



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

**6 February 2023
[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
6. The Hong Kong Mortgage Corporation Limited

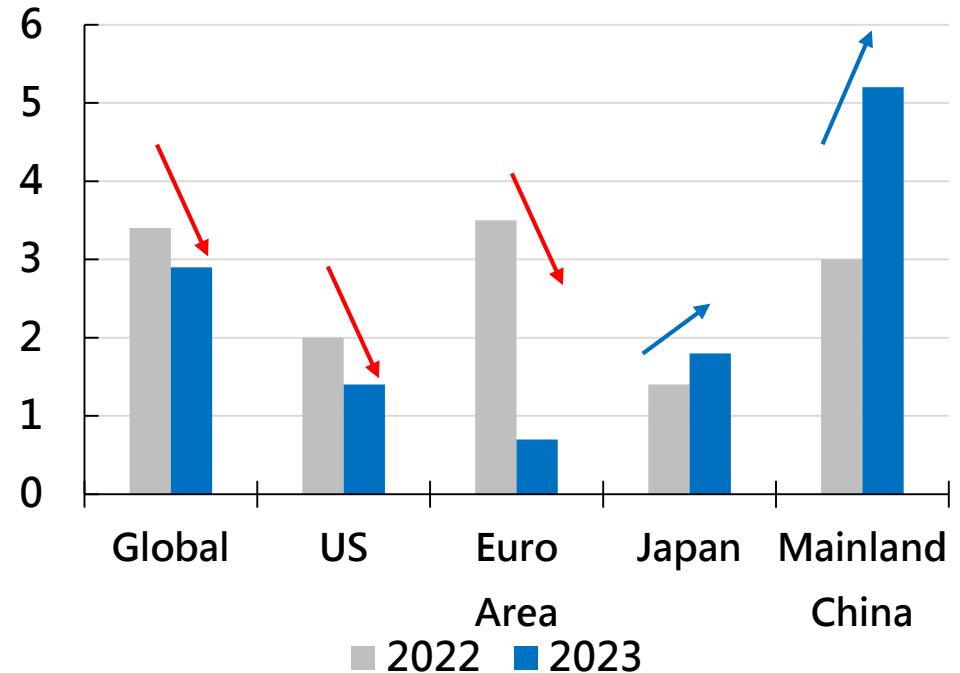


Slower economic growth and easing inflationary pressure expected in US and Europe this year

Economic growth in US and Europe expected to moderate this year...

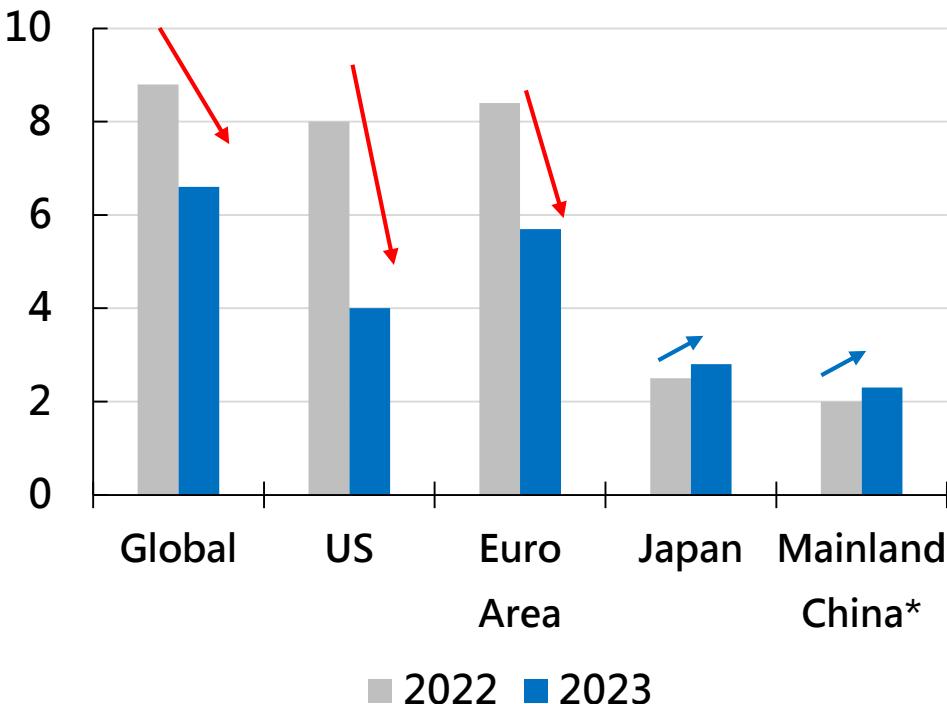
...and their inflation is likely to ease but stay elevated this year

Real GDP growth
(% yoy)



Source: IMF

CPI inflation
(% yoy)



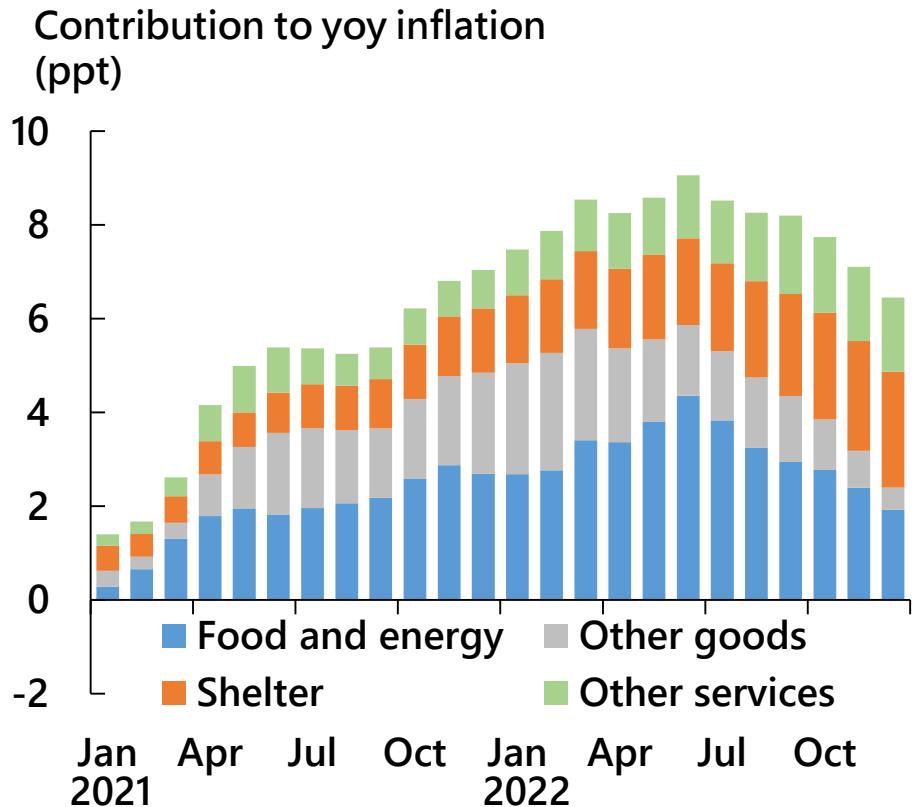
* Mainland China's 2023 CPI inflation rate is based on Consensus Forecasts.

Sources: IMF and Consensus Forecasts



US rate hike cycle to continue amid uncertainties over disinflation development...

