

Highlights of 2013

Economic and Financial Environment

The Hong Kong economy grows faster with the support of stronger domestic demand and improving export performance. The Hang Seng Index records modest gains in a volatile market, while the residential property market is under consolidation.

Despite accelerating credit growth, retail banks' asset quality and liquidity positions remain sound. Profitability of retail banks grows and their net interest margin widens. Locally incorporated authorized institutions continue to be well capitalised.

Monetary Stability

Hong Kong dollar exchange rate against US dollar remains stable within the Convertibility Zone. The Government reiterates its full commitment to the Linked Exchange Rate system with strong public confidence in the Hong Kong dollar.

Money market activities are orderly with abundant interbank liquidity, and Hong Kong dollar interest rates edge modestly higher.

Banking Stability

The HKMA maintains its supervisory focus on banks' credit and liquidity risk management amid fiscal and economic uncertainties in the US and Europe.

The sixth round of macroprudential measures on mortgage loans and a Stable Funding Requirement are introduced to enhance the resilience of the banking sector. Supervision of banks' Mainland-related business and their compliance with anti-money laundering requirements is also strengthened.

The year sees the implementation of the first phase of the Basel III standards, the establishment of the Private Wealth Management Association and the launch of consumer protection initiatives, such as the consumer education programme and the Treat Customers Fairly Charter.

International Financial Centre

Hong Kong's position as the premier offshore renminbi business centre gains further momentum with remarkable growth in a full range of renminbi business activities. The first offshore renminbi interbank interest rate fixing has been launched. International co-operation platforms with Australia, London, and Malaysia help promote the breadth and depth of the offshore renminbi market.

The HKMA also actively participates in international and regional forums as well as co-operative initiatives to promote financial stability and to enhance Asia's collective voice on global economic and financial affairs. The reporting function of the local trade repository for over-the-counter derivatives is launched and there is further headway in developing Islamic finance in Hong Kong.

Reserves Management

Despite a volatile global investment environment, the Exchange Fund records an investment income of \$81.2 billion, a return of 2.7%.

Total assets of the Exchange Fund reach \$3,032.8 billion at the end of 2013.

The HKMA continues to diversify part of the Fund's investment into various asset classes. At the end of 2013, the market value of investments under the Long-Term Growth Portfolio (LTGP) totals \$88.6 billion, with outstanding investment commitments amounting to \$80.2 billion.

Corporate Functions

The HKMA continues to strengthen its connection with the community through timely dissemination of information on its website, effective communication with the media, and other public education activities.

Critical internal reviews are carried out and concrete measures are taken to ensure efficient deployment of resources. HKMA staff maintain professionalism in upholding best practices in financial budgeting and disclosure, internal controls, risk management, general support and governance. Staff members also actively participate in green initiatives and charity work.