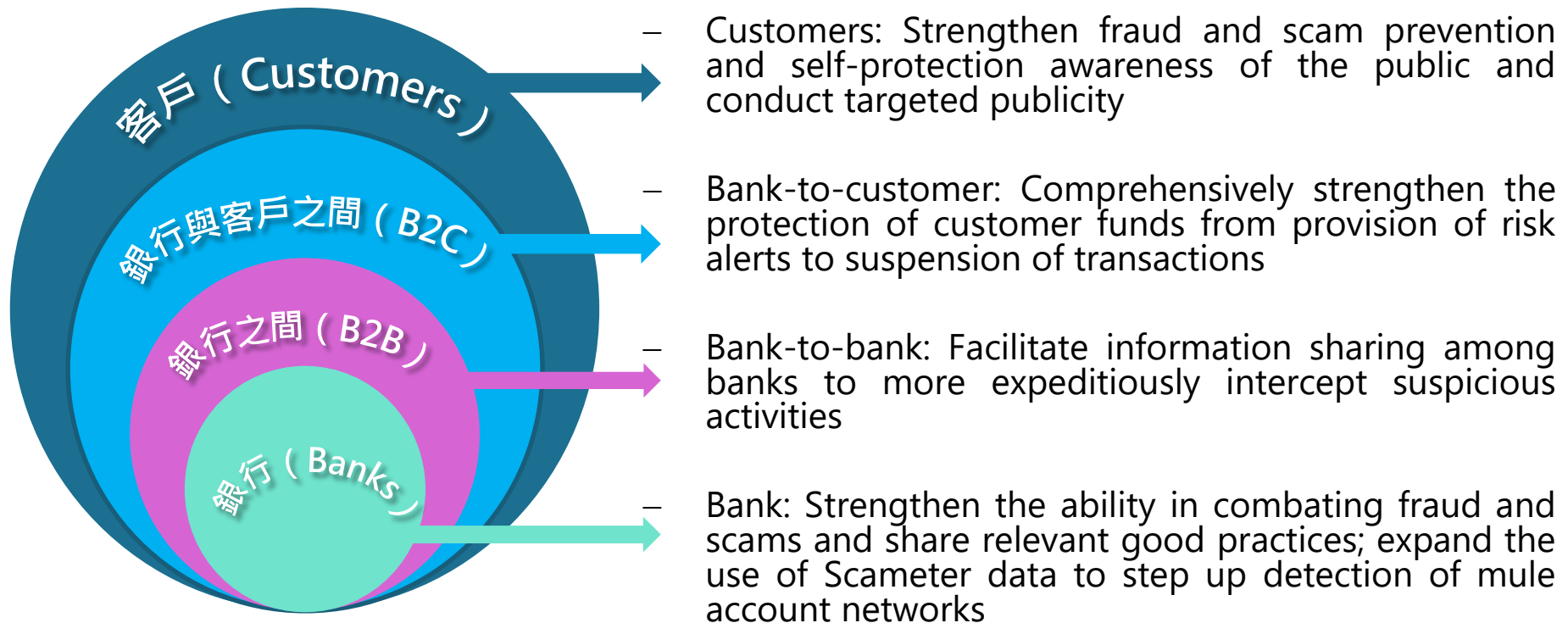
Supporting SMEs

- On 8 April 2025, the HKMA and the banking sector introduced sector-specific SME measures in light of challenging external environment:
 - **Import and export and manufacturing sectors:** Flexible extension to trade facilities (e.g. 90 or 120 days); keep close contact with businesses
 - **Construction sector:** Collaborative mechanism to provide flexible financial arrangements to corporates facing cashflow pressure
 - **Transport sector:** Introduce financing products that are better suited to the sector and offer more flexible repayment arrangements
- Other measures to support economic development:
 - **Lease extension:** Strengthen the promotion of the Extension of Government Leases Ordinance
 - **Northern Metropolis development:** Explore ways to provide suitable financing to tie in with the Government's implementation of large-scale land disposal and other developments



Fraud Prevention and Detection

- The HKMA closely monitors the trend of fraud and scam, and builds a comprehensive multi-strata fraud and scams prevention ecosystem to provide protection to the public all round





