



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

4 May 2020



DISCUSSION TOPICS

Updates on

- Financial and Economic Environment
- Currency Stability
- Banking Stability
- Financial Infrastructure
- Hong Kong as an International Financial Centre
- Investment Environment and Performance of the Exchange Fund
- Hong Kong Mortgage Corporation



FINANCIAL AND ECONOMIC ENVIRONMENT



GLOBAL ECONOMIC GROWTH FORECASTS

Real GDP Growth

(% year-on-year)

| | 2019 | 2020 Forecasts | 2021 Forecasts |
|------------------------|------|-------------------|-------------------|
| US | 2.3 | -4.0 | 3.9 |
| Euro area | 1.2 | -5.7 | 5.4 |
| Japan | 0.7 | -3.3 | 2.1 |
| Asia (ex-Japan) | 5.0 | 1.4 | 6.7 |
| Mainland China | 6.1 | 2.0 | 7.8 |
| Hong Kong | -1.2 | -3.3 | 3.5 |

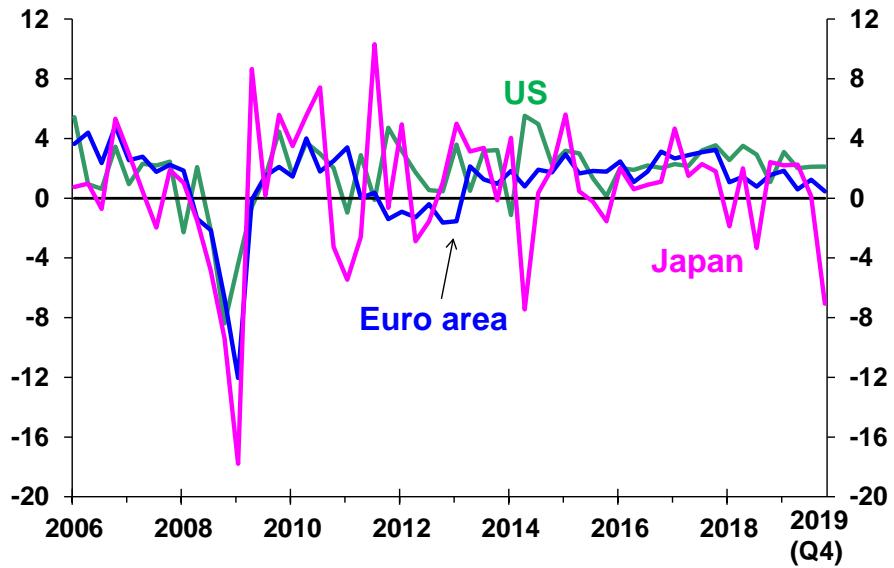
Source: April 2020 Consensus Forecasts



REAL GDP GROWTH IN MAJOR ECONOMIES

% qoq, annualised

% qoq, annualised

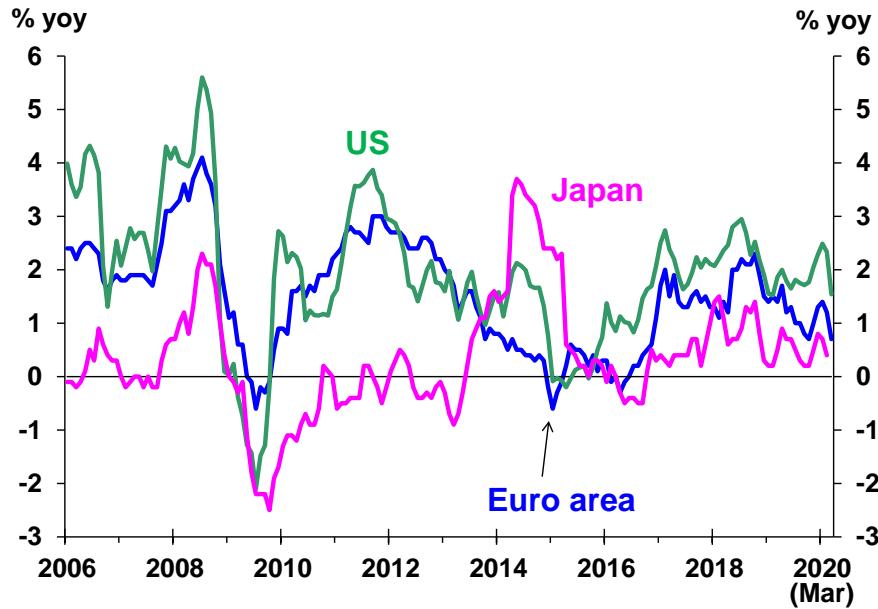


Source: CEIC

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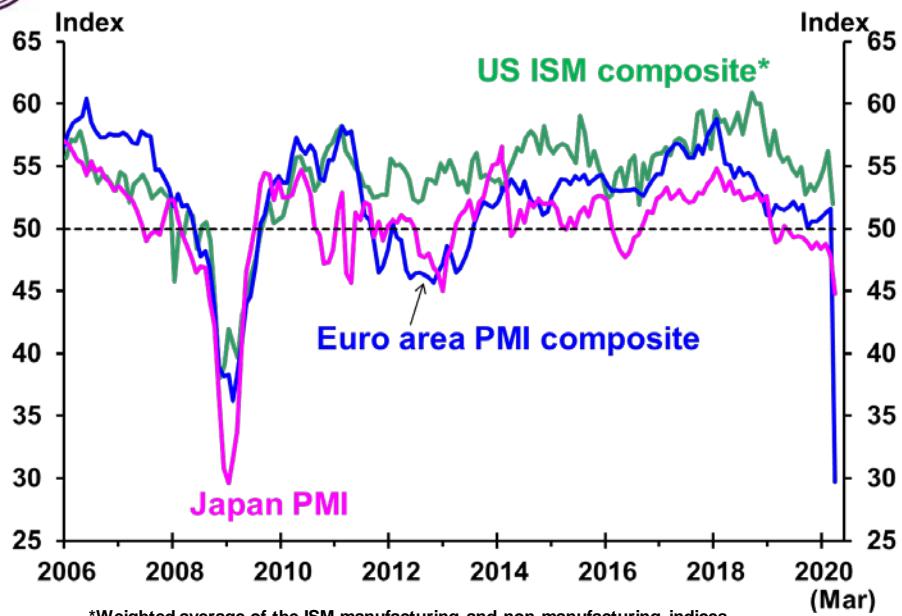
HEADLINE INFLATION IN MAJOR ECONOMIES



Source: CEIC



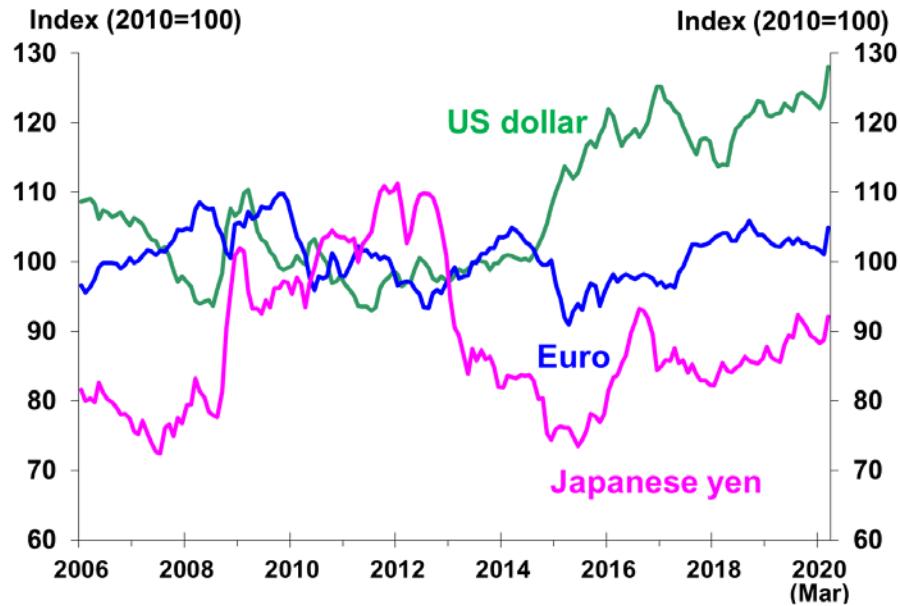
PURCHASING MANAGERS' INDEX IN MAJOR ECONOMIES



Source: CEIC



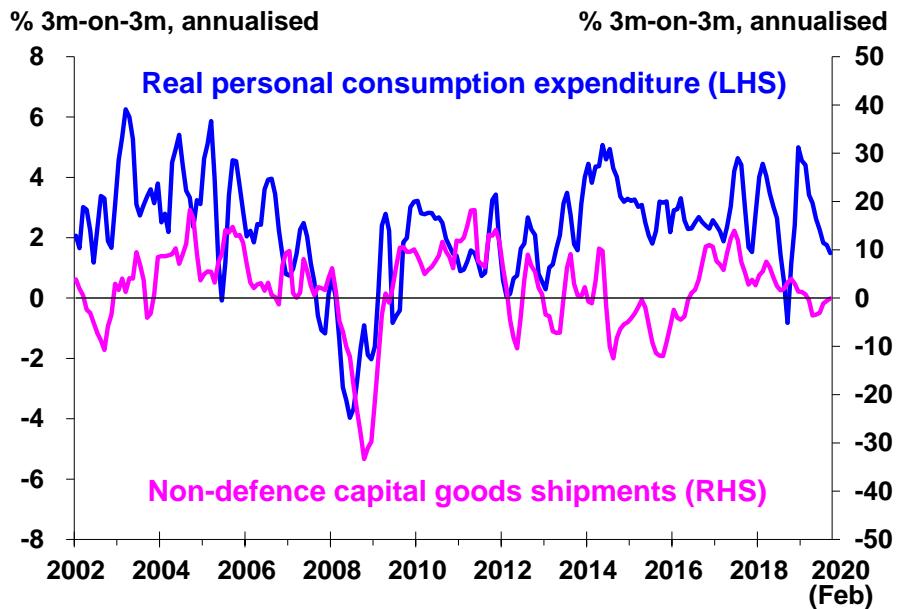
NOMINAL EFFECTIVE EXCHANGE RATE INDEX OF MAJOR CURRENCIES



Source: CEIC



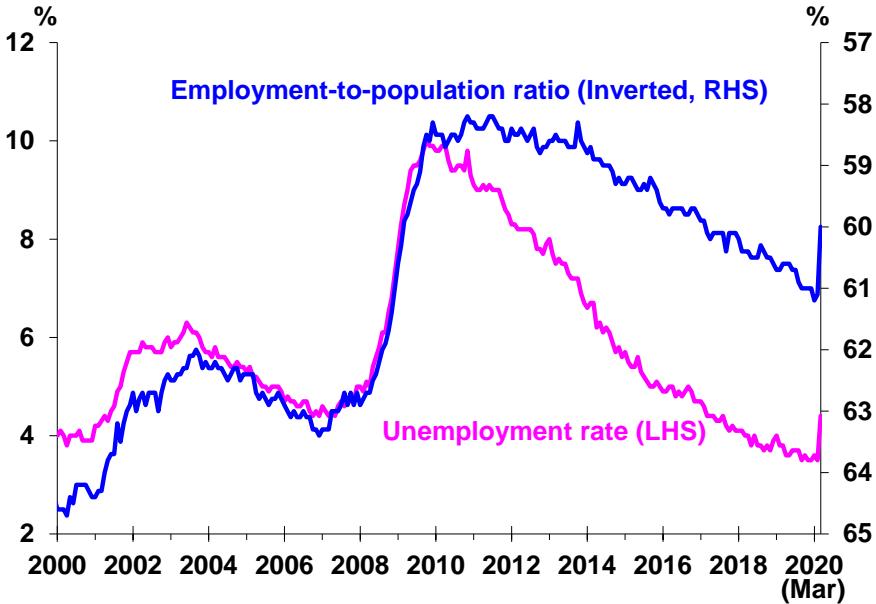
US: CONSUMPTION GROWTH & BUSINESS INVESTMENT ACTIVITY



Source: CEIC



US: LABOUR MARKET SITUATION



Source: CEIC

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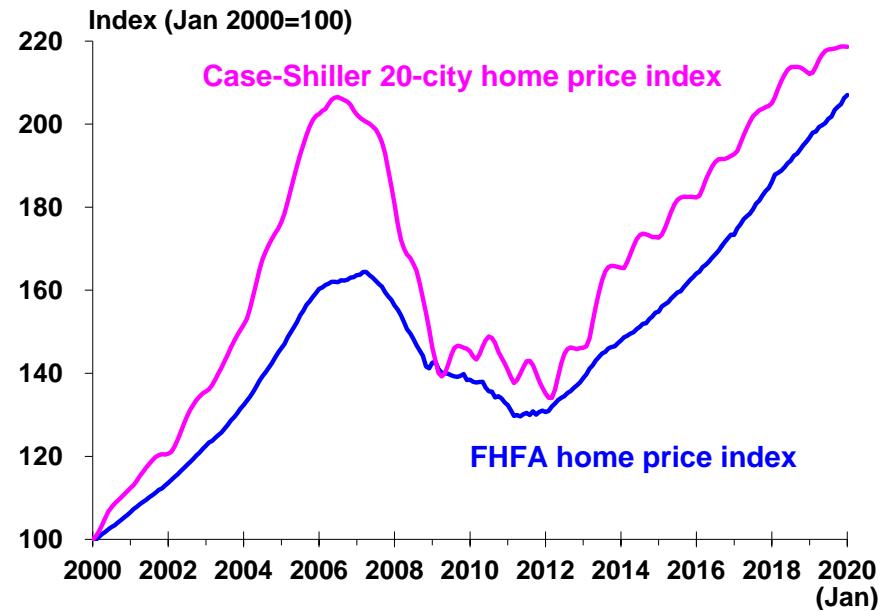
US: LABOUR FORCE PARTICIPATION