Goods inflation in the US softens but services inflation strengthens



US Fed revised upward its interest rate projections for this year and next year

Median projection of Fed funds rate(%)

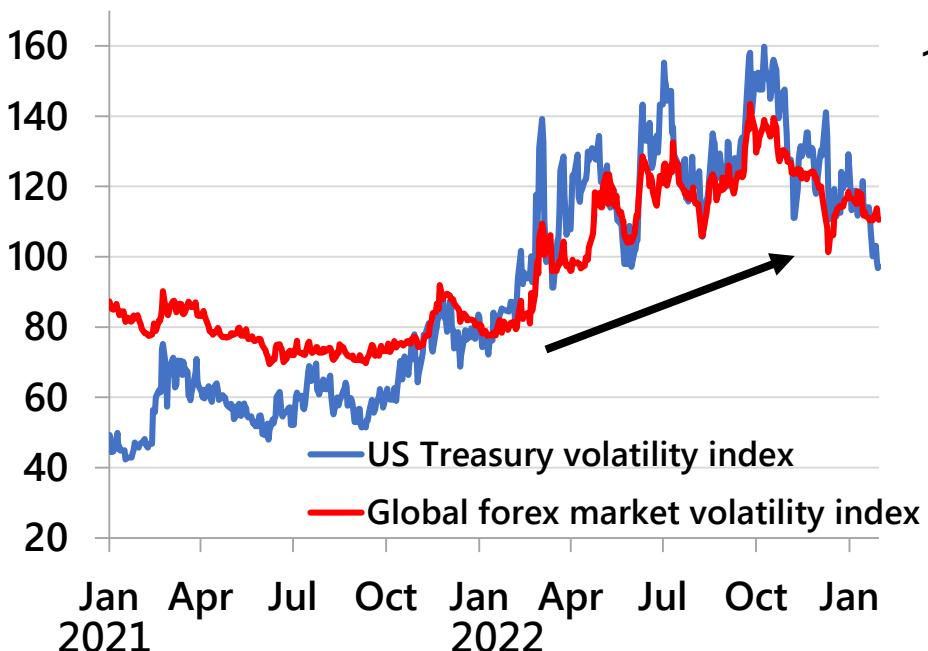




...leading to continued volatility in financial markets and increased debt pressure

Bond and forex markets may continue to be volatile as US Fed's rate hike cycle has yet to end

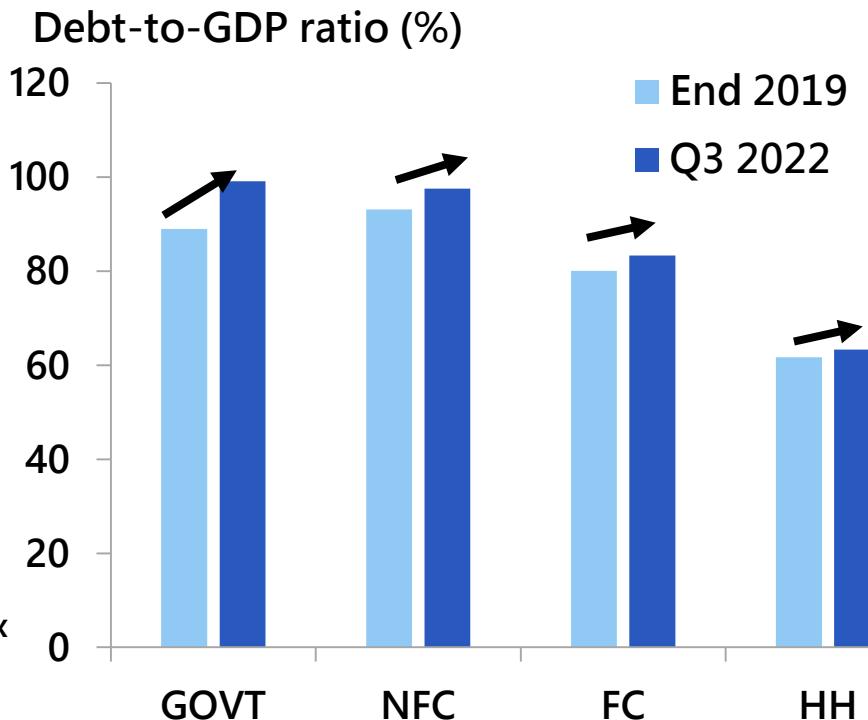
Before US Fed's rate hike in March 2022=100



Source: Bloomberg

Note: US Treasury volatility index and global forex market volatility index are represented by the MOVE Index and J.P. Morgan Global FX Volatility Index respectively.

With rising global debt, elevated interest rates would increase debt burden



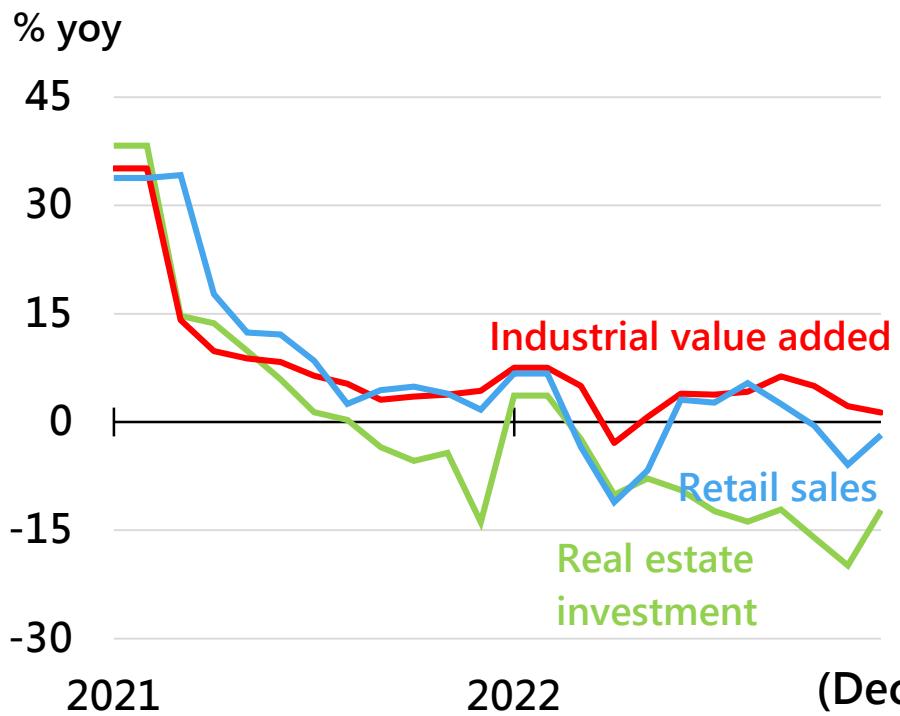
Source: IIF

Note: GOVT, NFC, FC, HH refer to Government, Non-financial corporates, Financial corporates and Households respectively.

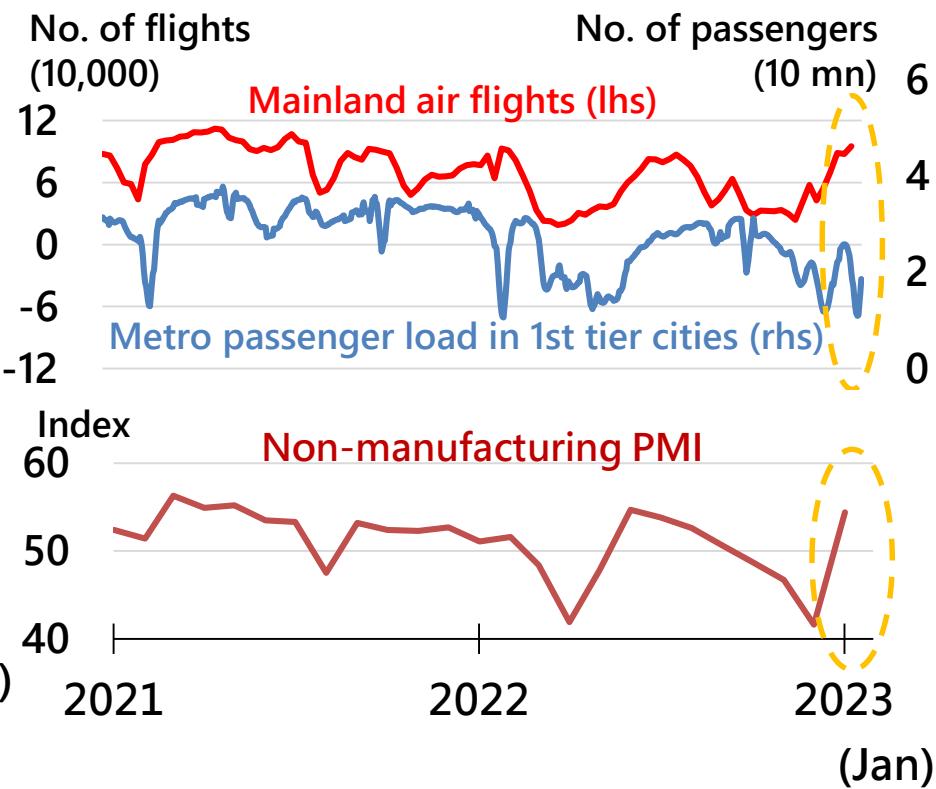
As anti-pandemic measures continue to be refined, Mainland economy is likely to regain momentum this year



The pandemic weighed on
economic activity...