Legislative Proposals

International Standards Implementation

- **Prudential treatment of cryptoasset exposures**
 - Amendments to Banking (Capital) Rules, Banking (Disclosure) Rules and Banking (Exposure Limits) Rules
 - Target implementation date: 1 January 2026

Banking (Amendment) Bill 2025

- Introduced into LegCo in April 2025 to facilitate information sharing among authorized institutions for detecting and preventing financial crime

Enhancements to Banking Ordinance

- Consulted on proposals in relation to simplification of three-tier banking system, regulation of bank holding companies, engagement of skilled persons, extension of the Monetary Authority's investigation and enforcement powers and other technical amendments
- Related legislative amendments under preparation

Protection of Critical Infrastructures (Computer Systems) Ordinance Implementation

- Commencing preparatory work in collaboration with Security Bureau for discharging duties as a Designated Authority under the Ordinance



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



- Momentum of various offshore RMB businesses remained solid

(RMB bn)	Mar 2025	Mar 2024	Growth
RMB deposits (incl. outstanding certificates of deposit)	1,077.4	1,058.0	2%
Outstanding RMB loans	804.4	524.2	53%
RMB trade settlement [*]	3,625.5	3,713.7	-2%
RMB bond issuance [^]	1,071.6 (2024 full year)	783.8 (2023 full year)	37%

* Figures of first quarter.

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

Deepening financial co-operation between Hong Kong and the Mainland (1)



- The new policy measures jointly announced by the HKMA and the People Bank of China in January 2025 have been implemented progressively and operated in a smooth and orderly manner, with positive responses from the market, details including:

Enhancing Bond Connect

- Implementing the enhancements to Southbound Bond Connect on 14 January, including 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
- Launching offshore RMB repurchase business using Northbound Bond Connect bonds as collateral on 10 February
- Starting to accept onshore Central Government Bonds and policy bank bonds held by Northbound Bond Connect investors as margin collateral for all derivative transactions at OTC Clearing Hong Kong Limited (OTCC) from 21 March

Deepening financial co-operation between Hong Kong and the Mainland (2)



Supporting economic activities

- Launching HKMA RMB Trade Financing Liquidity Facility on 28 February

Facilitating residents' transactions

- Adding three participating banks in January to support Hong Kong residents to open GBA bank accounts by attestation
- Publishing an FAQ in January to explain the current policy arrangements for various cross-boundary remittance scenarios, and holding an industry briefing to discuss the implementation arrangements
- The HKMA will maintain close communication with the market and relevant financial regulatory authorities, and actively explore measures to further deepen financial cooperation and market connectivity between the two places

Developing Hong Kong's financial platform



Bond market

- With over US\$130 billion worth of international bond issuances arranged in Hong Kong during 2024, capturing around 30% of the regional total, Hong Kong remains the key bond arranging hub in the region
- Supporting the Government in the implementation of the 2025-26 bond issuance plan, which includes the third batch of tokenised bonds to promote development and innovation in the bond market

Green finance

- Preparing for the 2025 Hong Kong Green Week, which will take place from 8 to 12 September, in collaboration with international and local partners

Stablecoins and Digital assets

- The Bills Committee's examination of the Stablecoins Bill has been completed. The second reading debate of the Bill will be resumed on 21 May 2025

Supply chain

- The HKMA established a working group in June 2024 to study with the industry on how Hong Kong can actively play its role as a financing hub amidst global supply chain reconfiguration. The working group has made recommendations on digital trade, greening of the supply chain, development of treasury centres and enhancement of banks' regional business capabilities. The HKMA will collaborate with stakeholders to implement the recommendations



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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) is in good progress. CMU OmniClear Limited was set up and came into operation in 2025 to pursue commercialisation of the CMU

Fintech – Commercial Data Interchange (CDI)

- Launched Project Cargo^x to enhance digital trade finance ecosystem by harnessing the power of cargo data; established an Expert Panel on Cargo^x in April 2025 to formulate recommendations and a roadmap

Financial infrastructures and fintech initiatives (2)