Source: CEIC



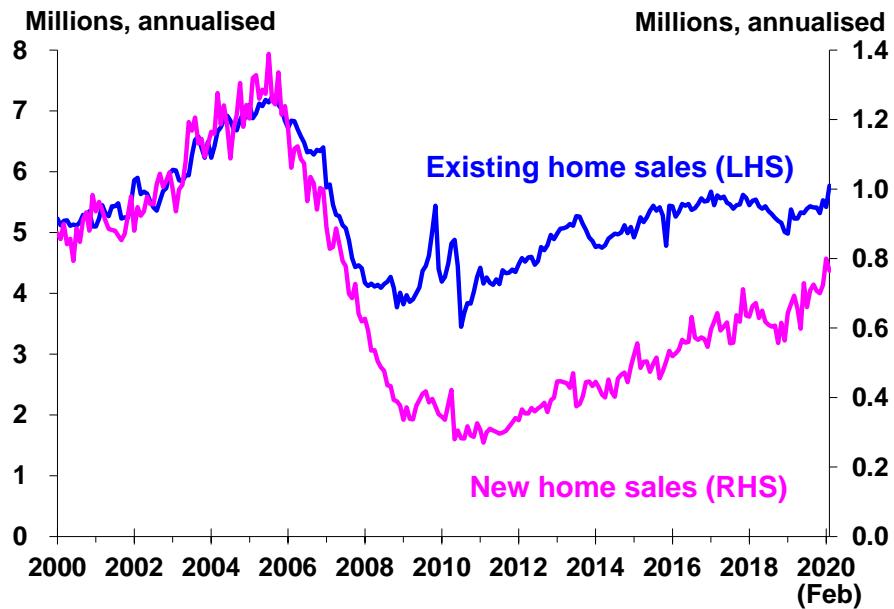
US: HOME PRICES



Sources: CEIC and Datastream



US: HOME SALES



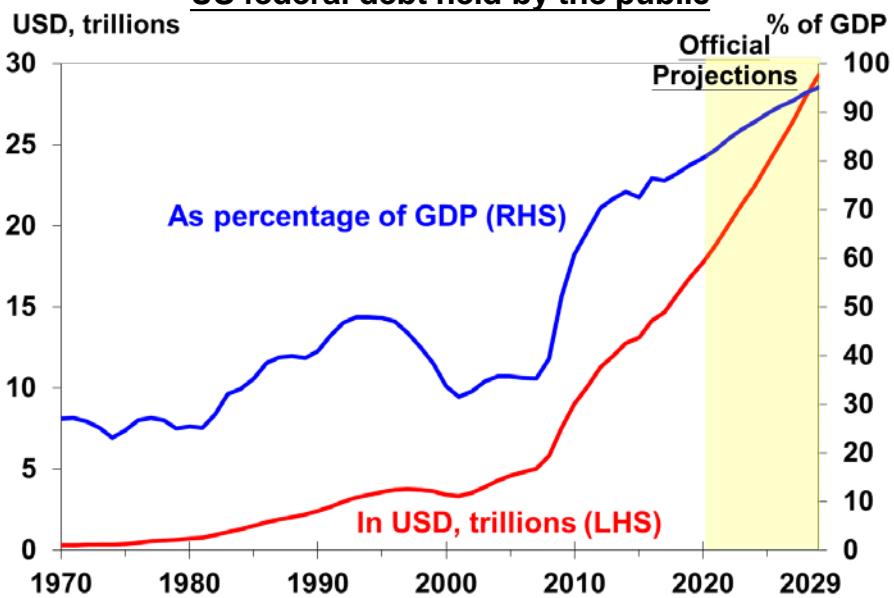
Sources: CEIC and Datastream

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US: FEDERAL GOVERNMENT DEBT

US federal debt held by the public

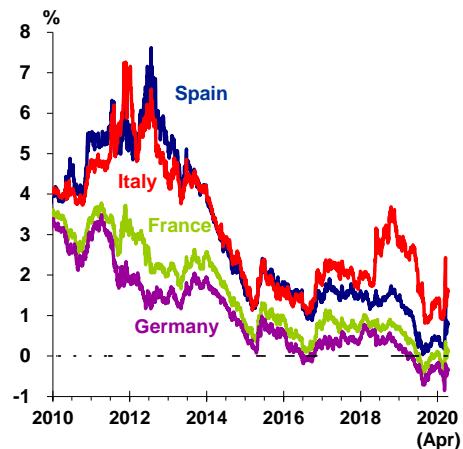
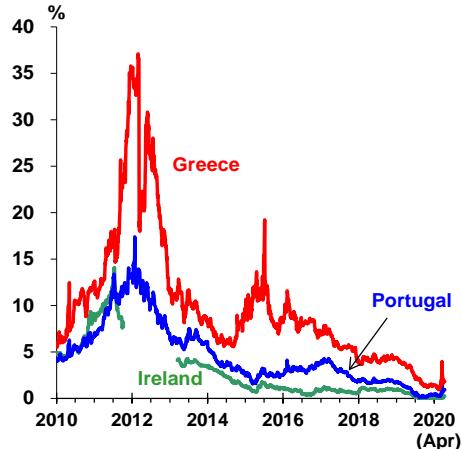


Sources: CEIC and Congressional Budget Office



EURO AREA: SOVEREIGN BOND YIELDS

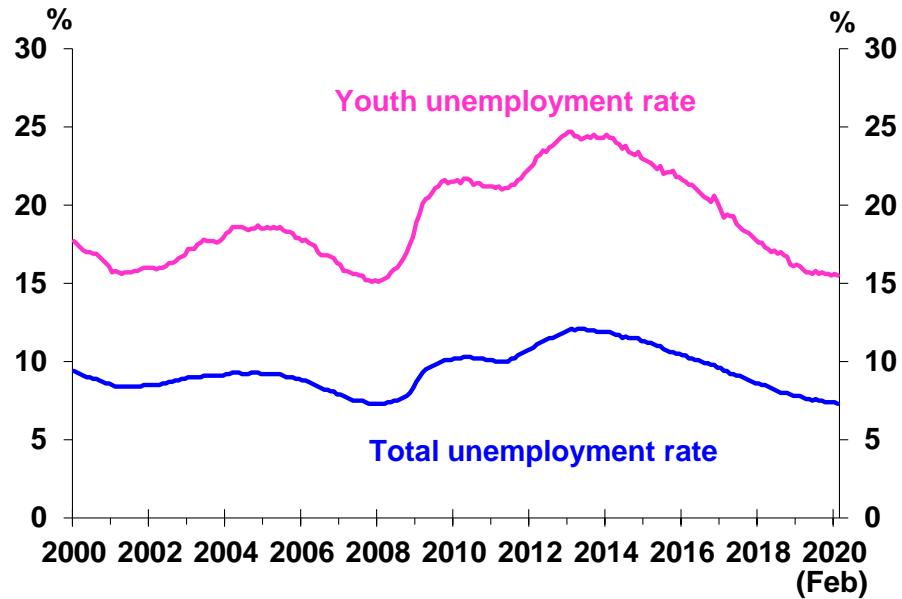
10-year sovereign bond yield



Note: 10-year Irish sovereign bond yield data is not available between 12 Oct 2011 and 14 Mar 2013
Source: Bloomberg



EURO AREA: UNEMPLOYMENT RATE

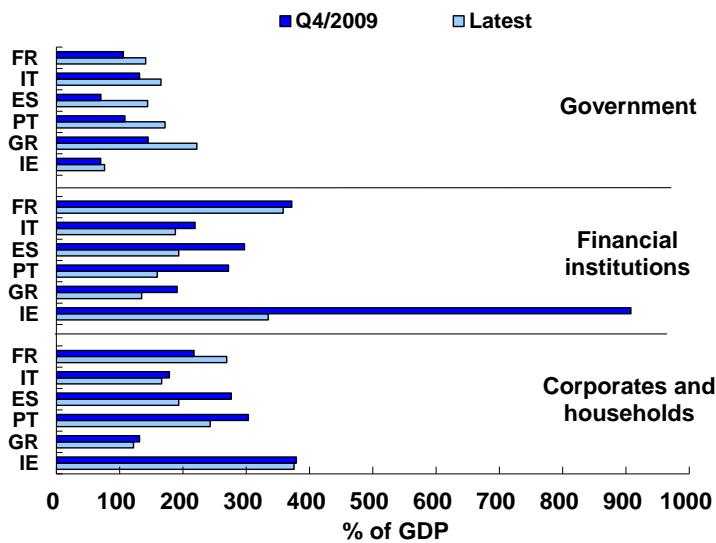


Source: Bloomberg

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EURO AREA: OVERALL INDEBTEDNESS



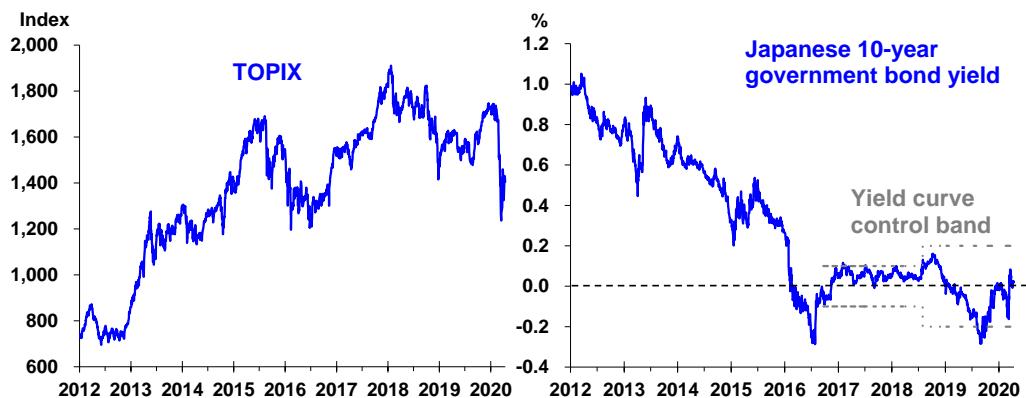
Source: European Central Bank

Note: FR – France, IT – Italy, ES – Spain, PT – Portugal, GR – Greece, IE – Ireland

The latest figures are up to Q4/2019 for financial institutions, and Q3/2019 for government and corporates and households



JAPAN: FINANCIAL MARKETS



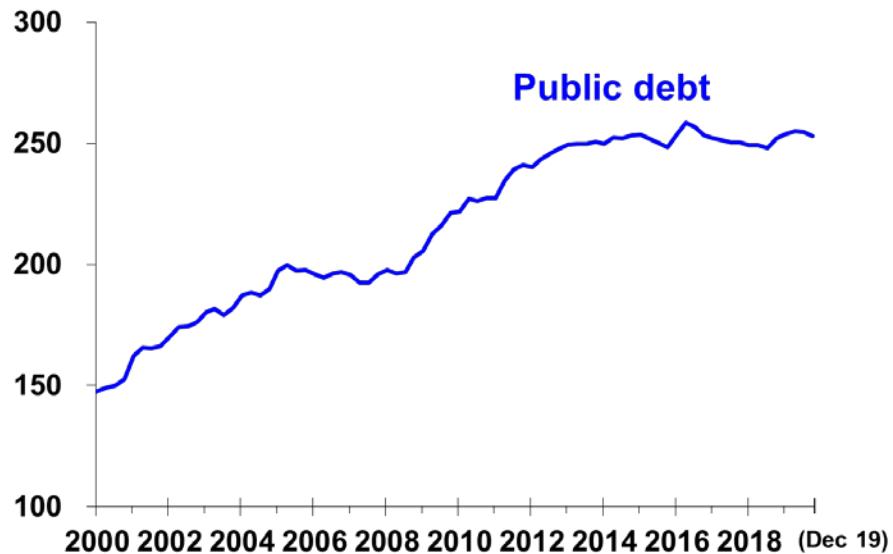
Source: Bloomberg

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JAPAN: PUBLIC DEBT

% of GDP

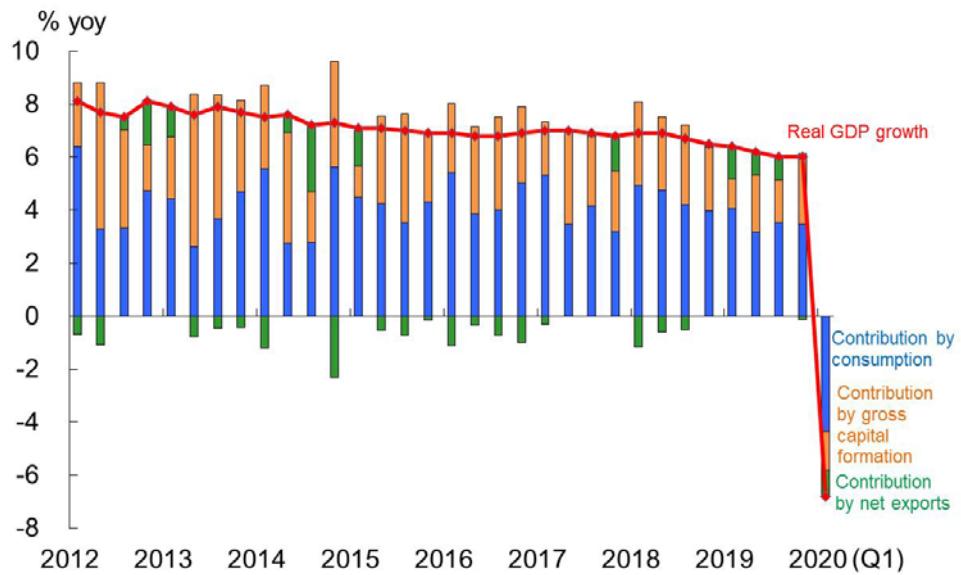


Sources: Bank of Japan and CEIC

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MAINLAND CHINA: REAL GDP GROWTH



Source: CEIC

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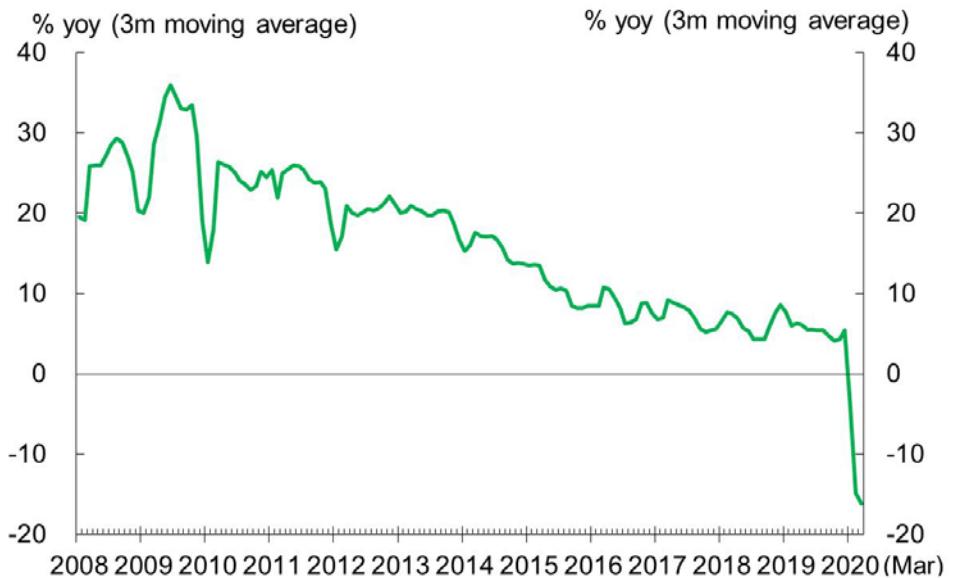
MAINLAND CHINA: RETAIL SALES



Note: January and February figures are the average annual growth rate for the first two months of the year
Sources: WIND and HKMA staff estimates