...but signs of stabilisation have
emerged more recently



Sources: National Bureau of Statistics, Wind and CEIC

Note: Metro passenger load in 1st tier cities based on seven-day moving average.

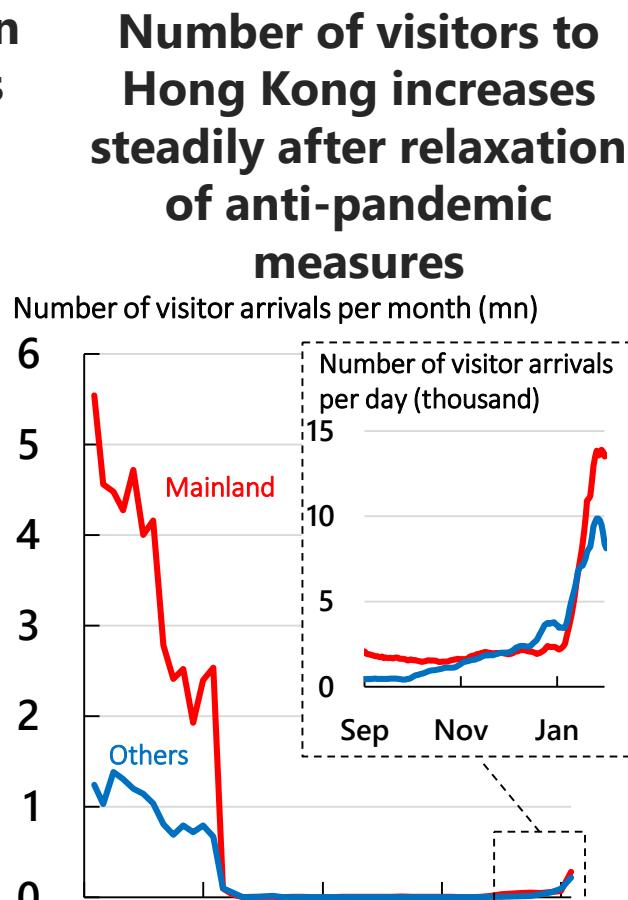
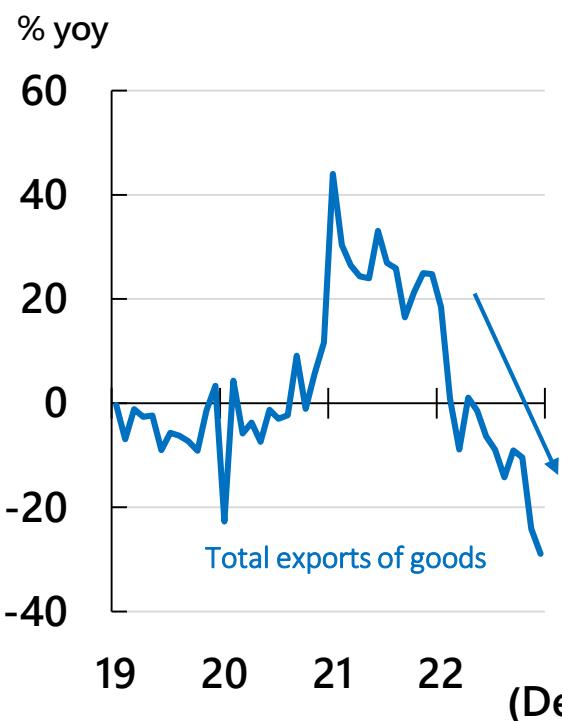
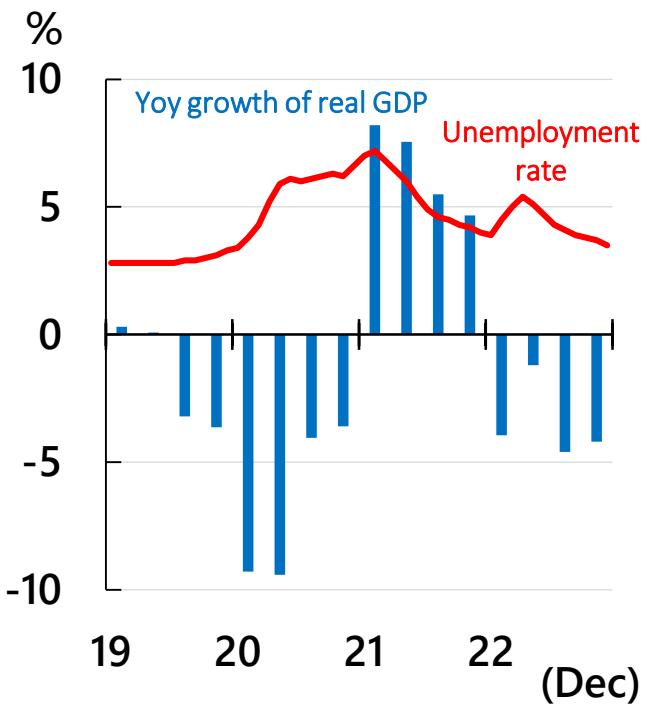
Hong Kong economy expected to recover this year, but outlook is surrounded by uncertainties



Economic contraction narrows, unemployment rate declines

Economic slowdown in US and Europe exerts pressure on exports

Number of visitors to Hong Kong increases steadily after relaxation of anti-pandemic measures

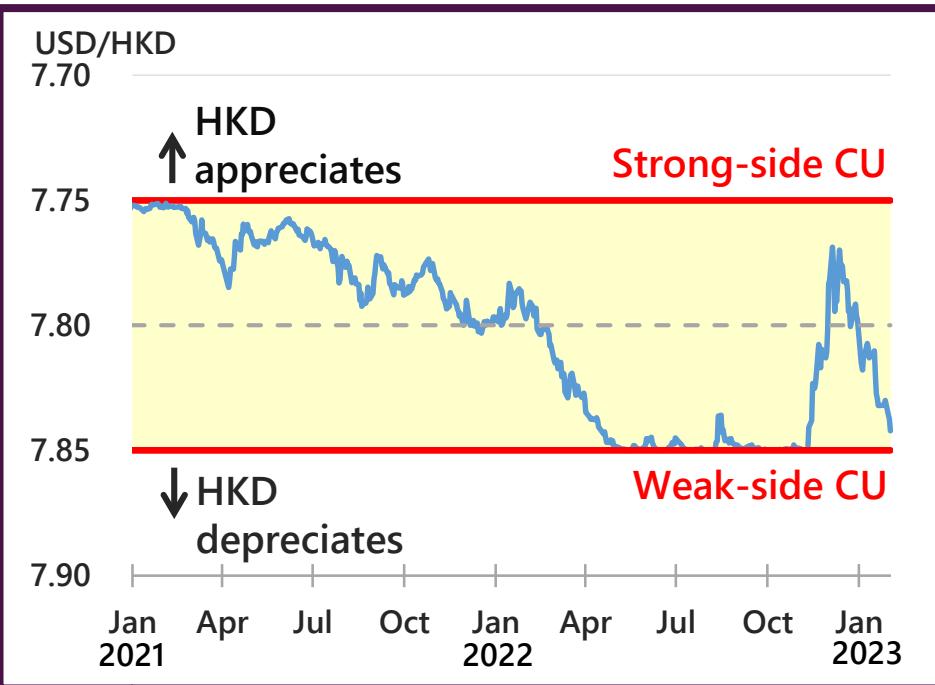
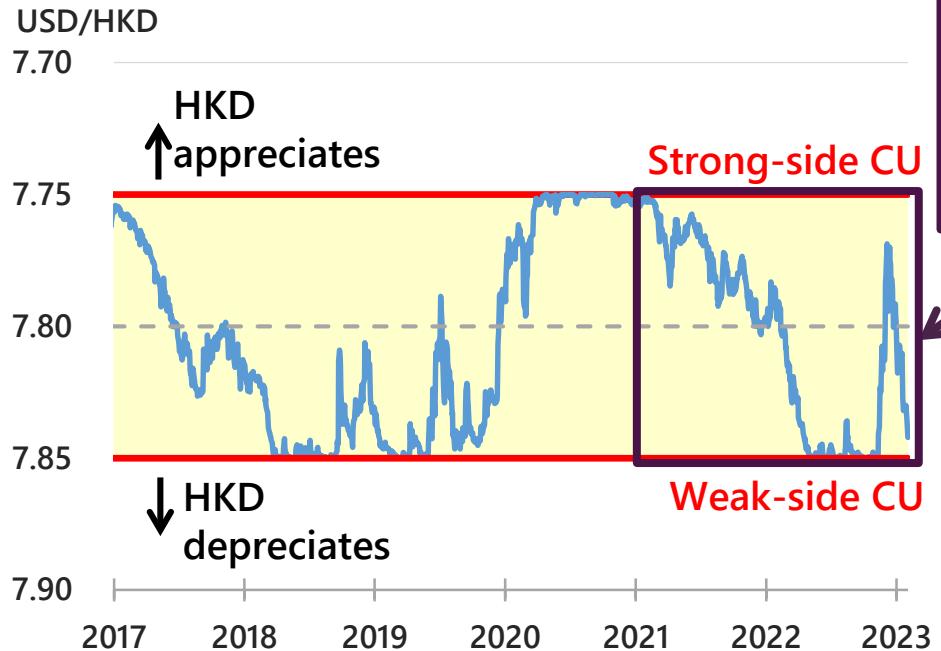


Sources: Census & Statistics Department and Immigration Department

Note: Number of visitor arrivals per day based on seven-day moving average.

