



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

**8 May 2023
[Translation]**



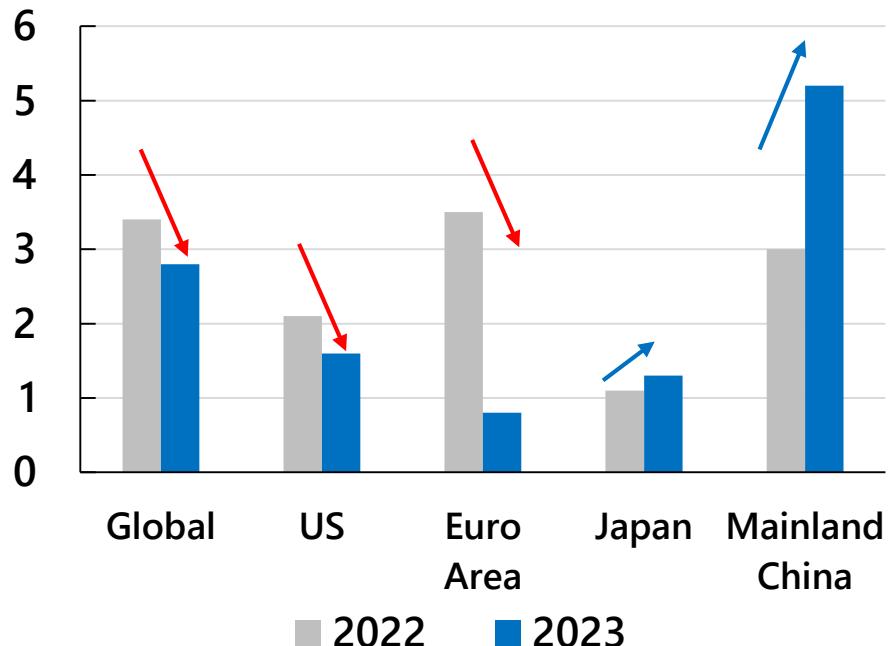
- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
6. The Hong Kong Mortgage Corporation Limited

Growth in US and Europe expected to slow, whereas the Mainland economy may accelerate



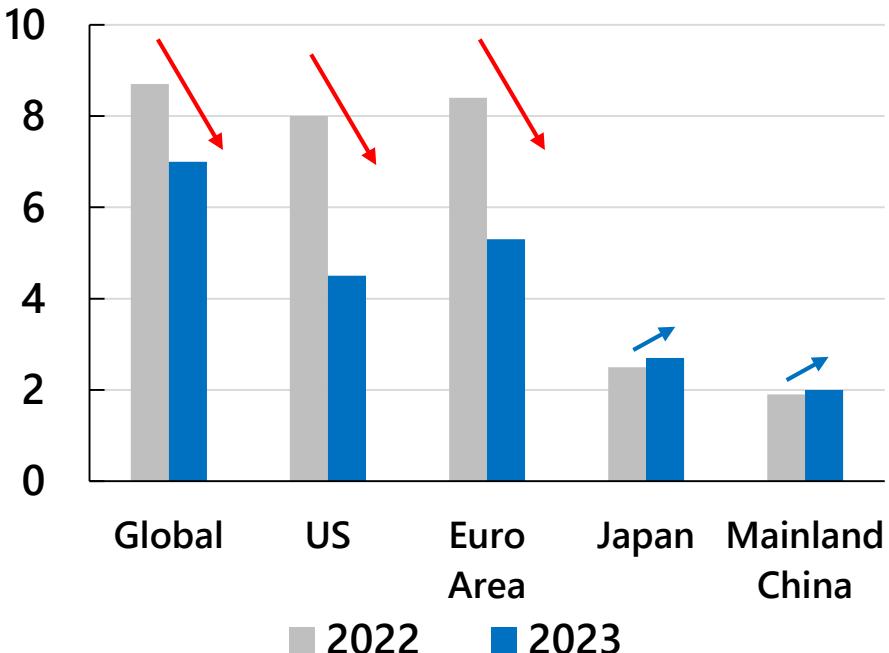
Growth performance to differ across major economies

Real GDP growth projection
(% yoy)



Inflation in US and Europe to ease but still elevated, while that in Mainland stays moderate

CPI inflation projection
(% yoy)