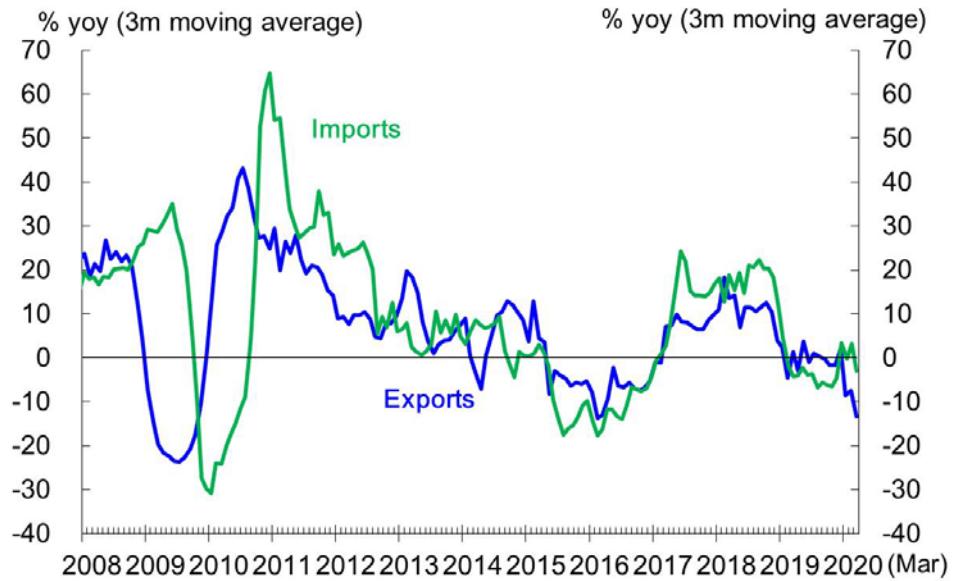
MAINLAND CHINA: FIXED ASSET INVESTMENT



Sources: CEIC and HKMA staff estimates



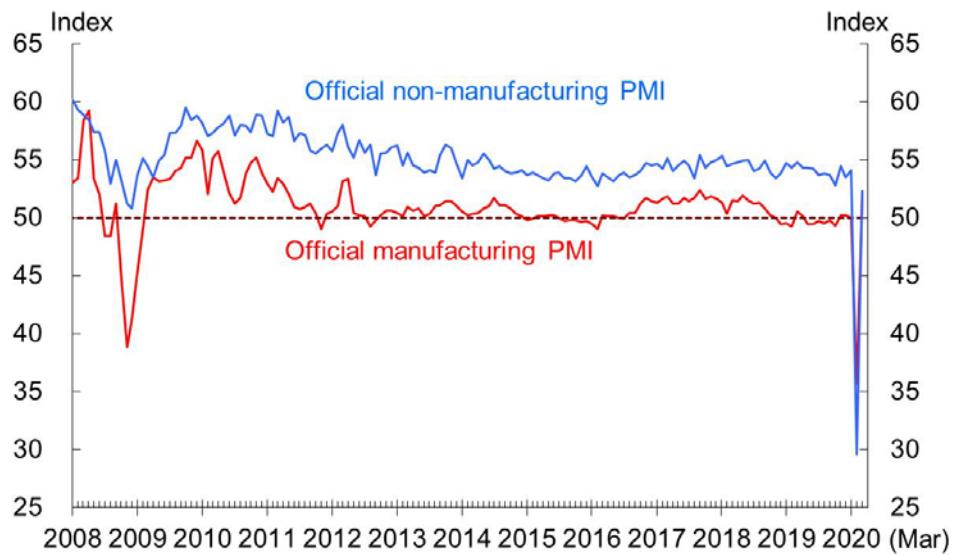
MAINLAND CHINA: IMPORT AND EXPORT GROWTH



Sources: CEIC and HKMA staff estimates



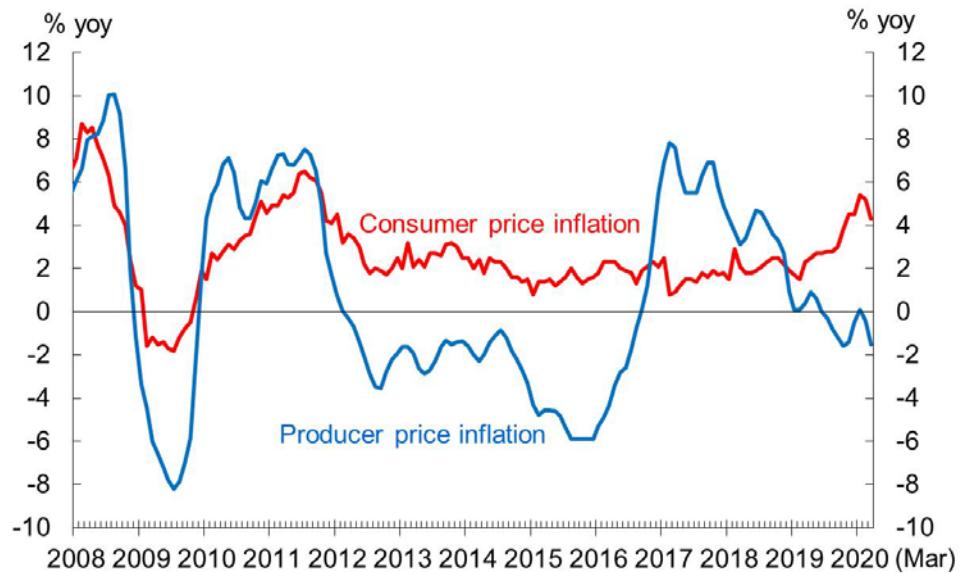
MAINLAND CHINA: PURCHASING MANAGERS' INDEX



Source: CEIC



MAINLAND CHINA: INFLATION



Source: CEIC

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MAINLAND CHINA: MONEY AND LOAN GROWTH

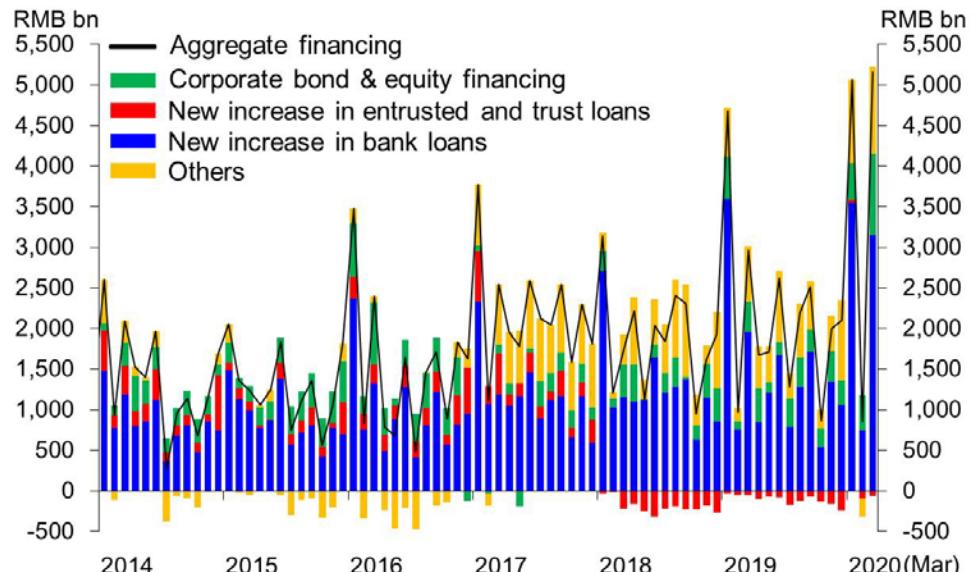


Source: CEIC

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MAINLAND CHINA: AGGREGATE FINANCING FLOW

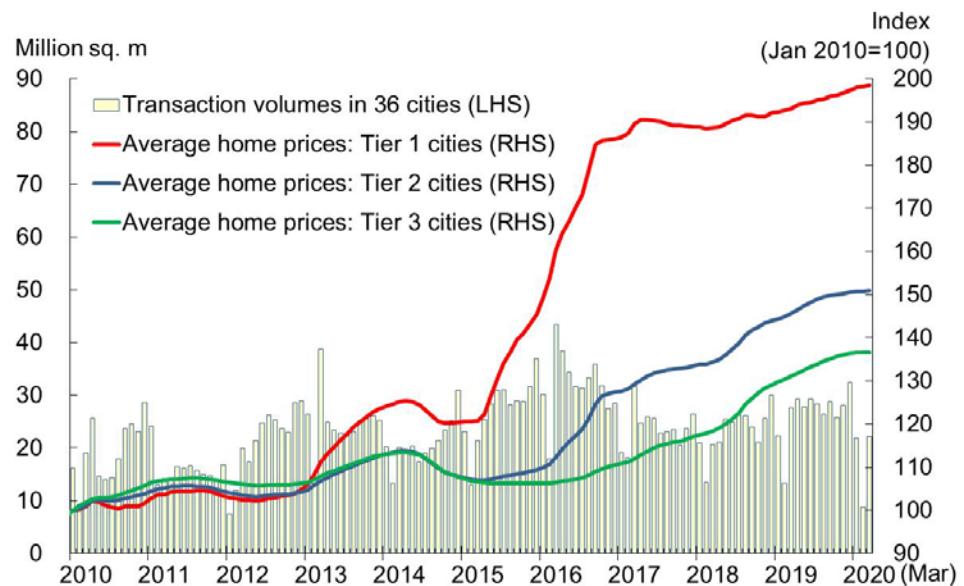


Source: CEIC

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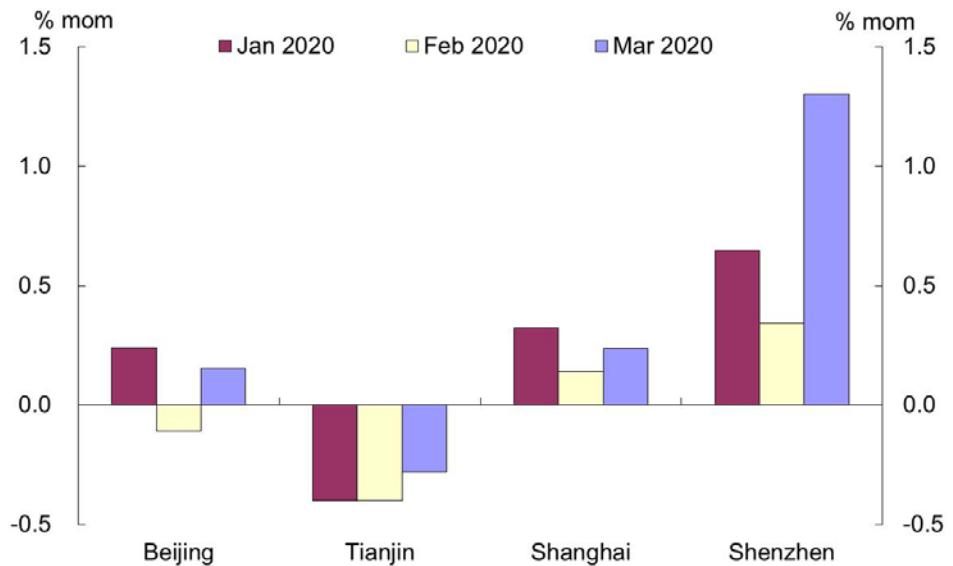
MAINLAND CHINA: PROPERTY PRICE AND TRANSACTION VOLUME



Sources: CEIC, WIND and HKMA staff estimates



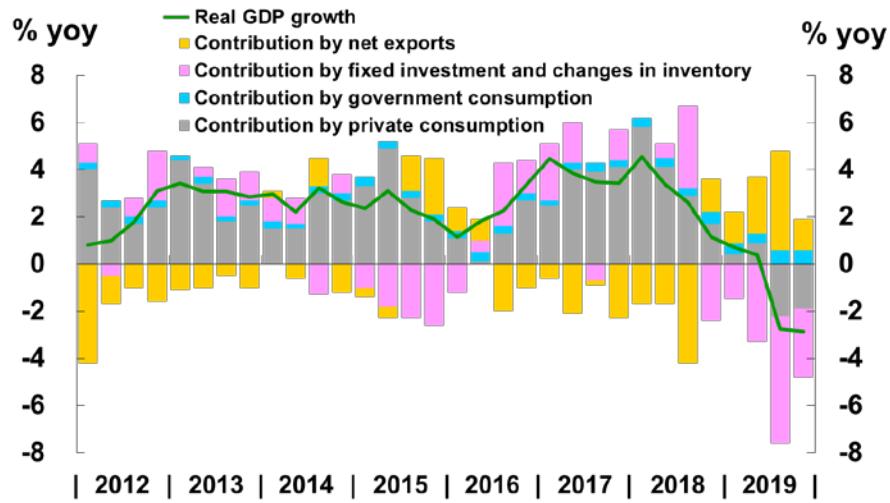
MAINLAND CHINA: HOUSING PRICE CHANGES IN MAJOR CITIES



Sources: CEIC, WIND and HKMA staff estimates



HONG KONG: REAL GDP GROWTH

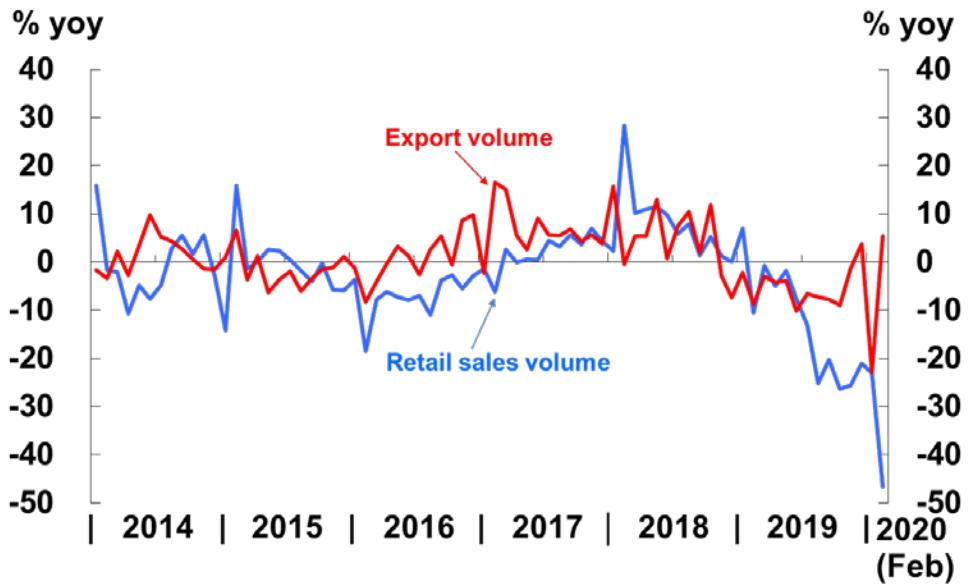


Source: C&SD

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HONG KONG: ECONOMIC ACTIVITY

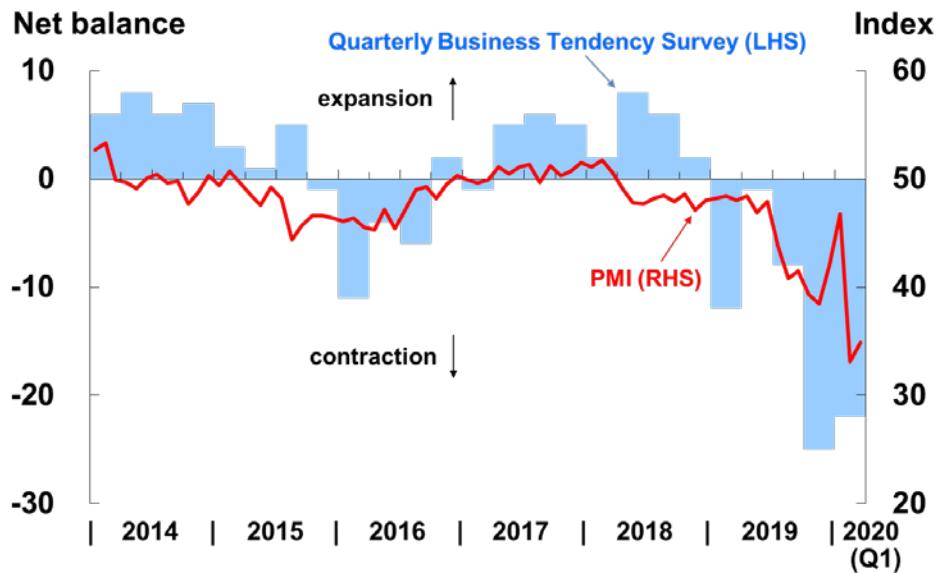


Source: C&SD

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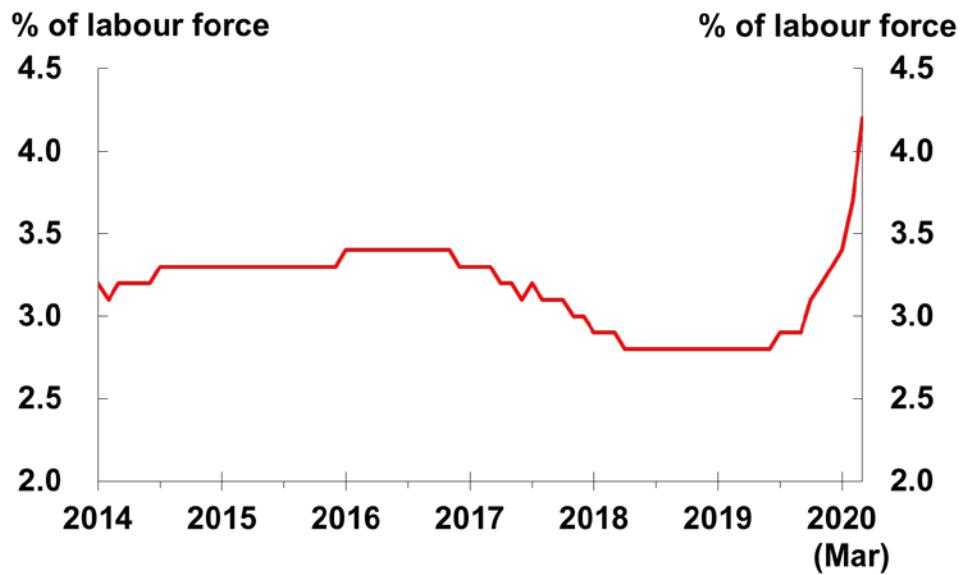
HONG KONG: BUSINESS OUTLOOK