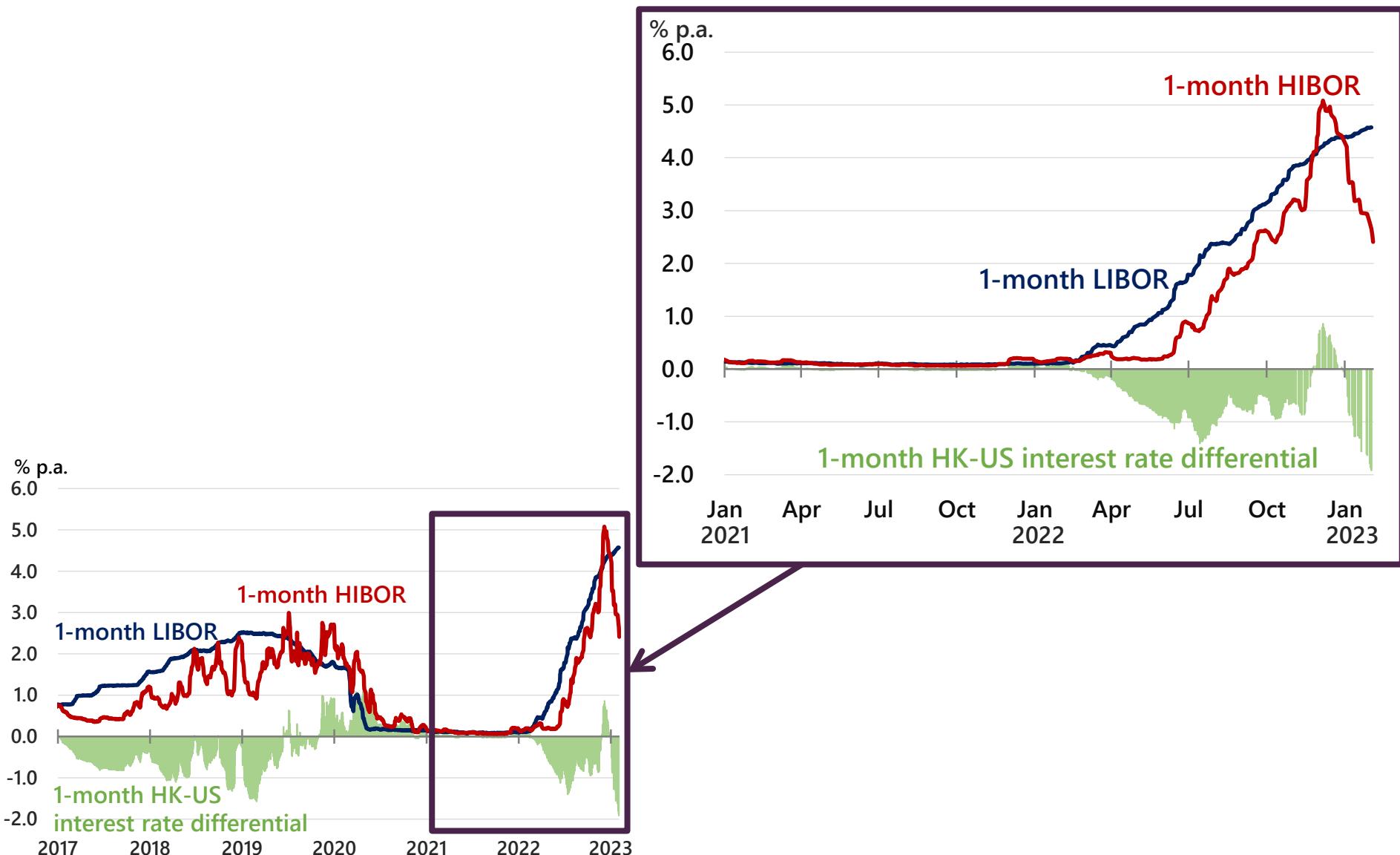


HKD market is operating smoothly



Year	Trigger of weak-side CU	Purchase of HKD (HKD bn)
2018 Apr – Aug	27 times	103.5
2019 Mar	8 times	22.1
2022 May - Nov	41 times	242.1

HKD interest rates show seasonal fluctuations





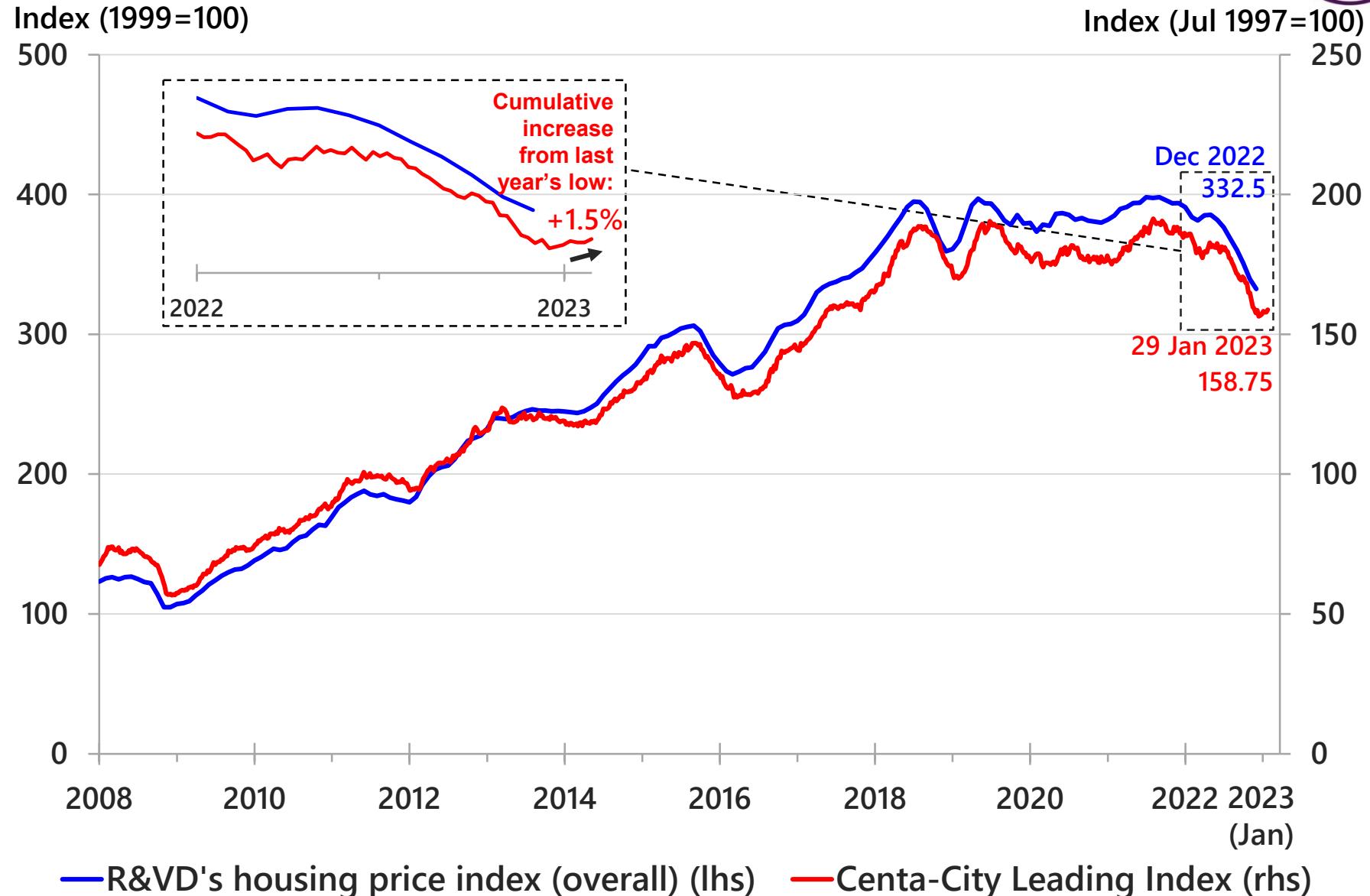
Bank deposits remain stable

Change during the period(%)