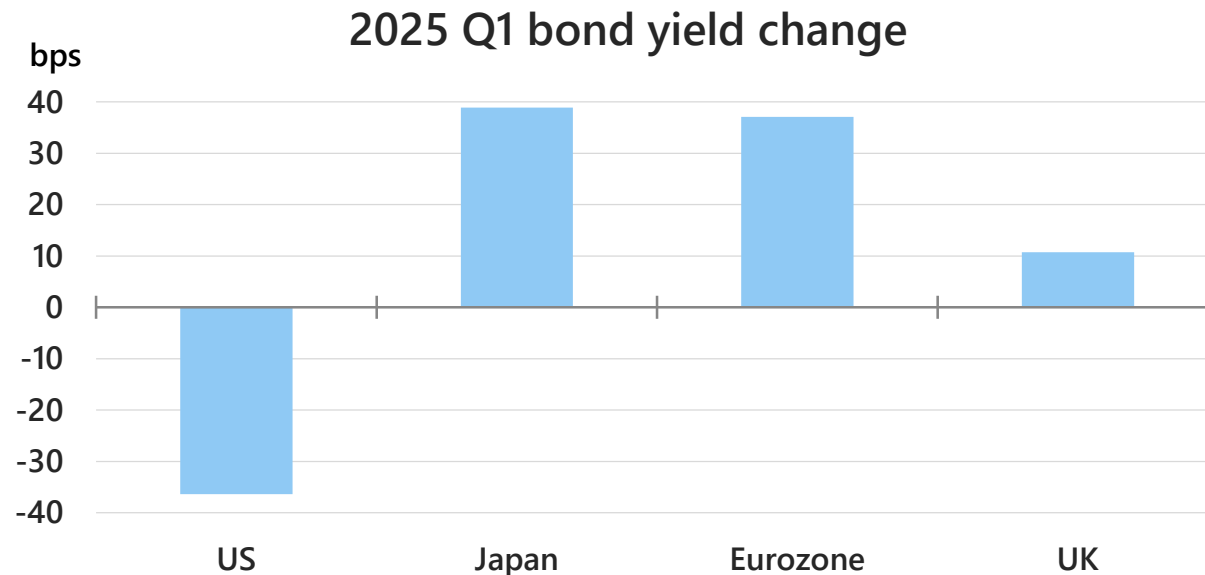
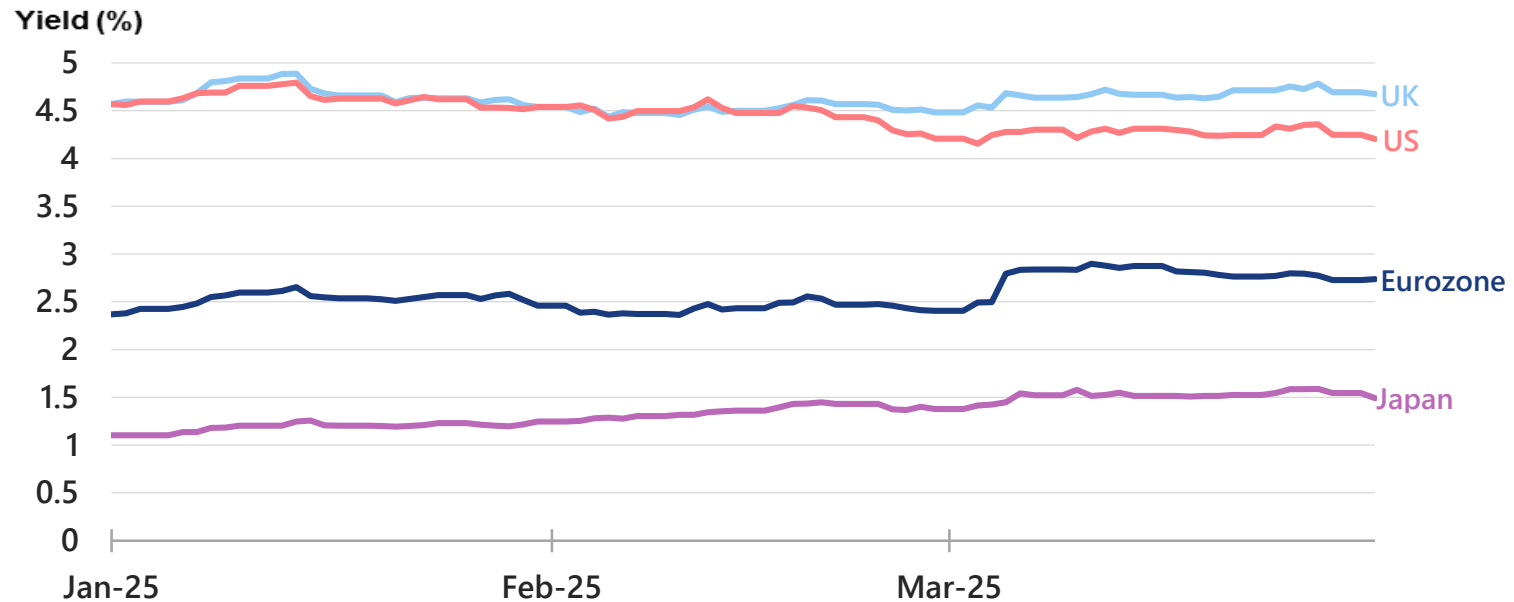
Central Bank Digital Currency (CBDC)