Sources: C&SD and IHS Markit



HONG KONG: UNEMPLOYMENT RATE

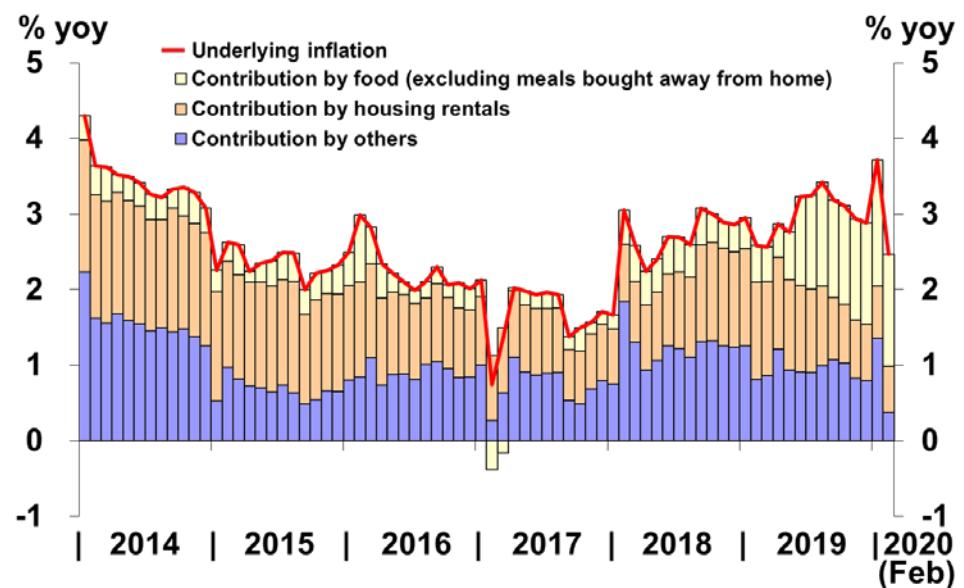


Source: C&SD

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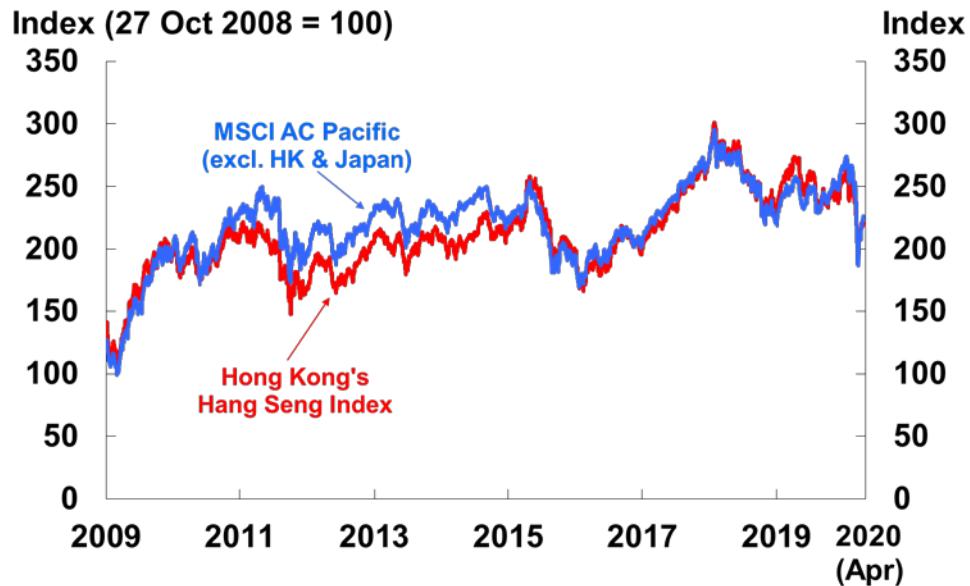
HONG KONG: INFLATION



Sources: C&SD and HKMA staff estimates



HONG KONG: EQUITY MARKET

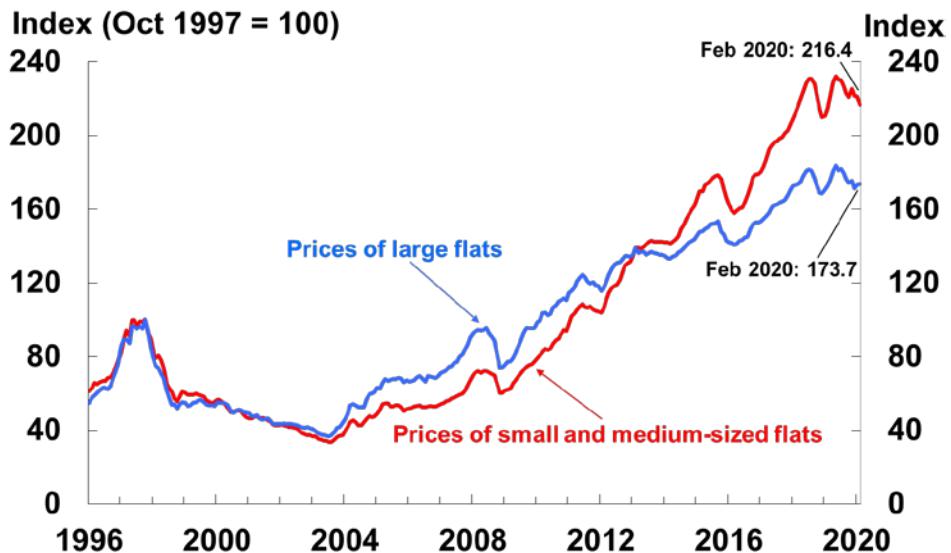


Source: Bloomberg

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HONG KONG: RESIDENTIAL PROPERTY PRICES



Source: Rating and Valuation Department



HONG KONG: TRANSACTION VOLUME IN THE PRIMARY AND SECONDARY MARKETS

Transactions (in thousands)

18
16
14
12
10
8
6
4
2
0

Primary market
Secondary market

2009 2011 2013 2015 2017 2019 2020
(Mar)

Transactions (in thousands)

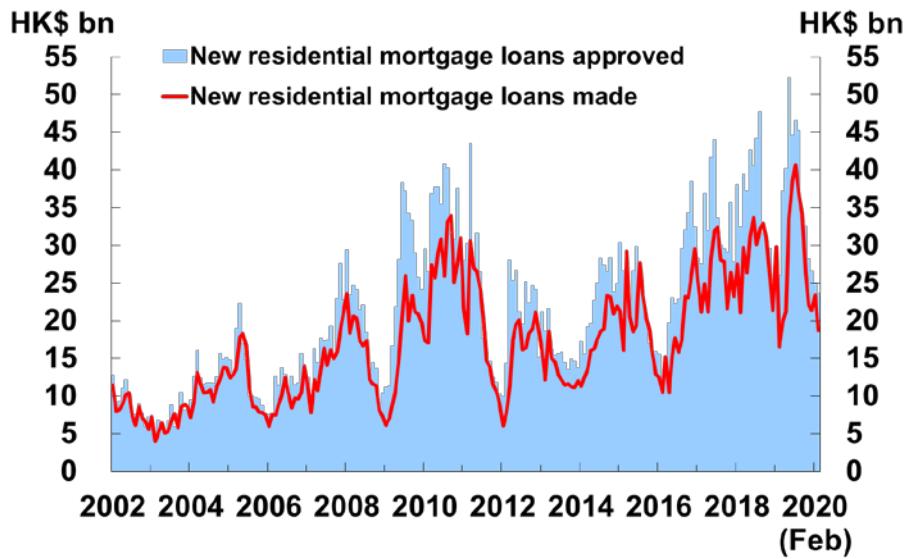
18
16
14
12
10
8
6
4
2
0

Source: Land Registry

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HONG KONG: NEW RESIDENTIAL MORTGAGE LOANS

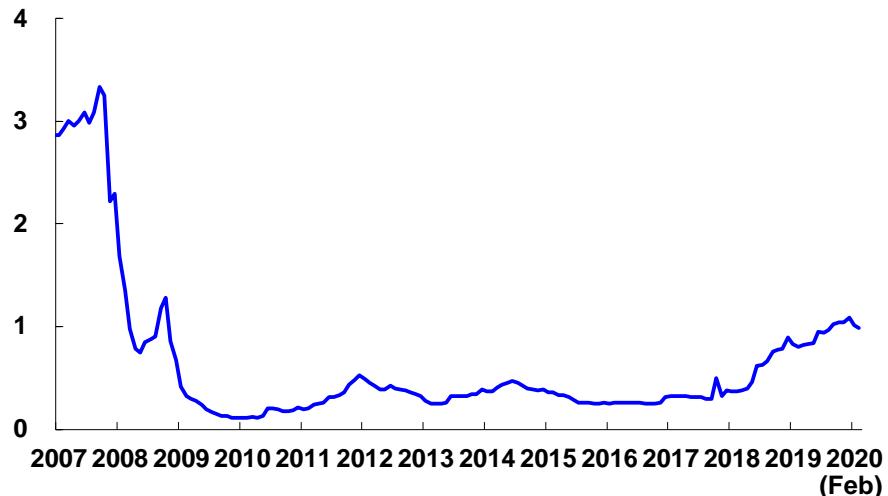


Source: HKMA



HONG KONG: COMPOSITE INTEREST RATE

% p.a.

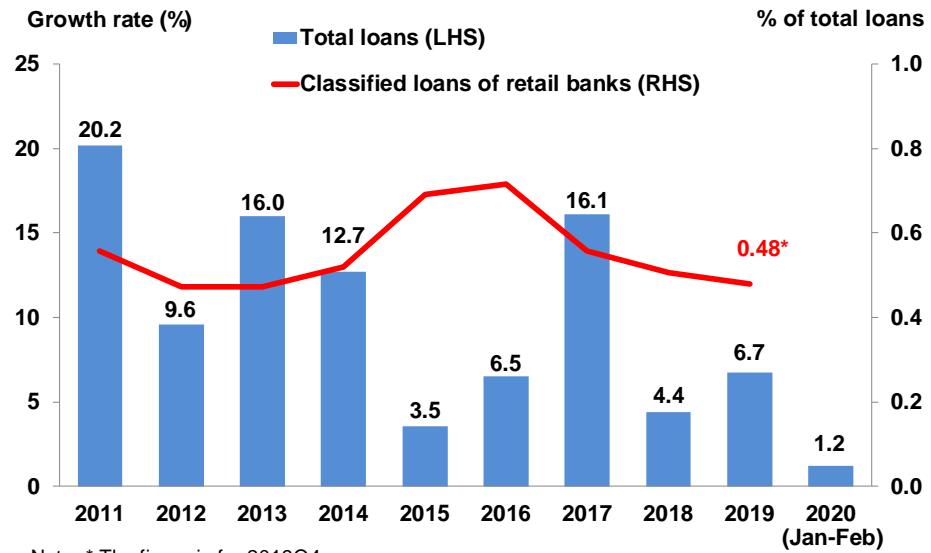


Source: HKMA

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HONG KONG: LOAN GROWTH AND ASSET QUALITY



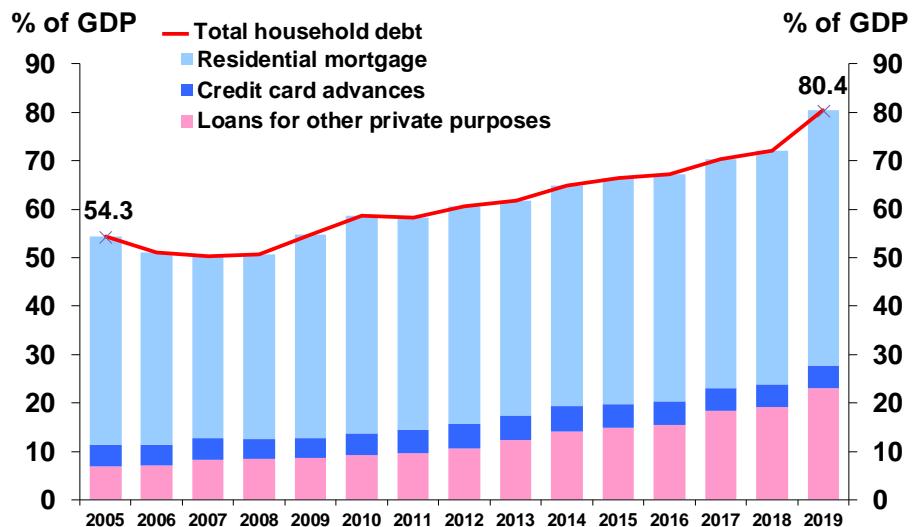
Note: * The figure is for 2019Q4

Source: HKMA

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HONG KONG: HOUSEHOLD DEBT



Source: HKMA

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CURRENCY STABILITY



HONG KONG DOLLAR SPOT EXCHANGE RATE



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- The strong-side Convertibility Undertaking was triggered on 21 and 22 April 2020.



AGGREGATE BALANCE

HK\$ billion

450
420
390
360
330
300
270
240
210
180
150
120
90
60
30
0

2015 2016 2017 2018 2019 2020

HK\$ billion

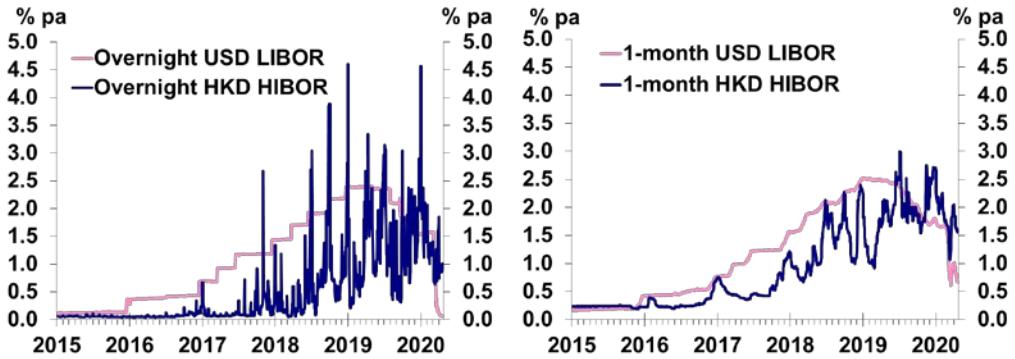
450
420
390
360
330
300
270
240
210
180
150
120
90
60
30
0

44

- The strong-side Convertibility Undertaking was triggered on 21 and 22 April 2020. The HKMA sold a total of HK\$7.7 billion to the market in exchange for US dollars.