	Total deposits	HKD deposits
First three quarters of 2022	+0.6%	-0.5%
October 2022	-0.3%	-1.4%
November	+0.7%	+1.4%
December	+0.6%	+1.2%
Full year 2022	+1.7%	+0.7%



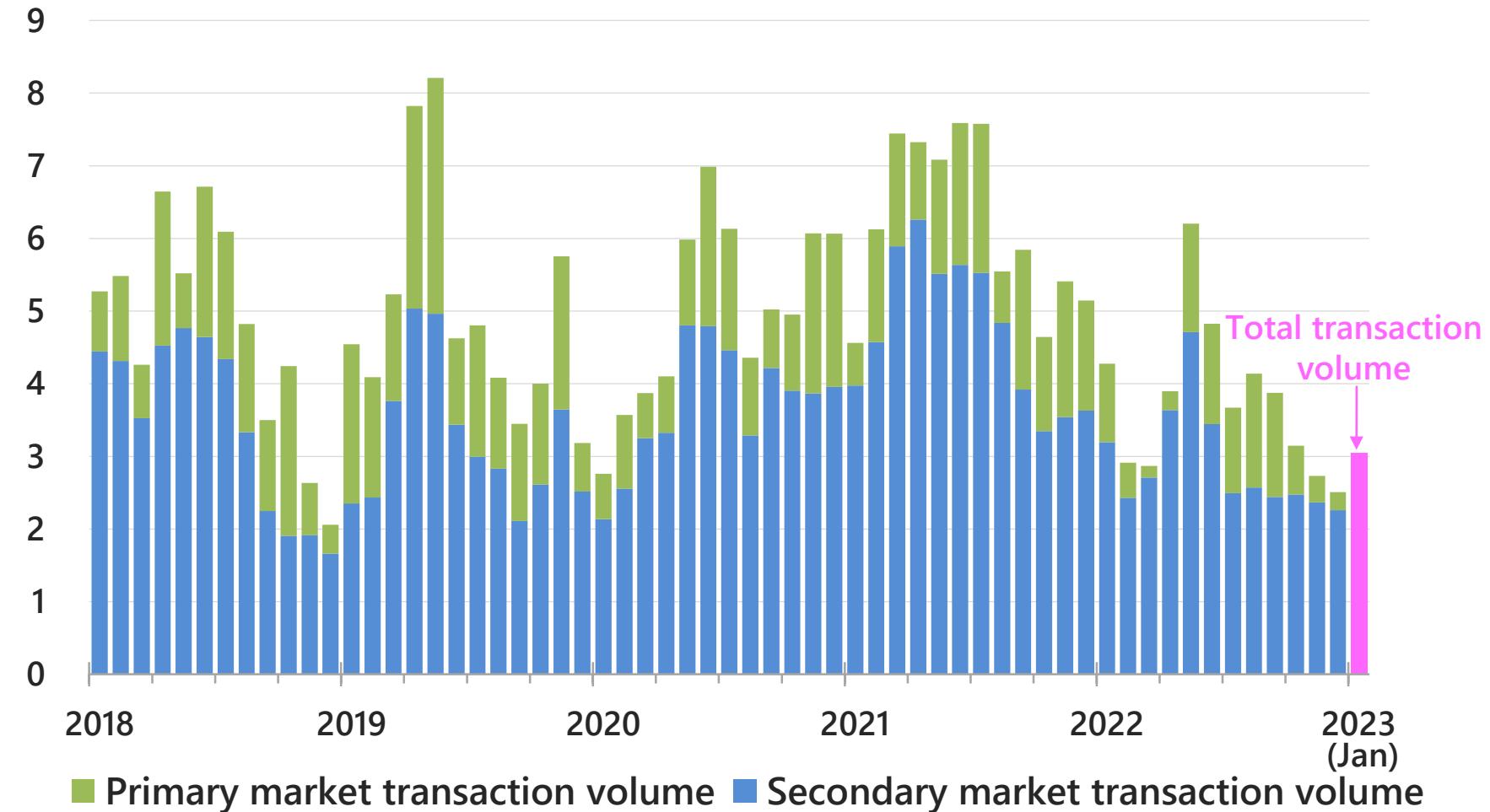
Outlook for housing prices is uncertain





Subdued housing market transactions

Number of transactions ('000)



Note: The primary market and secondary market transaction volume for January 2023 has not yet been released.
Source: Land Registry

Hong Kong's financial system able to withstand shocks



- As the disinflation development remains uncertain, the US rate hike cycle has not yet completed, leading to continued volatility in financial markets
- Amid sharp rate hikes and tight energy supply in Europe, it is expected that US and European economies will slow down this year with a risk of recession
- Despite the uncertain economic outlook for US and Europe, Hong Kong's consumption activities and labour market will likely recover along with the stabilisation of the Mainland economy and the full resumption of cross-boundary travel between Hong Kong and Mainland China
- The public should be prepared for the likelihood that banks' lending rates may go further higher, and should carefully assess and manage the relevant risks when making property purchase and mortgage decisions
- Hong Kong's financial system is highly resilient, and the HKMA will continue to closely monitor market situations to maintain monetary and financial stability