- Project mBridge: Reached the Minimum Viable Product (MVP) stage in June 2024
- Project Ensemble: Launched the Project Ensemble Sandbox in August 2024 to explore tokenisation use cases with the industry; 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

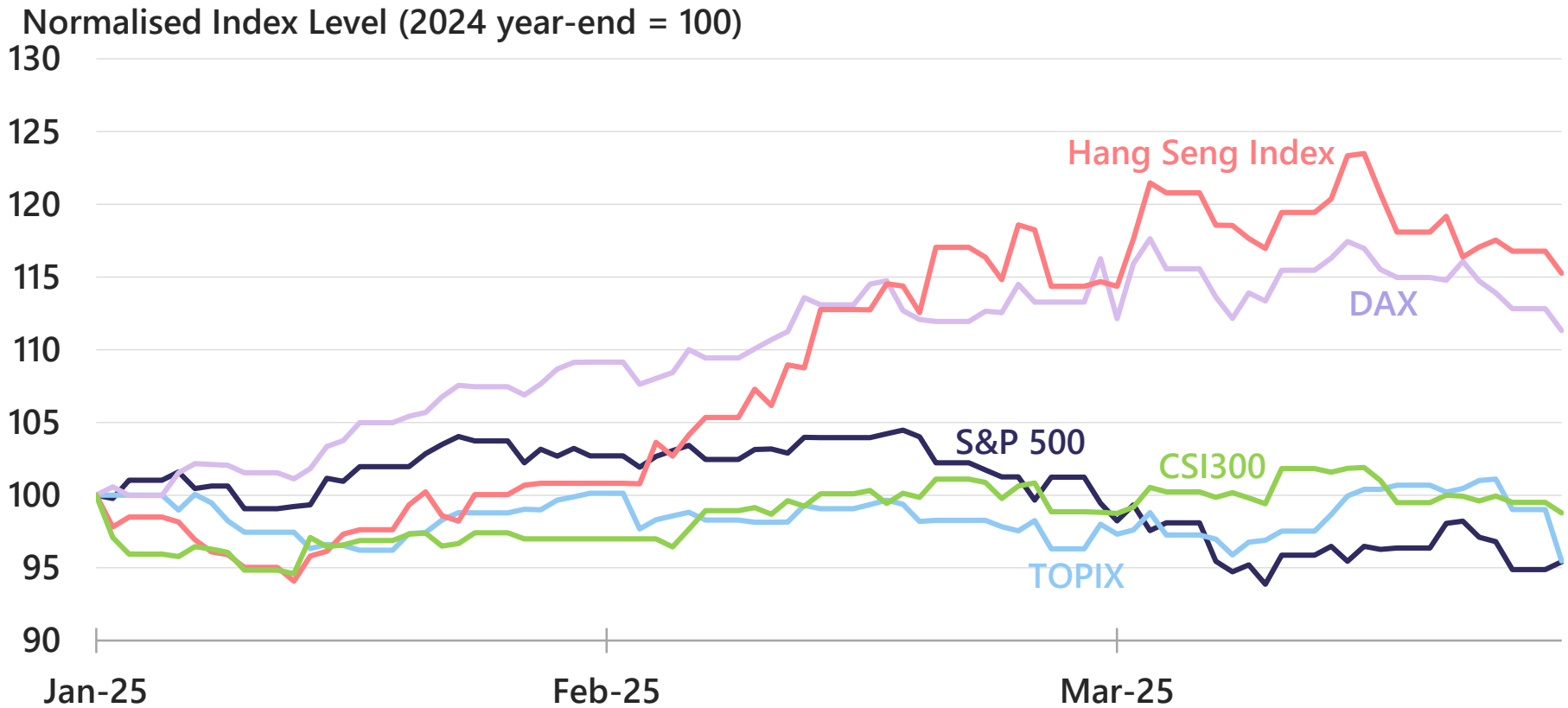


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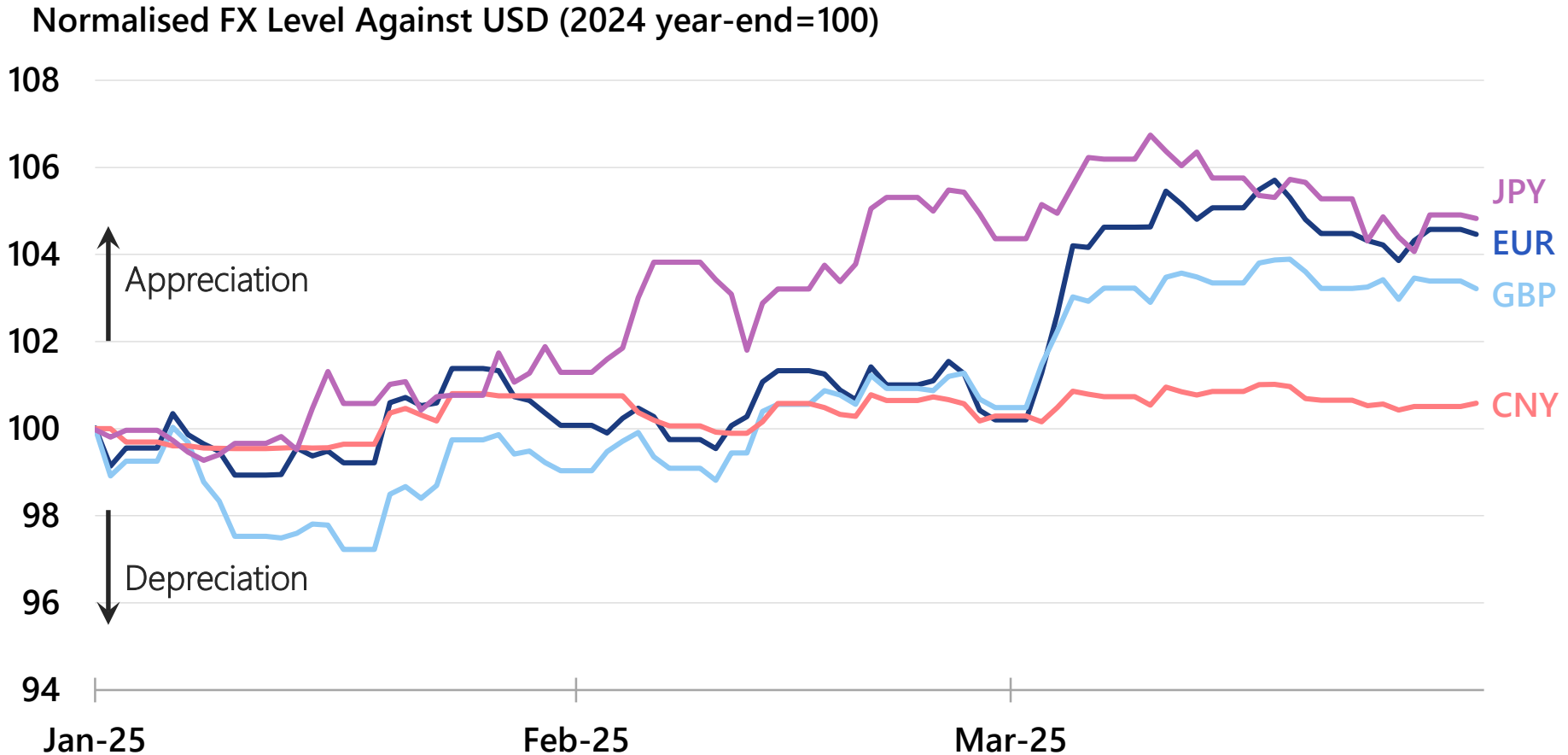
Major 10-year sovereign bond yields remained high