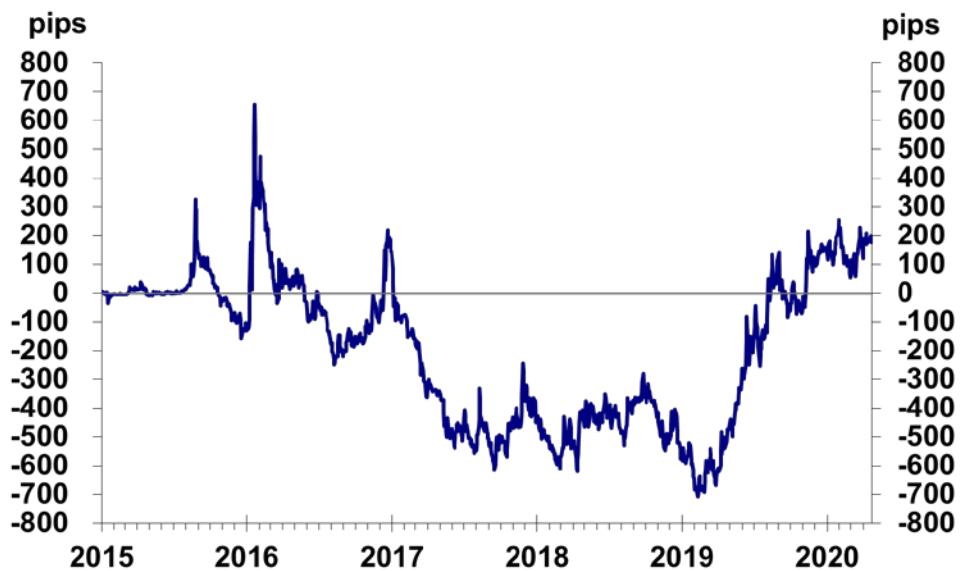


DOMESTIC INTEREST RATES





12-MONTH HONG KONG DOLLAR FORWARD POINTS



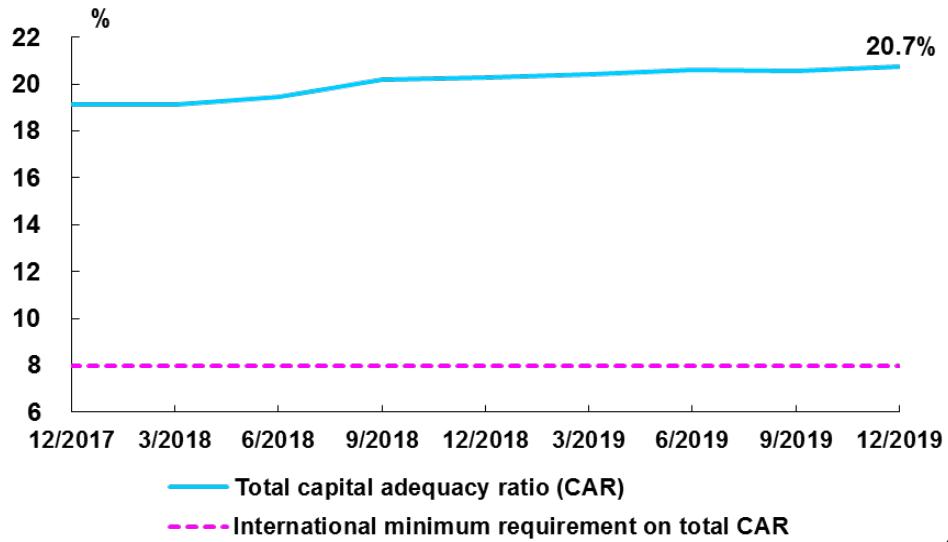


BANKING STABILITY



BANKING SECTOR PERFORMANCE

Locally incorporated authorized institutions (AIs) are well capitalised

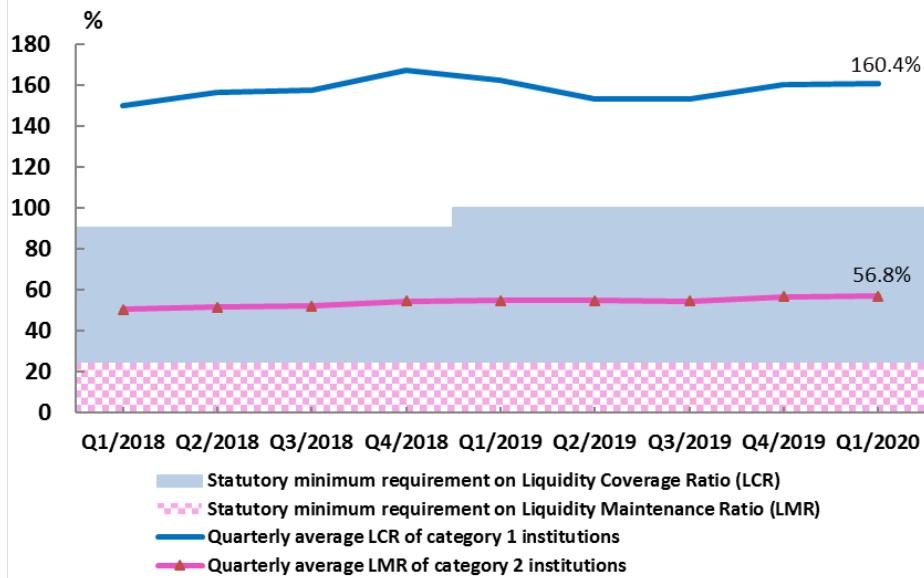


- The banking sector remained well capitalised. The consolidated capital adequacy ratio of locally incorporated AIs stood at 20.7% at end-December 2019, well above the international minimum requirement of 8%.



BANKING SECTOR PERFORMANCE

Liquidity position remained sound



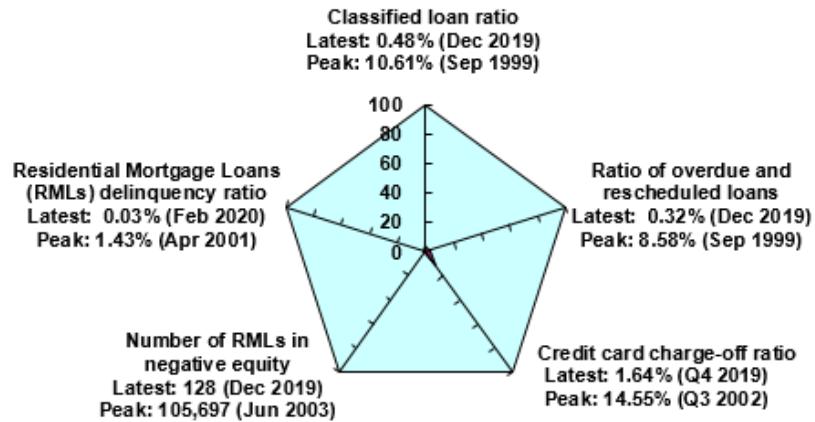
49

- In the first quarter of 2020, the quarterly average LCR of category 1 institutions was 160.4%, well above the 100% statutory minimum requirement. For category 2 institutions, their quarterly average LMR was 56.8%, also well above the 25% statutory minimum requirement.



BANKING SECTOR PERFORMANCE

Asset quality remained healthy



■ Peak ■ Latest

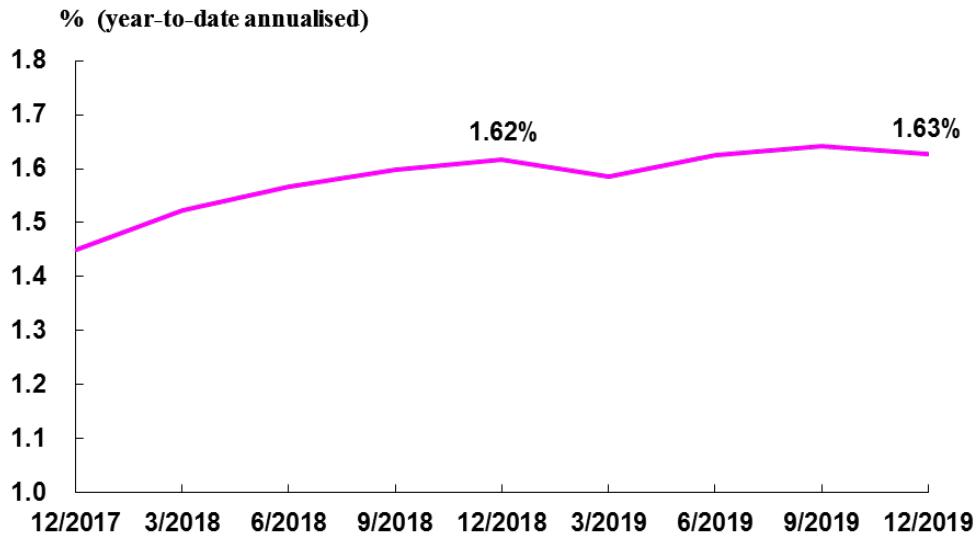
50

- The asset quality of retail banks remained healthy. Their classified loan ratio decreased to 0.48% at end-December 2019 from 0.52% a quarter earlier. For the banking sector as a whole, the classified loan ratio remained largely stable at 0.57% at end-December 2019.



BANKING SECTOR PERFORMANCE

Net interest margin improved slightly in 2019



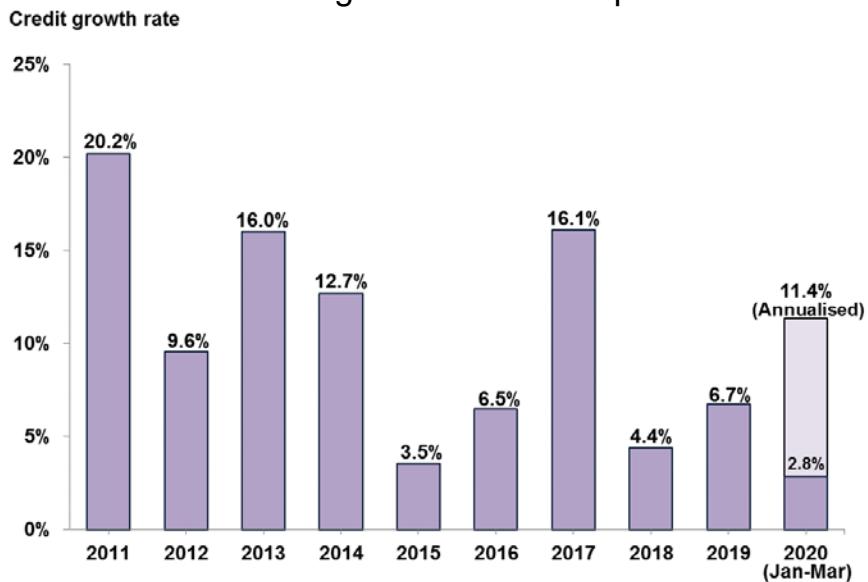
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- The net interest margin of retail banks' Hong Kong offices widened slightly to 1.63% in 2019 from 1.62% in 2018.



BANKING SECTOR PERFORMANCE

Credit grew at a modest pace



Source: HKMA

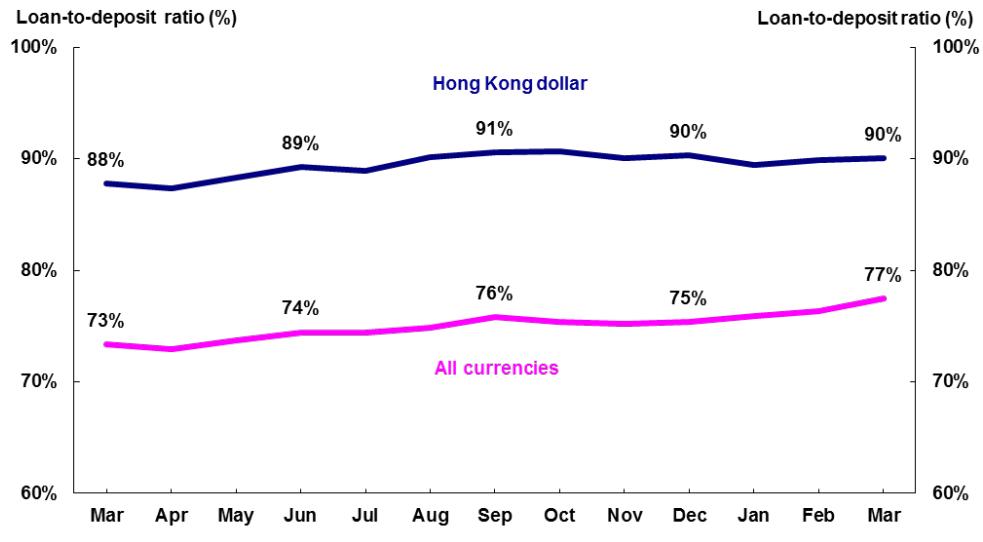
52

- Total loans grew at a modest pace of 2.8% in the first quarter of 2020, or 11.4% on an annualised basis.



BANKING SECTOR PERFORMANCE

Loan-to-deposit ratios remained broadly stable

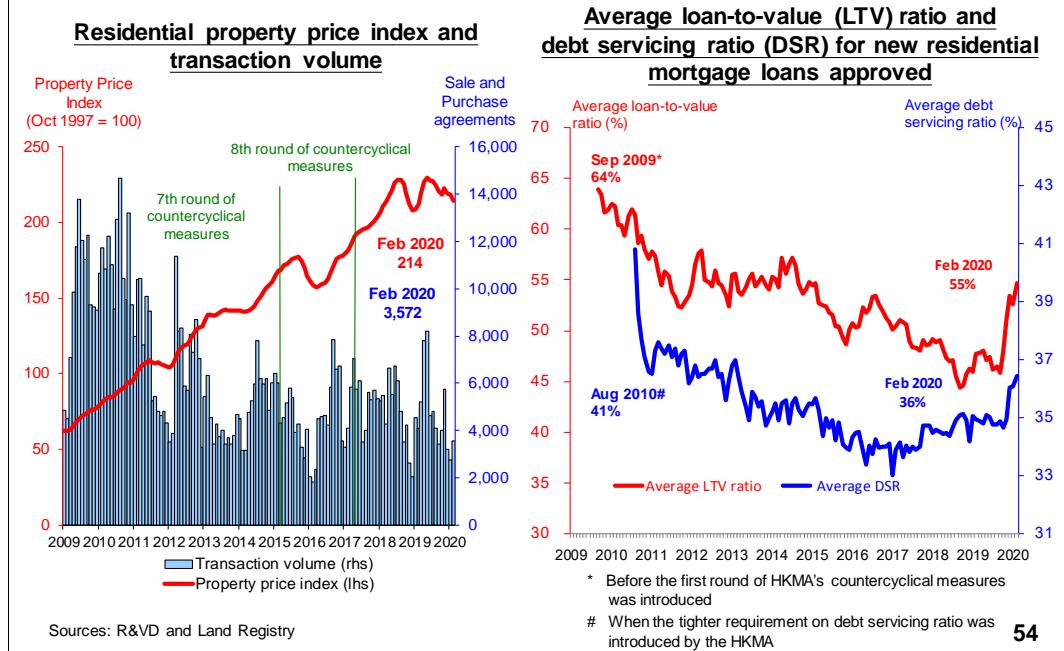


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- Hong Kong-dollar loan-to-deposit ratio remained stable at 90% at end-March 2020 compared to end-December 2019.
- All currencies loan-to-deposit ratio increased to 77% at end-March 2020 from 75% at end-December 2019.