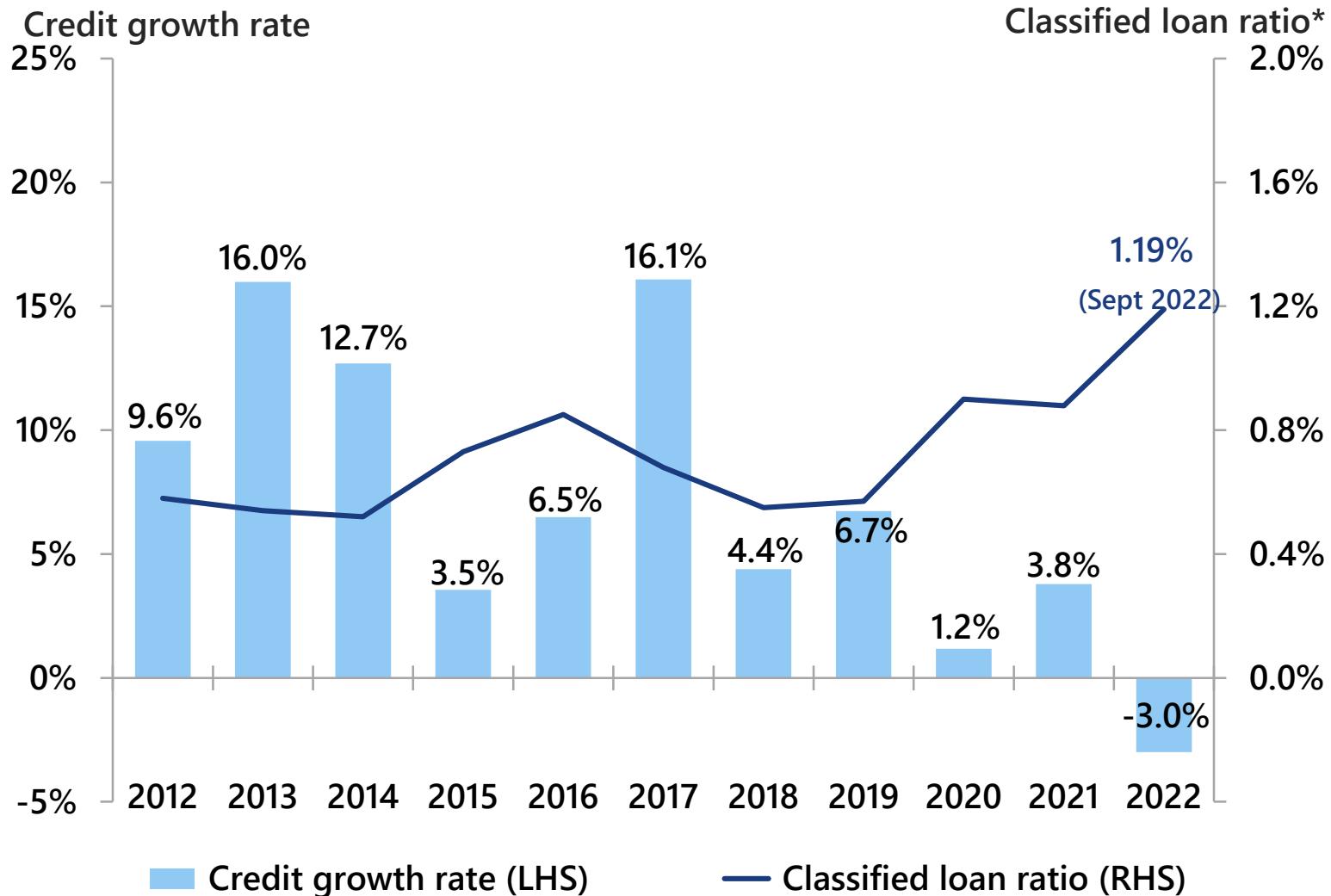


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Banking sector performance

Loan demand weakened while asset quality stays healthy



* Classified loan ratio of all authorized institutions



International standards implementation

Basel III final reforms

- Adjustment of implementation timelines
- Q2 2023: Amendments to Banking (Capital) Rules and Banking (Disclosure) Rules

Consequential and other updates

- Q2 2023: Amendments to Banking (Exposure Limits) Rules and Banking (Liquidity) Rules



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



Hong Kong's offshore RMB business continued to expand in 2022, with market development seeing new highlights

- Bank deposits, trade settlement and payments registering robust annual growth
- Maintained its lead as the RMB payment hub and offshore RMB foreign exchange market
- Expansion in RMB Swap Agreement with the People's Bank of China and consequent enhancements in HKMA's RMB Liquidity Facility to ensure ample market liquidity
- Further increase in offshore RMB bond issuance with growing product diversity

(RMB bn)	2022	2021	Growth
RMB deposits (incl. outstanding CDs)	981.7	944.7	4%
Offshore RMB bond issuance (total amount during the year)	143.4	109.6	31%
RMB RTGS Turnover (daily average)	1,654.0	1,522.6	9%
RMB trade settlement handled by banks in HK	9,342.1	7,083.6	32%
RMB FX transactions (daily average, USD bn)*	191.2	-	+78% (from 2019)

* As at April 2022.



Mutual market connect schemes

- **Northbound Trading under Bond Connect** remained active. In 2022, average daily turnover amounted to RMB32.2 billion, up by 25% year on year. **Southbound Trading** has been smooth and well received by the market
- **Cross-boundary Wealth Management Connect** has been operating smoothly. To date, 24 eligible Hong Kong banks have launched services. Closely liaising with Mainland authorities on enhancements (e.g. expanding the scope of eligible products and improving sales arrangements)
- Preparation for **Swap Connect** under way, Northbound Trading to be launched when ready
- **Dual-counter market maker regime** to facilitate the trading of Hong Kong-listed stocks in RMB in good progress, target launch in 1H 2023
- Continue collaboration with Mainland authorities to deepen financial market connections, e.g. broadening Southbound Trading of Stock Connect and introduction of Mainland government bond futures in Hong Kong



Developing Hong Kong's financial platform

Outreach

- The HKMA is actively preparing for the hosting of central bank and banking regulator conferences in Hong Kong in 2023, and has kick started the preparation for the next Global Financial Leaders' Investment Summit. The HKMA has also been encouraging and supporting global financial institutions to organise international meetings and events in Hong Kong
- The HKMA will visit the Middle East and South East Asia, together with delegations from the Hong Kong financial industry, to enhance bilateral cooperation with the local central banks, and to promote Hong Kong's financial platform and services to the local financial institutions and corporates

Green finance

- Assisted the Government in issuing US\$5.75 billion worth of green bonds in US dollars, euro and renminbi in January 2023, and is preparing for a pilot issuance of tokenised Government green bond for subscription by institutional investors
- The Pilot Green and Sustainable Finance Capacity Building Support Scheme was launched in December 2022 to provide subsidies for the training and acquisition of relevant professional qualifications in sustainable finance

Asset and wealth management

- The family office tax concession bill was introduced into the Legislative Council on 14 December 2022 and will apply retrospectively from 1 April 2022 once passed into law



Crypto-Assets and Stablecoins

- On 31 January 2023, the HKMA issued the consultation conclusion to the discussion paper on crypto-assets and stablecoins, summarising the feedback received in relation to the aforesaid paper and the HKMA's relevant response
- In the consultation conclusion, the HKMA confirms that it will bring certain activities relating to stablecoins into the regulatory perimeter, and sets out the expected regulatory scope and key regulatory requirements
- Respondents were supportive of regulating stablecoins with a risk-based and agile approach
- In terms of next steps, the HKMA will conduct further consultation with more details of the proposed regulatory parameters before submitting the Bill to the Legislative Council. The regulatory regime is expected to be implemented in 2023/24



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Financial infrastructures and fintech initiatives



Financial infrastructures

- Operation of all financial infrastructures remains safe and efficient
- Number of registrations and turnover of the FPS growing steadily
- Enhancement work of the Central Moneymarkets Unit (CMU) in good progress

Fintech initiatives

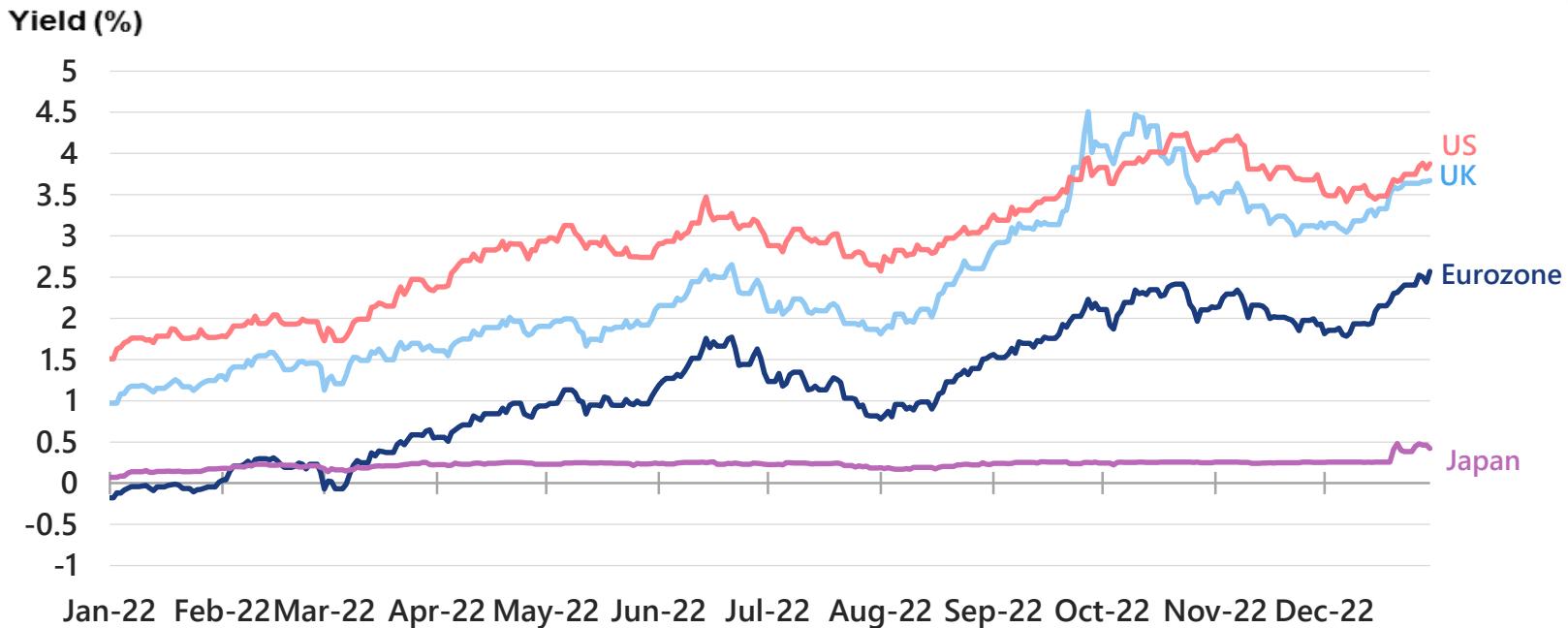
- Co-organised Hong Kong FinTech Week 2022 with InvestHK and attracted a record high of over 30,000 visitors and over 5 million online views
- Published a report in October 2022 to deliver the results and key lessons learnt of the pilot conducted under Project mBridge in Q3 2022 on international trade settlement use cases
- Launched e-HKD pilot programme (under Rail 2 of the 3-Rail approach) in November 2022 to invite industry participation to take deep dives into use cases



