

Highlights of 2015

Economic and Financial Environment

Economic growth in Hong Kong moderates, reflecting weaker domestic demand and subdued export performance. Local stock market sees large swings amid heightened volatility in global financial markets. The residential property market starts to soften after the announcement of the seventh round of prudential measures in February.

The Hong Kong banking sector remains resilient. Locally incorporated authorized institutions (AIs) are well capitalised, and the liquidity positions of AIs continue to be sound. The asset quality of retail banks deteriorates slightly, but stays at healthy levels.

Monetary Stability

The Hong Kong dollar exchange rate remains broadly stable against the US dollar, with the strong-side Convertibility Undertaking triggered repeatedly in April, September and October. The Hong Kong dollar exchange rate market continues to operate in an orderly manner despite turbulent global financial market conditions, reflecting resilience of the Linked Exchange Rate System to external shocks.

The money market continues to function normally with ample interbank liquidity. Following the decision of the US Federal Reserve to raise the target range for the Federal Funds Rate, the Base Rate in Hong Kong is adjusted upwards by 25 basis points to 0.75% in December.

Banking Stability

Supervisory efforts on AIs' risk governance, including credit and liquidity risk management systems, anti-money laundering and counter-terrorist financing controls, and selling practices for investment and insurance products, have been stepped up.

The HKMA announces a countercyclical capital buffer for Hong Kong and designates five authorized institutions as domestic systemically important banks. Legislative proposals to establish a resolution regime for financial institutions in Hong Kong and enhance the Deposit Protection Scheme by achieving faster payouts are respectively introduced into the Legislative Council.

International Financial Centre

The HKMA continues to actively participate in international and regional forums while sparing no effort in raising Hong Kong's competitiveness as an international financial centre. Legislative proposal to improve the tax environment for promoting Hong Kong as a hub for corporate treasury centres is introduced into the Legislative Council in December.

Hong Kong remains the global offshore renminbi business hub with a market of considerable depth and breadth. The Mainland-Hong Kong Mutual Recognition of Funds initiative is implemented in July, further expanding Hong Kong's renminbi product offering.

Hong Kong's financial infrastructure is further enhanced by the successful launch of the e-Cheque service in December, allowing customers to issue and deposit cheques online. A new regulatory regime which provides for licensing of multi-purpose stored value facilities and designation of important retail payment systems commences operation in November.

Reserves Management

Amid the challenging and difficult investment environment, the Exchange Fund records an overall investment return of -0.6%. Total assets of the Fund reach HK\$3,422.9 billion at the end of 2015.

The HKMA quickens the pace of investment diversification, especially through investments under the Long-Term Growth Portfolio (LTGP). At the end of 2015, the market value of investments under the LTGP totals HK\$142.1 billion, made up of HK\$91.3 billion in private equity and HK\$50.8 billion in real estate, with outstanding investment commitments amounting to HK\$122.4 billion.

Corporate Functions

The HKMA maintains effective communications with the community and the market through the media, public education programmes, and various other channels to facilitate understanding of its policies and operations. Corporate governance is further improved by supporting professional development of staff, instituting rigorous financial discipline, enhancing IT security, and realigning duties among senior management to help cope with challenges arising from the implementation of new initiatives and the increasing complexity of work.