PROPERTY MORTGAGE LOANS



Latest statistics on residential mortgage loans (RMLs)

| | Monthly average in 2018 | Monthly average in 2019 | Sep 2019 | Oct 2019 | Nov 2019 | Dec 2019 | Jan 2020 | Feb 2020 |
|--|-------------------------|-------------------------|----------|----------|----------|----------|----------|----------|
| Number of sale and purchase agreements | 4,771 | 4,983 | 3,447 | 4,001 | 5,756 | 3,184 | 2,762 | 3,572 |
| Number of new RML applications | 12,567 | 12,085 | 9,655 | 9,299 | 9,412 | 7,836 | 9,115 | 8,536 |
| Number of new RMLs approved | 9,010 | 8,759 | 8,181 | 7,614 | 6,505 | 6,066 | 5,637 | 5,576 |

Latest statistics on residential property prices

| Property price index | | Period | Property price index |
|---|-----------------|------------|----------------------|
| Rating and Valuation Department (10/1997=100) | Latest position | 2/2020 | 214.4 |
| | Recent peak | 5/2019 | 229.6 |
| | Peak in 1997 | 10/1997 | 100.0 |
| Centaline (6/7/1997=100) | Latest position | 22/3/2020 | 175.6 |
| | Recent peak | 30/6/2019 | 190.5 |
| | Peak in 1997 | 19/10/1997 | 102.9 |



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

- New relief measures rolled out by banking industry:
 - Cutting regulatory reserve requirement by half, releasing around HK\$200 billion in lending capacity
 - Pre-approved principal payment holiday for corporate customers
 - "Special 100% Loan Guarantee" open for applications
 - Exploring principal payment holiday for subsidised housing
- As of 21 April 2020, applications for relief measures approved by banks:
 - Corporate customers: over 11,000 applications (HK\$86 billion)
 - Personal customers: over 5,200 applications (HK\$15 billion)

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- Cutting regulatory reserve requirement together with lowering the countercyclical capital buffer ratio released a total of HK\$1 trillion of lending capacity.
- Launched the "Pre-approved Principal Payment Holiday Scheme", covering corporate borrowers with annual turnover below HK\$800 million, representing 80% of all corporate borrowers in Hong Kong. Extension is up to six months and application is not required.
- Good response for Special 100% Loan Guarantee Scheme. As of 23 April 2020, 180 applications, totalling HK\$410 million, have been approved.
- As of 21 April 2020, more than 11,000 applications from corporate customers for principal moratoriums, extensions of repayment schedules, contingency loans and other relief measures have been approved by banks, amounting to over HK\$86 billion.
- For retail customers, banks have approved more than 5,200 applications for principal payment holiday for residential mortgages and emergency personal loans, involving an aggregate amount of over HK\$15 billion.



INTERNATIONAL STANDARDS IMPLEMENTATION

- Banking (Capital) (Amendment) Rules 2020 on Basel standards:
 - Standardised approach for measuring counterparty credit risk of banks' derivative contracts
 - Treatment of banks' exposures to central counterparties (in centrally-cleared transactions)

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The following legislative proposals are being made or prepared for the purpose of implementing the Basel regulatory standards:

Capital standards

- A set of Banking (Capital) (Amendment) Rules will be tabled at LegCo for negative vetting on 29 April, with a view to taking effect on 30 June 2021. These Rules are aimed to implement the Basel revised counterparty credit risk framework, which consists of:
 - the standardised approach for measuring counterparty credit risk of derivative contracts (SA-CCR); and
 - the final standard on banks' exposures to central counterparties (in centrally-cleared transactions), replacing the interim standard that has been in effect in Hong Kong since 2013.

[Note: These standards were originally scheduled to be effective on 1 January 2017 according to the Basel timeline. Local implementation has been deferred to track more closely the implementation schedules in other major jurisdictions.]



ANTI-MONEY LAUNDERING

- Issued circulars on COVID-19 and anti-money laundering and counter-financing of terrorism (AML/CFT) measures in April 2020, setting out the HKMA's related support, guidance and assistance
 - Utilising flexibility built in risk-based approach
 - Encouraging remote on-boarding and simplified due diligence
 - Remaining vigilant to COVID-19 related financial crime risks
 - Ongoing outreach and advice

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- Resonating with the statement published by the Financial Action Task Force on 1 April 2020, the HKMA issued circulars to authorized institutions (AIs) and stored value facility (SVF) licensees on 7 April to encourage use of the flexibility built into the HKMA's risk-based approach. The circulars cover the following aspects:
 - **Encouraging remote on-boarding and simplified due diligence:** In view of social distancing requirements resulting from COVID-19, AIs are encouraged to continue to provide greater convenience for account opening and continued access to essential banking services, both physically and digitally. Following ongoing dialogue and the HKMA guidance, so far more than 10 retail banks have launched remote account opening services, while other banks are considering or testing similar initiatives. To help AIs adapt to the current situation, simplified due diligence measures can be taken where AIs identify lower ML/TF risks, as set out in the AML/CFT Guideline.
 - **Remaining vigilant to COVID-19 related financial crime risks:** Ever changing financial behaviour increases vulnerabilities of the banking system globally and locally. AIs and SVF licensees are reminded to remain vigilant to COVID-19 related financial crime risks, and ensure that they continue to focus on priority areas and effectively mitigate risks.
 - **Ongoing outreach and advice:** The HKMA adopts risk-based approach to AML/CFT supervision. Where there is a short-term impact on an AI's ability to meet a particular compliance obligation, the AI or SVF licensee concerned should maintain a record of the circumstances, the risk assessment that has been performed as well as any mitigation measures being taken.

- The HKMA will continue to work closely with local and international partners (e.g. Joint Financial Intelligence Unit in Hong Kong and fellow regulators overseas); and work closely with AIs and SVF licensees to keep its assessment of the situation up-to-date and address practical AML/CFT issues that may be related to COVID-19 in the most pragmatic manner.



RESOLUTION REGIME

- Current legislative priority is development of rules under the Financial Institutions (Resolution) Ordinance (FIRO) on contractual stays, which would require the adoption of contractual provisions in certain financial contracts to give effect to a suspension of termination rights imposed under the FIRO
- Public consultation on contractual stays closed on 22 March 2020

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- The current legislative priority on resolution is the development of rules to be made by the Monetary Authority as a resolution authority under the FIRO on contractual stays for authorized institutions (AIs) and certain group companies of AIs. The proposed rules will require the inclusion of contractual provisions in certain financial contracts that are not governed by Hong Kong law to the effect that the parties to the contracts agree to be bound by a suspension of termination rights (i.e. “stay”) that may be imposed by the Monetary Authority under the Hong Kong resolution regime. The policy proposals are intended to implement the relevant Financial Stability Board principles for enhancing cross-border effectiveness of resolution actions.
- A public consultation on the policy proposals for making rules on contractual stays closed on 22 March 2020.



FINANCIAL INCLUSION

- An additional mobile bank branch deployed to public housing estates
- Simple Bank Accounts with less extensive customer due diligence measures to facilitate services to small and medium-sized enterprises
- Launch of remote account opening services by banks
- Facilitated social security recipients residing on the Mainland to receive payments without returning to Hong Kong amid COVID-19

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- The HKMA has been encouraging banks to flexibly and pragmatically deploy new technologies and devise new solutions to further enhance the coverage of banking networks in remote areas and public housing estates (PHEs). At end-2019, a retail bank launched a new mobile bank branch covering an addition of four PHEs in Yuen Long, Tai Po, Tung Chung and Tsing Yi. This brings the total number of mobile bank branches operating in Hong Kong to six, covering a total of 29 PHEs, thereby further enhancing the access to basic banking services in remote areas and PHEs.
- The HKMA encourages more banks to support and launch Simple Bank Accounts to provide basic banking services with less extensive customer due diligence measures, hence offering corporate customers more choices.
- The HKMA has been maintaining close dialogues with banks and fintech companies on their initiatives through the Fintech Supervisory Sandbox and Chatroom. The HKMA articulated to the industry the principles of identity authentication and identity matching when opening accounts remotely for individual customers, and reminded banks to adopt a risk-based approach during the processes of account opening and maintenance. Some banks have already launched remote account opening services, while some other banks are considering or testing similar initiatives.

- The HKMA has been working closely with the Social Welfare Department (SWD) and the Hong Kong Association of Banks (HKAB) on ways to facilitate recipients/appointees of the Portable Comprehensive Social Security Assistance Scheme, Guangdong Scheme and Fujian Scheme who are currently residing on the Mainland to withdraw cash on the Mainland. Retail banks in Hong Kong have put in place arrangements that support the activation of cash withdrawal function of ATM cards issued by banks in Hong Kong (including debit cards and those credit cards with cash withdrawal function) on the Mainland through different bank channels (including bank hotlines), without the need to return to Hong Kong amid the COVID-19 situation. Remote channels (including mail-in, internet banking and/or mobile banking) are also available to enable recipients/appointees of the above-mentioned Schemes to set up standing instructions to regularly remit social security payments from their bank accounts in Hong Kong to their designated bank account on the Mainland. The relevant information is publicised on the webpages of the HKMA, the SWD and the HKAB.



BANKING CONSUMER PROTECTION

- Worked with the Hong Kong Association of Banks (HKAB) to extend online retrieval period of e-Statements of retail individual accounts to a minimum of seven years
- Working closely with the HKAB to follow up with TransUnion in respect of phased resumption of its online consumer credit report service and on the proposed implementation of more than one credit referencing agency for personal credit data

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- For better customer experience in light of the popularity of digital financial services, the HKMA together with the HKAB introduced the initiative of extending online retrieval period of e-Statements to a minimum of seven years. By the end of the first quarter of 2020, retail banks offering e-Statements start to incrementally accumulate over time e-Statements for a cycle period of a minimum of seven years for online retrieval by retail individual customers. The HKMA also requires these banks to provide such service free of charge.
- The HKMA continues to work closely with HKAB in following up with TransUnion in respect of phased resumption of its online consumer credit report service.
- Meanwhile, the HKMA is working with the banking industry on further enhancing the oversight of credit referencing agencies (CRAs) and introducing multiple CRAs in Hong Kong, with a view to enhancing quality of service and addressing the operational risk of having only one CRA in the market.



BANKING INVESTOR PROTECTION

- Introduced measures to facilitate banks' operations and continued services to customers amid COVID-19, while according customer protection
- Worked closely with the Insurance Authority (IA) on introducing temporary facilitative measures for non-face-to-face sale of insurance products amid COVID-19
- Reminded registered institutions of important obligations to ensure suitability and timely dissemination of information to customers

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- Amid the COVID-19 situation, the HKMA has been maintaining close dialogues with banks and fellow regulators, and introduced facilitative measures, including:
 - allowing flexibility in submission deadlines for supervisory returns and surveys;
 - taking a pragmatic approach on delay in banks' provision of contract notes, statements of account and receipts to customers because of suspension of local or overseas postal service;
 - providing clarifications to facilitate banks to provide investment services through video/tele-conferences and bank relationship managers to accept investment instructions from customers under the work-from-home arrangement; and
 - extending deadlines for passing regulatory examinations for fulfilment of licensing conditions, and for fulfilment of continuous professional training requirements by practitioners.
- In view of COVID-19, the HKMA and the IA worked closely to introduce temporary facilitative measures on 21 February 2020 to reduce the risk of infection during the sales process of insurance products while according protection to customers. In the first phase, insurers and insurance intermediaries (including banks) were allowed to distribute Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme products through non-face-to-face methods, while compensating measures including upfront disclosure and extended cooling-off period should be implemented.

- The HKMA and the IA rolled out phase two of the temporary facilitative measures on 27 March 2020, expanding the scope of insurance product types that can be distributed through non-face-to-face methods to also cover term insurance policies and certain refundable or renewable insurance policies that provide insurance protection.
- On 27 March 2020, the HKMA issued guidance to registered institutions (RIs) to remind them of their suitability obligations and the obligation to timely disseminate information where they hold an investment product on behalf of their clients. RIs are reminded to conduct proper product due diligence on a continuous basis, taking into account the COVID-19 situation, and disclose any increase in product risk rating to customers to whom it recommended and sold the product.



PUBLIC EDUCATION

- Communicated on HKMA's efforts in joining forces with the banking sector to support Hong Kong's economy amidst the COVID-19 outbreak
- Alerted the public to avoid internet traps when shopping online
- Differentiated "cash payment" and "stage payment" plans, and pinpointed the possibility of a larger down payment for the latter
- Further promoted the Faster Payment System service
- Publicised the lowering of the eligible age for applying for the HKMC Annuity Plan to 60
- Further reminded the public of banknote security features

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- Communicated on HKMA's efforts in joining forces with the banking sector to support Hong Kong's economy amidst the COVID-19 outbreak.
- Alerted the public to avoid internet traps when shopping daily necessity items online. They should verify the seller identities before making payment.
- Explained the difference between "cash payment" and "stage payment" plans, highlighting that a larger down payment may be required for the latter in cases where the valuation of the property is lower than the purchase price when taking a mortgage loan from a bank. Members of the public are advised to select a payment plan suitable for their own situation.
- Further promoted the features and benefits of the Faster Payment System service to facilitate the public to make person-to-person money transfers and pay bills by scanning QR codes.
- Publicised the lowering of the eligible age for applying the HKMC Annuity Plan from 65 to 60.
- Further reminded the public of banknote security features.



DEPOSIT PROTECTION SCHEME (DPS)

- Continue with system development and planning for comprehensive test to implement electronic payment channels for DPS compensation
- Deepen public understanding of DPS through TV infotainments and social media campaigns
- Broaden the reach to non-Chinese speaking communities via targeted publicity



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- The Hong Kong Deposit Protection Board continues with system development to adopt electronic payment channels for dispersing DPS compensation, including the use of Faster Payment System. Before implementing the new electronic payment channels, a comprehensive test involving the banking industry will be conducted to ensure systems and processes are effective.
- In addition to multi-media advertisements, two campaigns were implemented to enhance awareness and understanding of the DPS:
 - “Street Interviews” social media campaign with videos posted on DPS Facebook fanpage featuring interesting interviews with street passers-by sharing their saving habits.
 - A five-episode series of one-minute infotainment “Deposits are Protected. Save with Confidence!” which were broadcast on a TV channel to impart knowledge of the core features of the DPS to the mass public.
- To broaden the reach to non-Chinese speaking ethnic communities via advertising placements on targeted media platforms including language-specific newspapers, websites and outdoor TV panels.



FINANCIAL INFRASTRUCTURE



FINANCIAL INFRASTRUCTURE

- Financial infrastructure remains safe and efficient
- Operation of Bond Connect has been smooth; actively promote Bond Connect to overseas investors
- Further refine the Hong Kong Trade Repository (HKTR) for over-the-counter derivatives according to the relevant local and international standards

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Bond Connect

- Since the launch of Bond Connect on 3 July 2017, the related settlement operations performed by the Central Moneymarkets Unit have been smooth.
- With the Delivery-versus-Payment settlement fully implemented in August 2018, and the inclusion of renminbi-denominated Mainland government and policy bank securities into the Bloomberg Barclays Global Aggregate Index in April 2019 and J.P. Morgan Government Bond Index-Emerging Markets in February 2020, more overseas investors have started to invest in the Mainland interbank bond market via Bond Connect. The HKMA has been maintaining close communications with the People's Bank of China and other relevant Mainland institutions to explore enhancements to Northbound Trading.