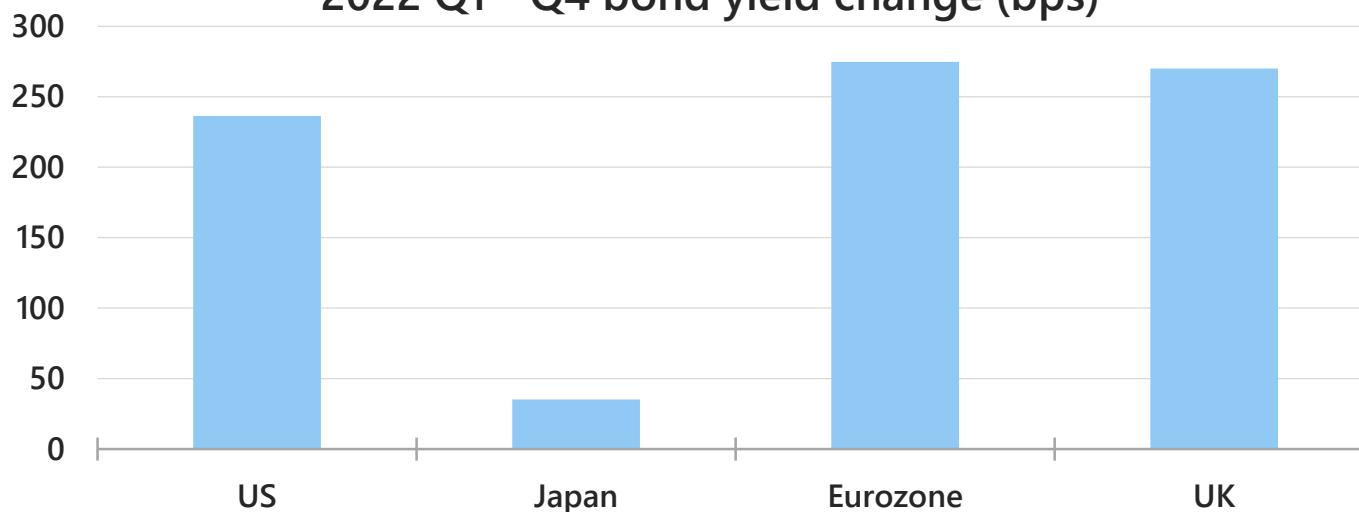
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Major sovereign bond yields soared



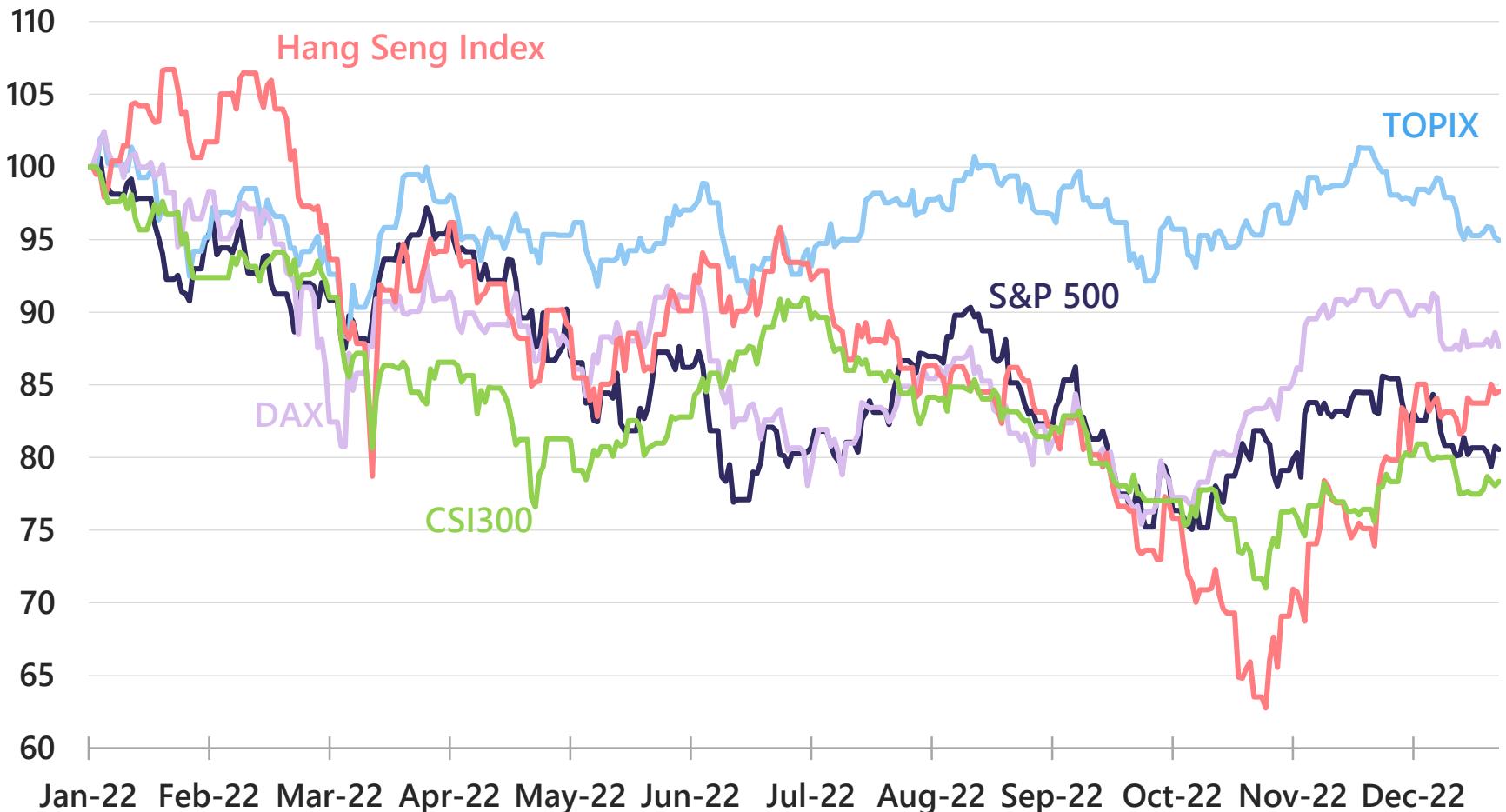
2022 Q1 - Q4 bond yield change (bps)





Major equity markets dipped sharply

Normalised Index Level (2021 year-end = 100)



Extremely challenging investment environment



- The investment environment was exceptionally volatile in 2022, with prices of multiple asset classes falling at the same time, undermining the conventional complementary effects of bonds and equities. This was also the only time in almost half a century where returns from equities, bonds and major non-US dollar FX all recorded negative returns simultaneously. US Treasuries posted their worst performance in nearly half a century

Performance of different indices in a given year

Asset class		1974	1977	1981	1990	1992	2000	2001	2002	2008	2011	2015	2018	2022
Equities	MSCI All Country World Index (Developed and Emerging Markets)	N/A	N/A	N/A	-18.6%	-6.7%	-15.1%	-17.3%	-20.5%	-43.5%	-9.4%	-4.3%	-11.2%	-19.8%
	MSCI World (Developed Markets)	-27.8%	-2.5%	-7.9%	-18.7%	-7.1%	-14.1%	-17.8%	-21.1%	-42.1%	-7.6%	-2.7%	-10.4%	-19.5%
	S&P 500 Index	-29.7%	-11.5%	-9.7%	-6.6%	4.5%	-10.1%	-13.0%	-23.4%	-38.5%	0.0%	-0.7%	-6.2%	-19.4%
	Hang Seng Index	-60.5%	-9.8%	-4.6%	6.6%	28.3%	-11.0%	-24.5%	-18.2%	-48.3%	-20.0%	-7.2%	-13.6%	-15.5%
Bonds	Bloomberg Global Aggregate Total Return Index	N/A	N/A	N/A	N/A	5.8%	3.2%	1.6%	16.5%	4.8%	5.6%	-3.2%	-1.2%	-16.2%
	Bloomberg US Treasury Index	7.1%	2.7%	9.2%	8.5%	7.2%	13.5%	6.7%	11.8%	13.7%	9.8%	0.8%	0.9%	-12.5%
FX	A basket of currencies against USD*	5.0%	7.8%	-15.8%	10.8%	-10.6%	-7.5%	-6.6%	12.8%	-6.0%	-1.5%	-9.3%	-4.4%	-8.2%