Performance of major stock markets varied



Major currencies strengthened against USD



Investment environment deteriorated sharply in April



- **Significant Changes in the Global Macroeconomic Environment:** US tariffs and related policies have intensified recession fears and led to a deterioration in market sentiment. The VIX index has surged from around 13 at the beginning of 2025 to 52 in early April, indicating heightened market anxiety and uncertainty
- **Impact on Monetary Policy:** An ongoing trade war may inflict significant damage on global trade, potentially driving up inflation and influencing the monetary policies of major central banks
- **Geopolitical Tensions:** Trade conflicts may lead to an escalation of geopolitical tensions, which could cause further market instability



Investment Income

	2025	2024	2023	2022
	(unaudited)			
(HK\$ billion)	Q1	Full year	Full year	Full year
Bonds	40.6	135.9	144.7	(53.2)
Hong Kong equities*	16.4	21.8	(15.5)	(19.5)
Other equities	(2.8)	69.1	73.6	(61.0)
Foreign exchange[#]	13.0	(35.6)	(0.5)	(40.0)
Other investments[@]	-	27.6	23.7	(31.7)
Investment income/(loss)	67.2	218.8	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.

Valuation changes of these investments for the first quarter of 2025 are not yet available.



Income and Expenditure

	2025	2024	2023	2022
	(unaudited)			
(HK\$ billion)	Q1	Full year	Full year	Full year
Investment income/(loss)	67.2	218.8	226.0	(205.4)
Other income	-	0.2	0.2	0.2
Interest and other expenses	<u>(13.3)</u>	<u>(63.1)</u>	<u>(54.5)</u>	<u>(18.8)</u>
Net income/(loss)	53.9	155.9	171.7	(224.0)
Fee (paid to)/received from Fiscal Reserves				
– Operating and Capital Reserves*	(4.5)	(13.2)	(17.5)	(35.0)
– Future Fund	- #	(16.2)	(18.0)	9.0
Fee payment to HKSAR Government funds and statutory bodies*	(4.2)	(15.7)	(16.5)	(22.1)

* The rate of fee payment is 4.4% for 2025, 3.7% for 2024, 3.7% for 2023 and 5.6% for 2022.

The 2025 fee payment to the Future Fund will be disclosed when the composite rate for 2025 is available. (The composite rate was 3.9% for 2024, 4.8% for 2023 and -3.0% for 2022.)



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Mortgage Insurance Programme

- In 2025, as of 15 April, around 4,800 applications were approved. Over 90% of approved applications were from first-time homebuyers
- From August 2024, eligible homeowners' applications for renting out their self-occupied properties may be approved on a case-by-case basis to help them meet special needs arising from changes in personal or family circumstances. About 1,300 applications were approved as of 15 April 2025

SME Financing Guarantee Scheme (SFGS)



- Relaunched the principal moratorium arrangement in November 2024. The application period will last for one year, allowing enterprises to apply for principal moratorium for up to 12 months
- As of 15 April 2025, around 44,100 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$149.0 billion. The application period has been extended to end-March 2026



Dedicated 100% Loan Guarantee Scheme

- The scheme for battery electric taxis encourages taxi owners to replace their existing taxis with battery electric taxis. As of 15 April 2025, 165 applications were approved, amounting to about HK\$56 million