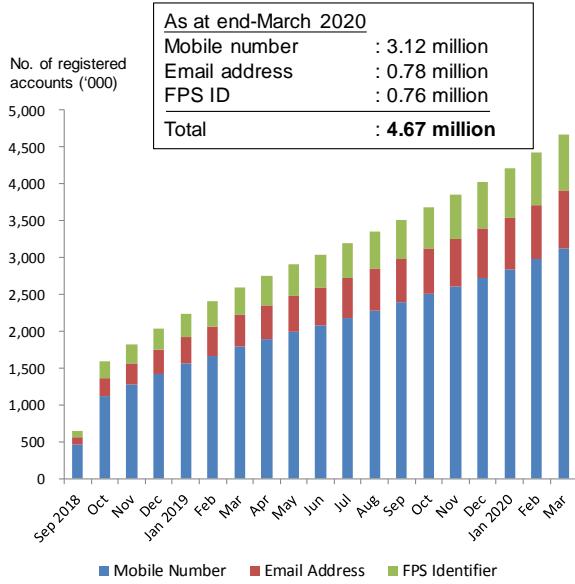
Over-the-counter derivatives trade repository

- Since the reporting function of the HKTR was launched in July 2013, reporting by banks to the HKTR has been smooth.

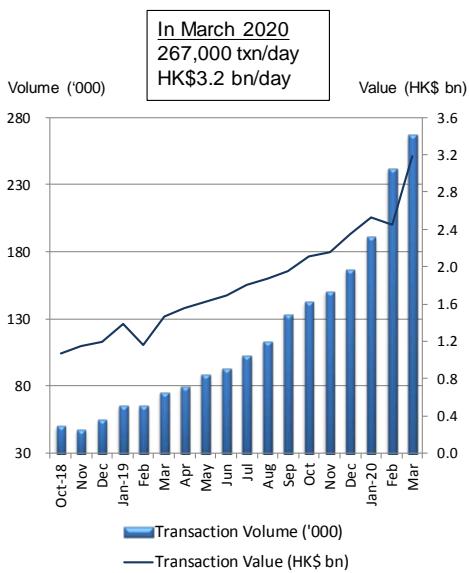


FASTER PAYMENT SYSTEM (FPS)

Number of registered accounts



Average daily turnover of HKD real-time payments





LATEST FINTECH INITIATIVES

Fintech Career Accelerator Scheme (FCAS)

- Around 150 gap year internship positions offered to university students by the HKMA, 22 banks and one SVF operator

Connection of People's Bank of China Trade Finance Platform and eTradeConnect

- Commenced a cross-border proof-of-concept project on connecting the platforms of the two jurisdictions

Cybersecurity Fortification Initiative (CFI)

- Industry-wide consultation of CFI enhancement underway

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Fintech Career Accelerator Scheme – Gap year placement programme

- FCAS is a talent development scheme initiated by the HKMA since 2016 to nurture fintech talents in Hong Kong. Its gap year placement programme offers full-time, semester-based internship positions for university students to work on fintech projects at banks or stored value facility operators.
- In the current intake of 2020/21, the HKMA, 22 banks (including four virtual banks) and one stored value facility operator offered around 150 internship positions, attracting over 1,000 applications.

Connection of PBoC Trade Finance Platform and eTradeConnect

- eTradeConnect was developed by a consortium of 12 banks in Hong Kong.
- In November 2019, a Memorandum of Understanding was signed between the operators of eTradeConnect and People's Bank of China Trade Finance Platform to conduct a Proof-of-Concept trial on connecting the two platforms.
- The HKMA will continue to facilitate the development of eTradeConnect and its connection with platforms in other regions.

Cybersecurity Fortification Initiative

- The CFI was first launched in 2016. Due to changes in the global cybersecurity landscape, the HKMA considers that there is a need to enhance the existing CFI framework.
- In January 2020, the HKMA began a consultation to seek the industry's feedback on the proposed enhancements.



STORED VALUE FACILITIES (SVFs) AND RETAIL PAYMENT SYSTEMS (RPSs)

- SVF usage continued to grow in Q4 2019:
 - Accounts in use: 63.1 million
(+12.5% year-on-year (yoY))
 - Average daily transaction value: HK\$576 million
(+10.1% yoY)
- SVF licensees continue to extend their business reach, e.g. cross-border retail payments, public transport and small merchants
- Continue to oversee six designated RPSs



REGULATORY DEVELOPMENT OF THE OVER-THE-COUNTER (OTC) DERIVATIVES MARKET

- A joint consultation paper with the Securities and Futures Commission (SFC) was published in March 2020 to consult the market on the annual update to the Financial Services Providers (FSP) list for clearing obligations. A conclusion to the consultation is targeted to be published in June with a view to implementing the revised FSP list in January 2021
- As of end-March 2020, the Hong Kong Trade Repository logged 2.64 million total outstanding OTC derivatives trades, covering five asset classes under mandatory reporting requirements, i.e. foreign exchange, interest rate, equity, credit, and commodity derivatives

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- Under the Hong Kong OTC Derivatives Clearing Rules (Clearing Rules), authorized institutions (AIs) and licensed corporations (LCs) are already subject to the clearing obligation of specified OTC derivative transactions. In order to capture transactions between AIs/LCs and major dealers outside of Hong Kong that are not AIs or LCs, the concept of FSP was introduced. Under the Clearing Rules, an entity will be designated as a FSP if the entity belongs to a firm on the Financial Stability Board's global systemically important bank List or on the OTC Derivatives Supervisors Group's (ODSG) major dealer List, and the entity is a clearing member of major central counterparties. Specific transactions between a FSP and AIs/LCs are subject to the clearing obligations. The HKMA and SFC perform annual review of the FSP list to ensure the list remains relevant and appropriate.



INTEREST RATE BENCHMARKS

- The Treasury Markets Association (TMA) has adopted Hong Kong Dollar Overnight Index Average (HONIA) as the alternative reference rate for HIBOR. In May 2019, TMA completed a consultation on some technical refinements to HONIA. The consultation outcome was published in December 2019. The HKMA and TMA will continue to engage the industry on promoting the use of HONIA
- The HKMA continues to engage the AIs and market participants to prepare for the possible cessation of LIBOR after end-2021



GOVERNMENT BOND PROGRAMME

- To issue the fifth batch of Silver Bond in 2020 targeting Hong Kong residents aged 65 or above
- To issue iBond in 2020 for subscription by Hong Kong residents aged 18 or above

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Institutional part – outstanding as at March 2020:

- 11 Government bonds totalling HK\$74.4 billion.
- Two Islamic bonds totalling US\$2 billion.

Retail part – outstanding as at March 2020:

- Three Silver Bonds totalling HK\$8.8 billion.

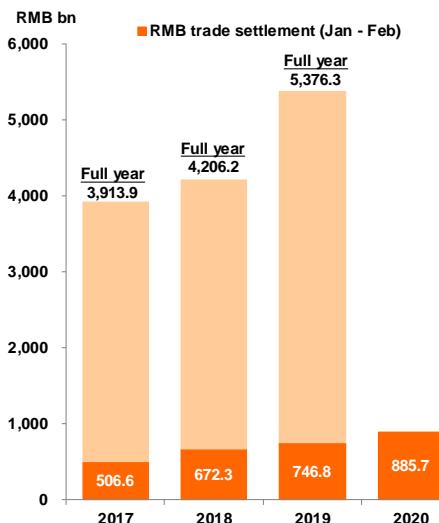


HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

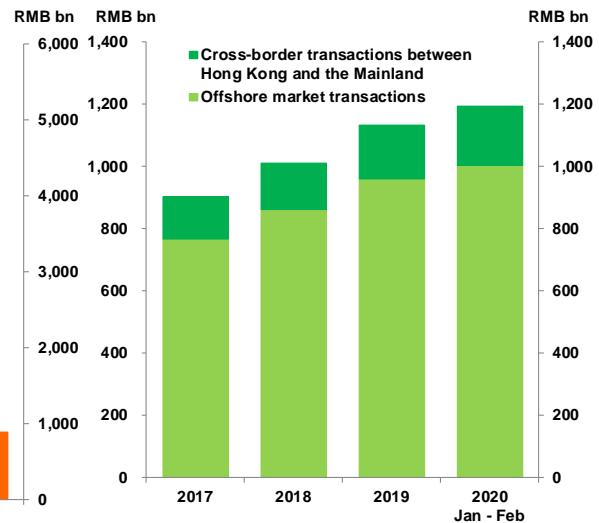


RMB TRADE SETTLEMENT AND PAYMENT

RMB trade settlement handled by banks in Hong Kong



Average daily turnover of Hong Kong RMB RTGS System



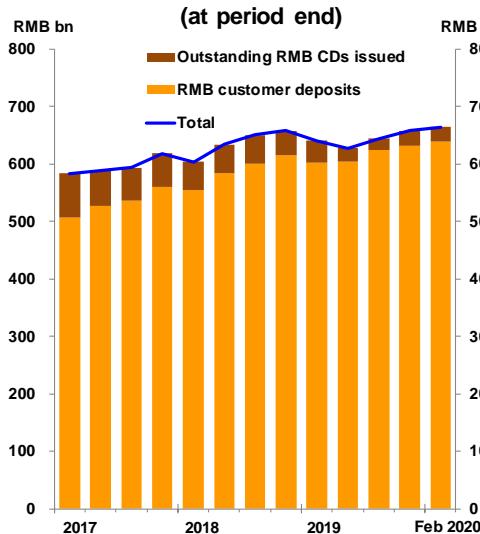
73

- In the first two months of 2020, renminbi trade settlement handled by banks in Hong Kong totalled RMB885.7 billion.
- In the first two months of 2020, the average daily turnover of Hong Kong RMB Real Time Gross Settlement (RTGS) system stood at RMB1,192.6 billion.

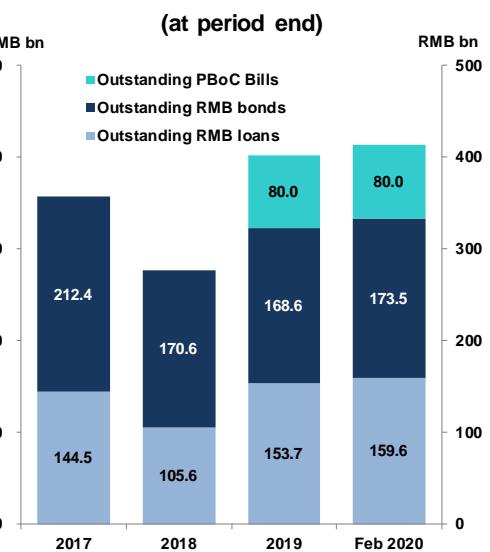


RMB LIQUIDITY POOL AND FINANCING ACTIVITIES

RMB customer deposits and certificates of deposit (CDs)



RMB financing activities



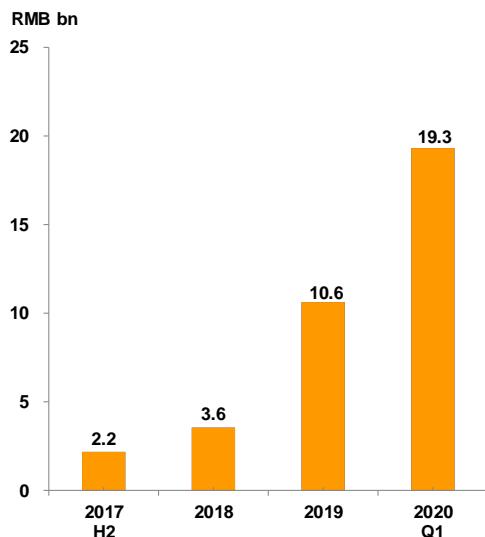
74

- As at end-February 2020, renminbi customer deposits and outstanding renminbi CDs amounted to RMB638.7 billion and RMB25.2 billion respectively, totalling RMB663.9 billion.
- As at end-February 2020, outstanding renminbi loans amounted to RMB159.6 billion. Outstanding dim sum bonds amounted to RMB173.5 billion. The dim sum bond issuance totalled RMB7.2 billion for the first two months of 2020. In November 2018, PBoC started to issue bills in Hong Kong, which aims to enrich the spectrum of high quality renminbi financial products in Hong Kong and to help build the benchmark yield curve of renminbi bonds in Hong Kong. As at end-February 2020, outstanding PBoC bills amounted to RMB80 billion.



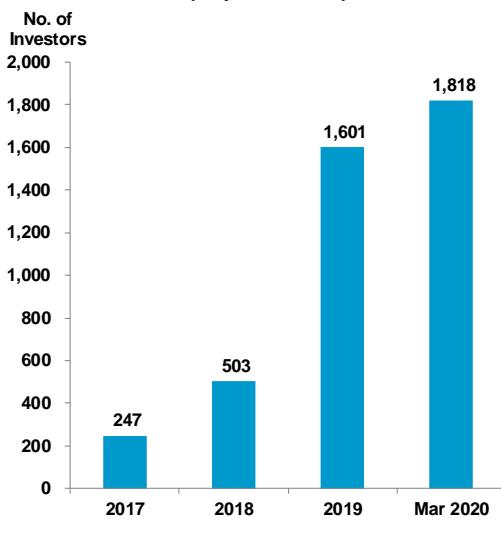
Bond Connect Turnover and Participation

Average Daily Turnover



Number of Registered Investors

(at period end)



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- During Q1 2020, Bond Connect recorded 197 trades daily on average. The daily turnover averaged RMB19.3 billion in Q1 2019, up around 82% from the RMB10.6 billion recorded during 2019.



MAINTAINING RMB BUSINESS LINKS WITH OTHER JURISDICTIONS

| | Feb 2020 | 2019 | 2018 |
|---|----------|------|-------|
| 1 No. of participating banks of Hong Kong's RMB clearing platform | 204 | 204 | 200 |
| Of which: | | | |
| Branches and subsidiaries of overseas banks and overseas presence of Mainland banks | 172 | 173 | 173 |
| 2 Amount due to overseas banks (RMB billion) | 83.9 | 76.3 | 80.4 |
| 3 Amount due from overseas banks (RMB billion) | 98.2 | 95.4 | 132.8 |

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- The HKMA continued to expand and deepen its ongoing collaboration with other overseas economies in offshore renminbi business and other areas of financial services. We also continued our marketing efforts through participation in industry events to promote Hong Kong's unique role as the gateway to Mainland China.