* Return of DXY Index with reversed signs. The DXY Index indicates the general inter-nation value of USD against a basket of currencies (incl. EUR, JPY, GBP, CAD, etc)



Maintaining defensive measures

- The majority of mixed-asset funds in the market, irrespective of their investment strategies (i.e. with different bond to equity ratios), suffered significant losses in 2022
- The Exchange Fund registered loss of around 4.4% of its assets in 2022

Common investment portfolios in the market	Investment return 2022*
20% bonds, 80% equities (more aggressive allocation)	-17.9%
50% bonds, 50% equities (balanced allocation)	-17.3%
80% bonds, 20% equities (more conservative allocation)	-16.7%
Exchange Fund	-4.4%

* Assuming investment portfolios of different equity-bond mixes being invested in the Bloomberg Global Aggregate Total Return Index and MSCI All Country World Index



Investment income

	2022			2021	2020
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Hong Kong equities*	(19.5)	(11.0)	(8.5)	(21.0)	4.0
Other equities	(61.2)	12.0	(73.2)	68.8	69.9
Bonds	(53.3)	2.6	(55.9)	12.6	92.7
Foreign exchange[#]	(40.1)	(27.3)	(12.8)	16.8	9.6
Other investments[@]	(28.3)	(13.3)	(15.0)	114.7	59.6
Investment (loss)/income	(202.4)	(37.0)	(165.4)	191.9	235.8

* 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 (LTGP). This figure reflects the valuations at the end of September 2022. Valuation changes of these investments from October to December are not yet available.



Income and expenditure

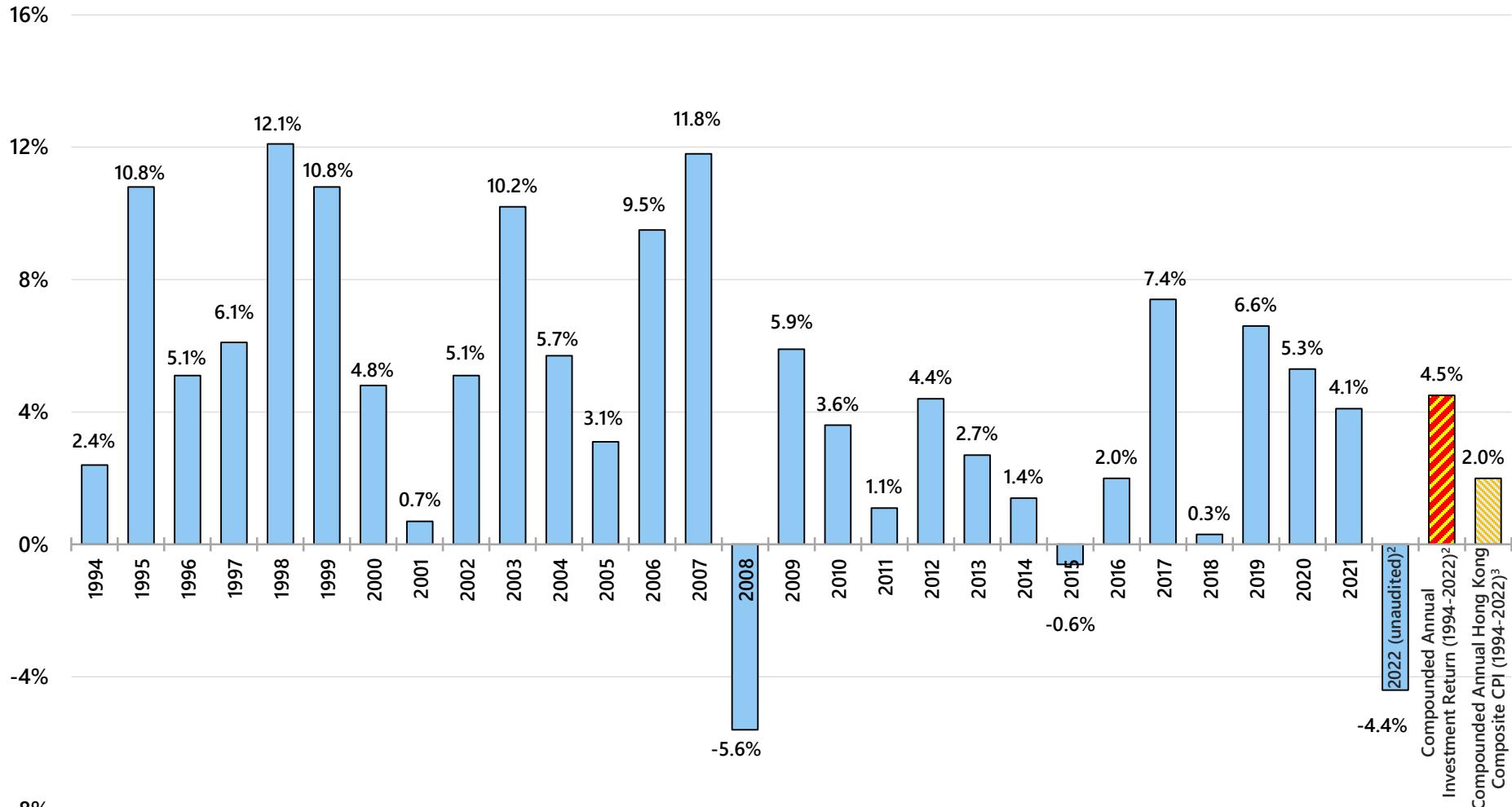
(HK\$ billion)	2022			2021	2020
	Full year	2H	1H	Full year	Full year
Investment (loss)/income	(202.4)	(37.0)	(165.4)	191.9	235.8
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	(18.7)	(14.6)	(4.1)	(6.1)	(14.6)
Net (loss)/income	(220.9)	(51.5)	(169.4)	186.0	221.4
Fee payment to Fiscal Reserves*#	(35.0)	(14.6)	(20.4)	(93.0)	(69.8)
Fee payment to HKSAR Government funds and statutory bodies*	(22.1)	(11.5)	(10.6)	(16.8)	(11.5)

* The rate of fee payment is 5.6% for 2022, 4.7% for 2021 and 3.7% for 2020.

This does not include the 2022 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2022 is available.

(The composite rate was 17.8% for 2021 and 12.3% for 2020. Fee payable to the Future Fund was HK\$58.6 billion for 2021 and HK\$37.2 billion for 2020.)

Investment return of the Exchange Fund (1994-2022)¹



¹ Investment return calculation excludes the holdings in the Strategic Portfolio.

² The return includes the performance of LTGP up to the end of September 2022. The audited full year return will be disclosed in the 2022 annual report.

³ Composite CPI is calculated based on the 2019/2020-based series.



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Mortgage Insurance Programme (MIP)

- In 2022, around 42,900 applications were approved, of which about 7,800 were under the new coverage after the MIP revisions in February 2022. Around 90% of approved applications were from first-time homebuyers
- Principal moratorium or extension of repayment schedules is available to borrowers to help reduce their repayment burden



SME Financing Guarantee Scheme (SFGS)

Special 100% Loan Guarantee

- As of 31 December 2022, over 58,500 applications were approved, amounting to about HK\$115.2 billion. The average loan amount per application was HK\$1.97 million, and the average approved loan amount per borrower was HK\$3.30 million. Over 40,900 applications (around 70%) have chosen the principal moratorium option

80% and 90% Guarantee Products

- As of 31 December 2022, around 31,400 applications were approved, amounting to about HK\$117.7 billion. Over 2,400 applications have chosen the principal moratorium option

100% Personal Loan Guarantee Scheme (PLGS)



- As of 31 December 2022, around 60,700 applications were approved, amounting to about HK\$4.1 billion. Average loan size per borrower was about HK\$77,000. Over 51,000 applications (around 84%) have chosen the principal moratorium option