

# Highlights of 2016

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## Economic and Financial Environment

The Hong Kong economy softens alongside subdued global economic and trade activities. The local stock market and residential property market see volatility during the year, while housing affordability remains stretched.

The Hong Kong banking sector remains sound and stable despite increased risks and shocks in the global markets. The capital and liquidity positions of banks are strong. Their asset quality, while showing slight signs of deterioration, remains at healthy levels.

## Monetary Stability

The Hong Kong dollar exchange rate trades in an orderly manner despite a turbulent external environment, reflecting resilience of the Linked Exchange Rate System to external shocks.

The money market continues to operate smoothly with ample interbank liquidity. In December, 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 1.00%.

## Banking Stability

The HKMA steps up its supervisory efforts on banks' risk governance framework, as well as credit, liquidity and technology risk management. The HKMA also takes concrete steps to foster financial inclusion and address the difficulties encountered by corporates in opening and maintaining bank accounts in Hong Kong.

On the policy side, substantial progress is made on the preparatory work for the local implementation of international supervisory and accounting standards, including the resolution framework under the Financial Institutions (Resolution) Ordinance.

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### International Financial Centre

Hong Kong remains the global hub for offshore renminbi business and asset management centre. The tax regime has been refined to foster a more conducive environment for multinational companies to establish their corporate treasury centres in Hong Kong.

The Infrastructure Financing Facilitation Office and the Fintech Facilitation Office are established as part of the HKMA's efforts to develop Hong Kong as an infrastructure financing centre and a fintech hub respectively. The HKMA commences the implementation of the regulatory regime for stored value facilities (SVFs) and retail payment systems smoothly, with a total of 13 SVF licences granted.

### Reserves Management

Despite a challenging investment environment which is full of black swan events, the Exchange Fund achieves an overall investment return of 2%, thanks to a series of defensive measures deployed by the HKMA over the years that have enhanced the resilience of the Exchange Fund.

The HKMA quickens the pace of investment diversification, especially through investments under the Long-Term Growth Portfolio.

### Corporate Functions

The HKMA maintains effective communications with the community and the market through the media, public education programmes, and other various channels to facilitate public understanding of its policies and operations.

The HKMA continues to improve corporate governance by supporting professional development of staff, instituting rigorous financial discipline, and enhancing information technology security to help cope with challenges arising from the implementation of new initiatives and the increasing complexity of work.