STRENGTHENING REGIONAL FINANCIAL SAFETY NET

- To optimise the Chiang Mai Initiative Multilateralisation (CMIM) arrangement and strengthen regional financial safety net, CMIM members have been taking forward a number of enhancement proposals, including increasing the proportion of International Monetary Fund De-linked Portion in the borrowing package from 30% to 40%, and enabling an option for local currency contribution. Hong Kong, being a member of CMIM (other members including 10 ASEAN member countries and the Mainland of China, Japan and South Korea), is participating in the process



DEVELOPING HONG KONG'S PRIVATE EQUITY (PE) PLATFORM

- Hong Kong has a robust PE industry. The total capital under management by PE funds in Hong Kong reached US\$160 billion at end-2019*
- To facilitate the further development of Hong Kong's PE fund business, the HKMA has been working with an inter-departmental taskforce led by the Financial Services and the Treasury Bureau to develop a new limited partnership regime for PE funds. The relevant bill was gazetted on 20 March 2020 for introduction into LegCo

* Source: Asian Venture Capital Journal



PROMOTING GREEN FINANCE

- The HKMA continues to support green finance to combat climate change. We are pressing ahead with the three measures announced in May 2019, viz (i) a three-phase approach to promote Green and Sustainable Banking, (ii) responsible investment by the Exchange Fund, and (iii) enhancing capacity building through the Centre for Green Finance (CGF)
- Due to COVID-19, the CGF is working in collaboration with strategic partners to reschedule to later this year the Green Week originally scheduled for February 2020
- Riding on the success of the first green bond issuance in May 2019, the HKMA is assisting the Government to issue green bonds totalling HK\$66 billion in the coming five years under the Government Green Bond Programme, having regard to market conditions, to promote the development of green finance in Hong Kong



INVESTMENT ENVIRONMENT AND PERFORMANCE OF THE EXCHANGE FUND

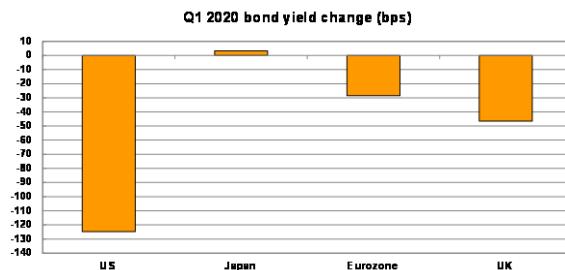
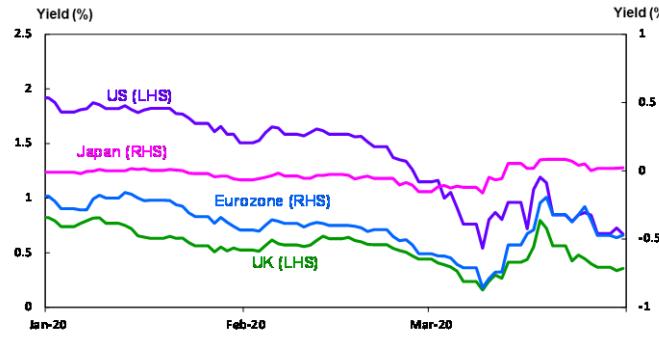


INVESTMENT ENVIRONMENT IN Q1 2020

- The COVID-19 crisis, compounded by the outbreak of the oil price war, led to significant deterioration in market sentiment and sharp correction in global equities
- Taking US equities as an example, the S&P 500 index tumbled by 30% from its historical peak in mid-February in just around a month's time, posing a more rapid correction than the 2008 global financial crisis (GFC)
- In mid-March, the VIX index, widely regarded as the market's "fear gauge", also rose to the highest level since the GFC
- For the quarter as a whole, major equity markets generally recorded double-digit percentage losses
- For bond markets, major developed market sovereign bond yields generally declined as major central banks slashed benchmark interest rates and relaunched quantitative easing as a result of COVID-19
- For foreign exchange markets, major currencies generally depreciated against the US dollar as investors sought safe haven assets such as US Treasuries



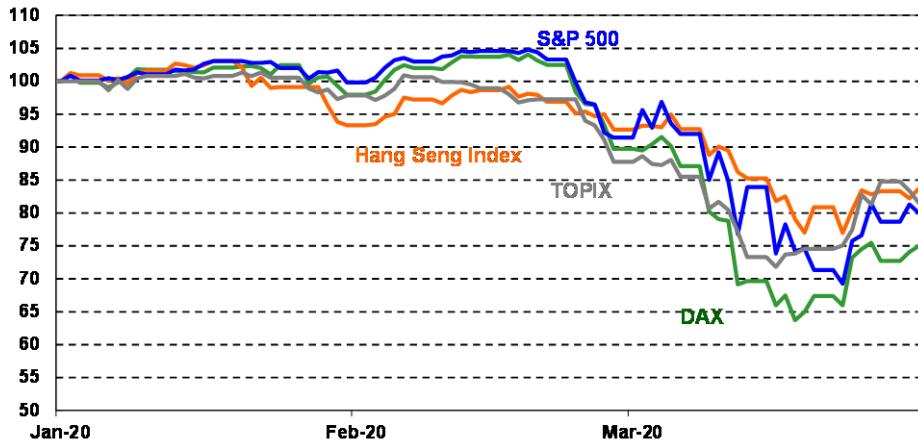
MAJOR DEVELOPED MARKETS 10-YEAR GOVERNMENT BOND YIELDS FELL





EQUITY MARKETS CORRECTED SHARPLY

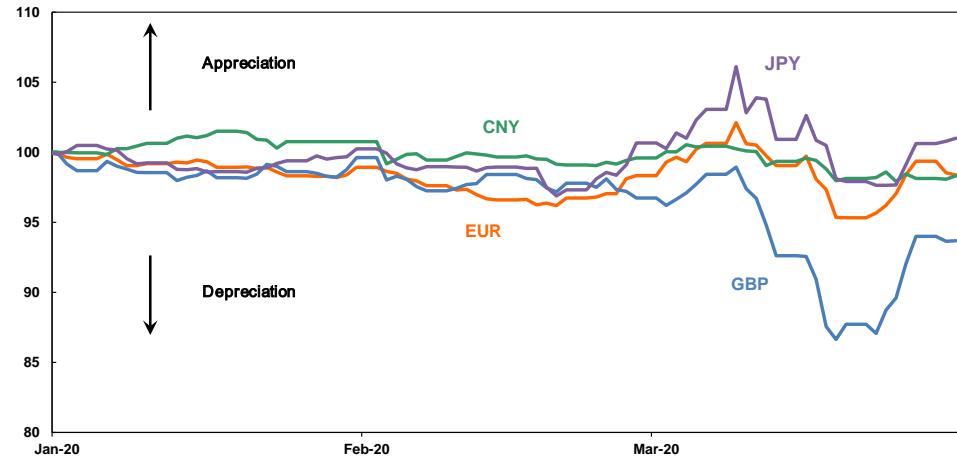
Normalised Index Level (2019 year-end = 100)





MAJOR CURRENCIES FELL AGAINST USD

Normalized FX Level Against USD (2019 year-end = 100)





INVESTMENT INCOME

| | 2020 (unaudited) | 2019 | 2018 | 2017 |
|---------------------------------|---------------------|---------------|---------------|--------------|
| (HK\$ billion) | Q1 | Full Year | Full Year | Full Year |
| Bonds | 54.4 | 114.5 | 57.4 | 34.4 |
| Hong Kong equities* | (28.4) | 22.1 | (20.7) | 58.3 |
| Other equities | (83.1) | 100.7 | (38.7) | 80.4 |
| Foreign exchange# | (29.0) | (13.0) | (9.0) | 53.5 |
| Other investments@ | - | 37.9 | 21.9 | 37.4 |
| Investment (loss)/income | (86.1) | 262.2 | 10.9 | 264.0 |

* 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. Valuations of these investments for the first quarter of 2020 are not yet available.



INCOME AND EXPENDITURE

| | 2020 (unaudited) | 2019 | 2018 | 2017 |
|---|---------------------|--------------|-------------|--------------|
| (HK\$ billion) | Q1 | Full Year | Full Year | Full Year |
| Investment (loss)/income | (86.1) | 262.2 | 10.9 | 264.0 |
| Other income | - | 0.2 | 0.2 | 0.2 |
| Interest and other expenses | (6.0) | (24.8) | (17.9) | (9.9) |
| Net (loss)/income | (92.1) | 237.6 | (6.8) | 254.3 |
| Fee payment to Fiscal Reserves*# | (9.6) | (53.8) | (60.2) | (46.2) |
| Fee payment to HKSAR government funds and statutory bodies* | (2.9) | (9.0) | (13.8) | (8.6) |

* The rate of fee payment is 3.7% for 2020, 2.9% for 2019, 4.6% for 2018 and 2.8% for 2017.

This does not include the 2020 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2020 is available.

(The composite rate was 8.7% for 2019, 6.1% for 2018 and 9.6% for 2017. Fee payable to the Future Fund was HK\$24.4 billion for 2019, HK\$16.4 billion for 2018 and HK\$22.7 billion for 2017.)



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

ASSETS

| | At 31 Mar 2020 (Unaudited) | At 31 Dec 2019 | At 31 Dec 2018 | At 31 Dec 2017 |
|---|-------------------------------|----------------|----------------|----------------|
| Deposits | 238.4 | 305.9 | 325.7 | 346.9 |
| Debt securities | 2,920.9 | 2,856.6 | 2,825.2 | 2,761.6 |
| Hong Kong equities* | 163.9 | 194.8 | 175.5 | 204.2 |
| Other equities | 460.3 | 534.9 | 452.3 | 507.5 |
| Other assets [#] | <u>311.1</u> | <u>314.5</u> | <u>276.2</u> | <u>195.1</u> |
| Total assets | 4,094.6 | 4,206.7 | 4,054.9 | 4,015.3 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND EQUITY | | | | |
| Certificates of Indebtedness | 524.1 | 516.1 | 485.7 | 456.7 |
| Government-issued currency notes and coins in circulation | 12.9 | 13.0 | 12.6 | 12.2 |
| Balance of the banking system | 54.0 | 67.7 | 78.6 | 179.8 |
| Exchange Fund Bills and Notes issued | 1,157.6 | 1,152.3 | 1,129.6 | 1,045.8 |
| Placements by banks and other financial institutions | - | 35.0 | 56.3 | 59.4 |
| Placements by Fiscal Reserves [*] | 1,177.7 | 1,137.5 | 1,173.5 | 1,073.8 |
| Placements by HKSAR government funds and statutory bodies | 320.0 | 328.4 | 320.6 | 305.1 |
| Placements by subsidiaries | 12.8 | 12.6 | 7.7 | - |
| Other liabilities | <u>199.0</u> | <u>194.7</u> | <u>180.0</u> | <u>169.4</u> |
| Total liabilities | 3,458.1 | 3,457.3 | 3,444.6 | 3,302.2 |
| Accumulated Surplus | 635.8 | 748.7 | 609.7 | 713.1 |
| Revaluation Reserve | <u>0.7</u> | <u>0.7</u> | <u>0.6</u> | <u>-</u> |
| Total equity | 636.5 | 749.4 | 610.3 | 713.1 |
| Total liabilities and equity | 4,094.6 | 4,206.7 | 4,054.9 | 4,015.3 |
| | ===== | ===== | ===== | ===== |

* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

[#] Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$180.7 billion at 31 Mar 2020

(HK\$177.3 billion at 31 Dec 2019, HK\$162.4 billion at 31 Dec 2018 and HK\$135.2 billion at 31 Dec 2017).

^{*} Including placements by the Future Fund of HK\$224.5 billion.



HISTORICAL INVESTMENT INCOME

(HK\$ billion)

Year

| | Full Year | Q4 | Q3 | Q2 | Q1 |
|--------------------------|---------------|--------|--------|--------|--------|
| 2001 | 7.4 | 13.6 | 10.4 | (2.0) | (14.6) |
| 2002 | 47.0 | 26.3 | (2.1) | 26.5 | (3.7) |
| 2003 | 89.7 | 33.5 | 8.4 | 41.1 | 6.7 |
| 2004 | 56.7 | 33.0 | 14.1 | (7.2) | 16.8 |
| 2005 | 37.8 | 7.3 | 19.0 | 13.6 | (2.1) |
| 2006 | 103.8 | 36.0 | 37.1 | 12.5 | 18.2 |
| 2007* | 142.2 | 33.4 | 61.8 | 26.3 | 20.7 |
| 2008* | (75.0) | 8.3 | (48.3) | (20.4) | (14.6) |
| 2009**# | 107.7 | 10.6 | 71.9 | 58.7 | (33.5) |
| 2010**# | 79.4 | 5.9 | 74.5 | (12.1) | 11.1 |
| 2011**# | 27.1 | 22.1 | (41.4) | 21.6 | 24.8 |
| 2012**# | 111.6 | 30.3 | 42.4 | (5.6) | 44.5 |
| 2013**# | 81.2 | 30.7 | 54.7 | (23.3) | 19.1 |
| 2014**# | 44.7 | 6.1 | (17.8) | 43.3 | 13.1 |
| 2015**# | (15.8) | 21.0 | (63.8) | 18.7 | 8.3 |
| 2016**# | 68.1 | (23.3) | 47.1 | 18.9 | 25.4 |
| 2017**# | 264.0 | 66.0 | 61.8 | 71.3 | 64.9 |
| 2018**# | 10.9 | (33.6) | 9.5 | - | 35.0 |
| 2019**# | 262.2 | 60.3 | 23.5 | 45.0 | 133.4 |
| 2020* (unaudited) | N/A | N/A | N/A | N/A | (86.1) |

* Excluding valuation changes of the Strategic Portfolio.

Including valuation changes of private equity and real estate investments held under the LTGP.



HONG KONG MORTGAGE CORPORATION



SME FINANCING GUARANTEE SCHEME (SFGS) – SPECIAL 100% LOAN GUARANTEE

- Applicable to SMEs in all sectors, including those most affected by the COVID-19 outbreak such as retail outlets, travel agents, restaurants, cinemas, karaoke establishments and transport operators, etc.
- Enterprises should have been operating for at least three months as at end-December 2019, and have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019
- 100% guaranteed by the Government, with a total loan amount of HK\$50 billion
- Maximum amount of the loan is the total amount of employee wages and rents for six months, or HK\$4 million, whichever is lower
- An interest rate of the Prime Rate minus 2.5% per annum (i.e. current interest rate at 2.75%) will be charged. All guarantee fee will be waived
- Maximum repayment period is 36 months, with an optional principal moratorium for the first 12 months
- Started receiving applications on 20 April



SFGS – 80% & 90% GUARANTEE

- The government announced in its latest relief measures:
 - Max. loan amount for the 80% Guarantee Product is increased to HK\$18 million;
 - Max. loan amount for the 90% Guarantee Product is increased to HK\$8 million;
 - Interests subsidy will be provided to bring interest rate on par with Prime Rate minus 2.5%, subject to a cap of 3%; and
 - Eligibility criteria is extended to cover publicly listed companies in Hong Kong
- Preparation on implementation details is underway
- In the first quarter of 2020, over 1,100 applications were approved under both 80% and 90% guarantee products with total loan amount over HK\$3.5 billion



MORTGAGE INSURANCE PROGRAMME (MIP)

- The following revisions were made with effect from 16 October 2019:
 - The cap on the value of a property eligible for the MIP has been raised (applicable to completed residential properties only);
 - A first-time homebuyer is still eligible to apply even if he or she cannot meet the stress test; and
 - The maximum debt-to-income (DTI) ratio for all MIP loans is set at 50%
- As of 31 March 2020, 9,075 applications under the new coverage were approved, with over 90% being first-time homebuyers
- Principal moratoriums or extensions of repayment schedules available to borrowers to help reduce their repayment burden



FIXED-RATE MORTGAGE PILOT SCHEME

- Fixed mortgage rates for 10, 15 and 20 years at 2.75%, 2.85% and 2.95% per annum respectively
- Maximum loan amount of each private residential mortgage at HK\$10 million
- As the borrowers will be insulated from interest rate movement under the fixed-rate period which is 10 years or longer, stress testing against interest rate rise will not be required, but the current DTI ratio will still be applicable
- The pilot scheme is subject to an aggregate loan amount of HK\$1 billion and will be effective for six months starting from the date of receiving applications
- Preparation is underway. Further announcement on details will be made



REVERSE MORTGAGE PROGRAMME (RMP)

- As at end-March 2020, 3,925 RMP applications had been received:
 - Average age of borrowers: 68 years old
 - Average monthly payout: HK\$15,800
 - Payment terms: 10-year (24.1%); 15-year (15.3%); 20-year (12.5%); life (48.1%)
 - Average property value: HK\$5.5 million
 - Average property age: 30 years



LIFE ANNUITY SCHEME

- Business updates:

- Minimum eligible age lowered from 65 to 60 since 26 February 2020
- The enhancement facilitates early participation of the scheme by those with the need. Public response has been positive

- Business results:

| | As of 31 March 2020 |
|-------------------------------|----------------------------|
| Total premium amount | around HK\$4.7 billion |
| No. of policies issued | 7,973 |
| Average premium amount | around HK\$590,000 |