

Highlights of 2020

Economic & Financial Environment



In 2020, the Hong Kong economy contracts by the most severe magnitude on record amid the COVID-19 pandemic, with consumption and tourism-related sectors particularly hard-hit. The labour market deteriorates sharply while inflation moderates. Amid the challenging environment, the Government and the HKMA roll out relief measures to support the economy.

Despite the significant headwinds, the Hong Kong banking sector remains resilient, with solid financial positions and growing deposits. The capital and liquidity positions remain strong, while asset quality stays at healthy levels.

Monetary Stability



Despite the heightened uncertainty amid the pandemic, Hong Kong's monetary system remains resilient, as evidenced by the smooth functioning of the Hong Kong dollar foreign exchange and money markets. The Hong Kong dollar firms throughout most of 2020, with repeated triggering of the strong-side Convertibility Undertaking. This demonstrates the confidence in, and robustness of, the Linked Exchange Rate System.

Banking Stability



The HKMA closely monitors the impact of the pandemic on banking operations, while maintaining its focus on the supervision of the credit and liquidity risk management of banks. In the face of increasing cyber risks and the industry's accelerated technology adoption, the HKMA strengthens the supervision of banks' technology risk management and operational resilience while enhancing consumer protection in digital financial services.

The HKMA provides flexibilities to facilitate banks' continued provision of services to customers amid the pandemic. It also works with other authorities on the implementation details for the cross-boundary wealth management connect pilot scheme, and the provision of guidance on family office and wealth management businesses.

On anti-money laundering and counter-financing of terrorism, the HKMA has acted swiftly to clarify how the risk-based approach and technology could help banks better respond to the COVID-19 situation, while also carefully managing the impact of rising geopolitical tensions on the banking sector. The HKMA also continues to promote information sharing through public-private partnership and support Regtech adoption in the banking industry.

New rules and regulations are rolled out to enhance the banking regulatory regime in line with the latest international standards. On green and sustainable banking, the HKMA moves forward with Phase II of the three-phased approach to formulate supervisory expectations. The HKMA also advances its work in establishing resolution standards, undertaking resolution planning and developing resolution execution capability to ensure a credible resolution regime for banks.

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International Financial Centre



The HKMA continues to support the development of the fintech ecosystem. Banking and payment industries increasingly make use of fintech. The Faster Payment System has seen significant growth in its turnover. The HKMA actively engages in cross-border cooperation in areas such as Central Bank Digital Currency.

Hong Kong maintains a firm foothold as a global hub for offshore renminbi business, while serving as the key gateway to Mainland China. Financial connectivity with the Mainland continues to be enhanced through Hong Kong's world-class market infrastructure and the Connect schemes. Headway is being made in capturing opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area.

The HKMA makes notable efforts in opening up new opportunities to further enhance the competitiveness of Hong Kong's financial platform for areas including asset and wealth management, corporate treasury centres, as well as green and sustainable finance.

Reserves Management



Despite the ever-changing and complex investment environment, the Exchange Fund records an investment income of HK\$235.8 billion (or 5.3% return) in 2020, with positive returns in all of its five major investment categories.

The HKMA continues its effort in promoting responsible investment and asset diversification. The Long-Term Growth Portfolio records an annualised internal rate of return of 13.7% since its inception in 2009.

Corporate Functions & Social Responsibility



Throughout the year, the HKMA continues to maintain effective communication with the community and the market through various channels to enhance public understanding of its policies and operations. In carrying out its work, the HKMA upholds a high standard of corporate governance by supporting professional development of staff, instituting rigorous financial discipline and enhancing IT capabilities and security to cope with new challenges and initiatives, as well as the increasing complexity of work.

Meanwhile, the HKMA remains committed to fulfilling its corporate social responsibility and strives to be a responsible and sustainable organisation. Amid the COVID-19 pandemic, the HKMA adopts special work arrangements to ensure the normal operation of essential functions while safeguarding the well-being of its staff. At the same time, the HKMA introduces various measures to support individuals and enterprises in need to mitigate the adverse impact of the pandemic.

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KEY FIGURES FOR 2020



Monetary Stability

HKD exchange rate*

7.753 per USD

Base Rate*

0.50 %

Backing Ratio*

109.9 %

Monetary Base*

HK\$ 2,099.3
billion

Aggregate Balance*
(before Discount Window)

HK\$ 457.5
billion

Banking Stability



Total assets*

HK\$ 25.9 trillion

Capital adequacy ratio*

20.7 %

Loan growth#

1.2 %

Liquidity Coverage Ratio (Q4 2020)

155.1 %

Liquidity Maintenance Ratio (Q4 2020)

57.9 %

Authorized institutions*

161
licensed banks

Classified loan ratio (all Als)*

0.90 %

Loan-to-deposit ratio*

72.3 %

17
restricted licence banks

Average LTV ratio for new RMLs (Dec 2020)

57 %

Average DSR for new RMLs (Dec 2020)

37 %

12
deposit-taking companies

G-SIBs for which the HKMA is a member of the Crisis Management Group or Resolution College*

14

G-SIBs hosted in Hong Kong*

All 30 G-SIBs

Sources: SWIFT, Bank for International Settlements and HKMA.

* Figures as at the end of 2020.

Figures for the year of 2020 as a whole.

^ About 99.98% if including downtime caused by external factors.

CMU – Central Moneymarkets Unit
CPI – Consumer Price Index
DSR – Debt servicing ratio
EF – Exchange Fund
FPS – Faster Payment System

FX – Foreign Exchange
HKD – Hong Kong dollar
G-SIBs – Global systemically important banks
IFFO – Infrastructure Financing Facilitation Office
LTGP – Long-Term Growth Portfolio

LTV – Loan-to-value
RMB – Renminbi
RMLs – Residential mortgage loans
RTGS – Real Time Gross Settlement
SVF – Stored value facility
USD – US dollar

Highlights of 2020

International
Financial Centre

RMB deposits*

largest offshore RMB
liquidity poolRMB **757.2**
billionAvailability of four RTGS systems and CMU^{#A}**100%**Hong Kong's share of RMB SWIFT payments globally[#]

in the world

> 70%RMB RTGS average daily turnover[#]RMB **1,191.5**
billion

Daily turnover of RMB FX transactions (Apr 2019)

in offshore RMB
FX marketsUS\$ **107.6**
billion equivalentHKD RTGS average daily turnover[#]HK\$ **956.1**
billion

Dim sum bonds outstanding*



in the world

RMB **179.8**
billion

FPS registrations*

6.9
millionAverage daily real-time
transactions of FPS[#]**355,000**
(↑ 230% from 2019)Bond Connect
investors***2,352**

IFFO partners*

95Registered limited
partnership funds***68**

SVF accounts*

63.9
millionValue of SVF transactions[#]HK\$ **221.6**
billion
(↑ 10% from 2019)Reserves
ManagementEF investment
income[#]HK\$ **235.8**
billionEF investment
return[#]**5.3%**EF compounded
annual investment
return (since 1994)**4.8%**(>2.0% increase in HK composite
CPI over the same period)

EF assets*

HK\$ **4,499.2**
billionMarket value
of LTGP
investments*HK\$ **406.4**
billionLTGP annualised
internal rate of
return (since 2009)**13.7%**