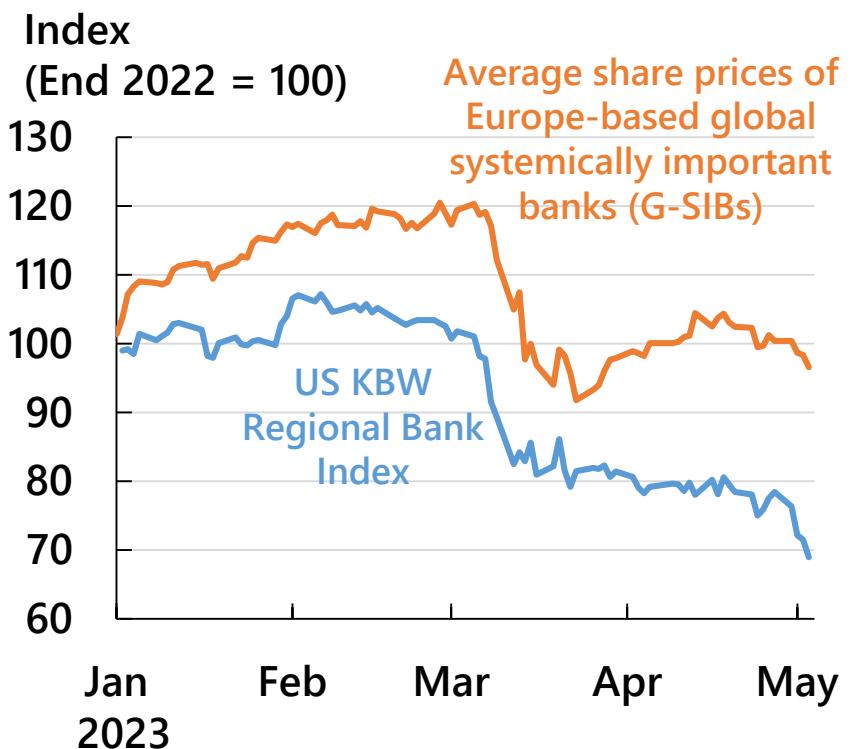
Source: IMF

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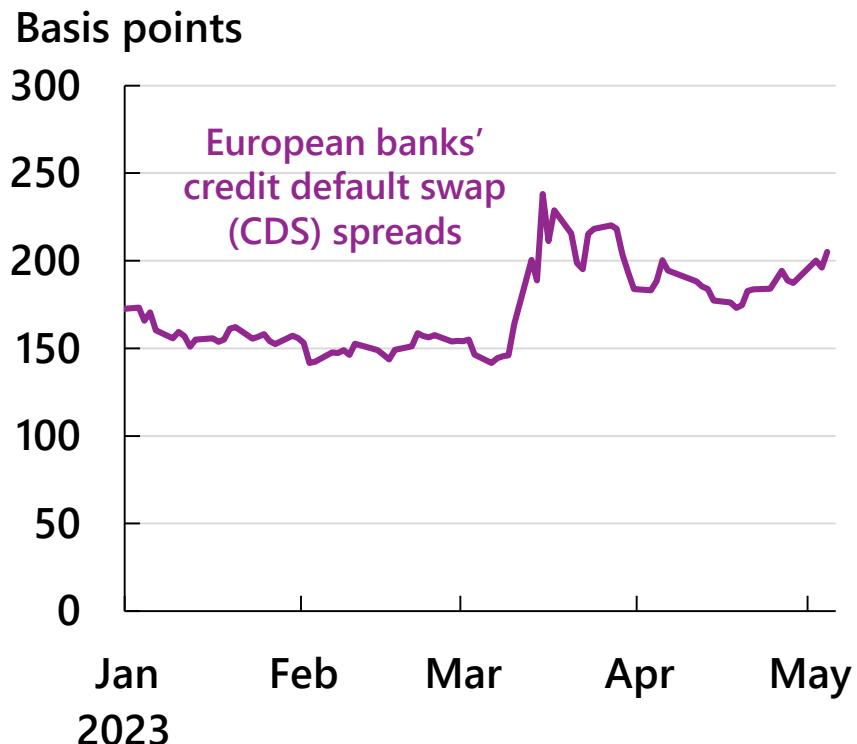
Banking problems in US & Europe triggered a new round of volatilities, and more time is needed to assess the impact on credit and economic activities

US and European bank share prices under sustained pressure



Source: Bloomberg

Credit risk of European banks has yet to ease

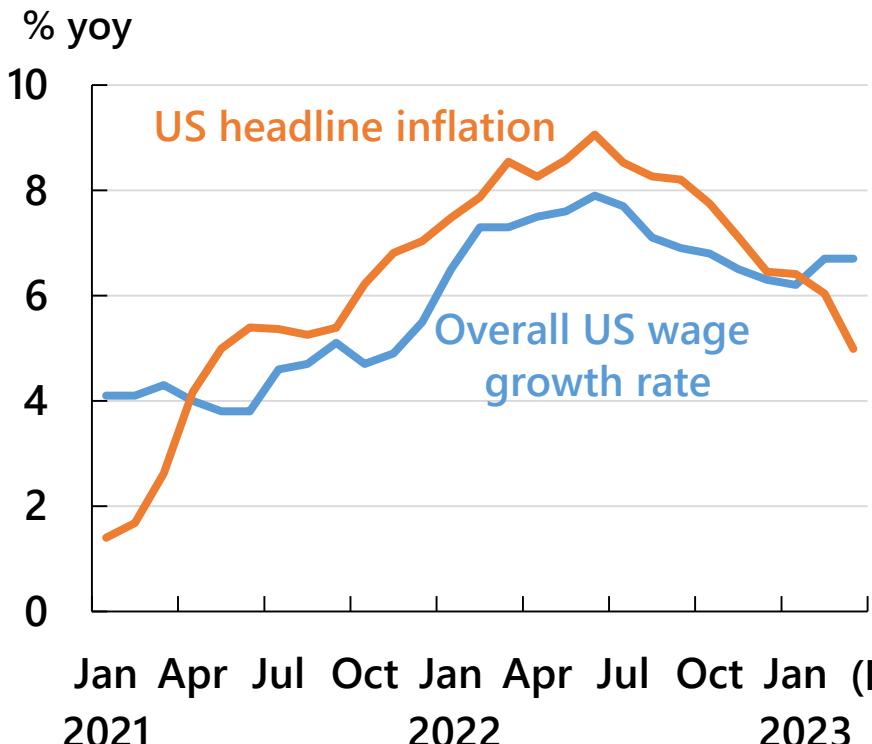


Source: Bloomberg

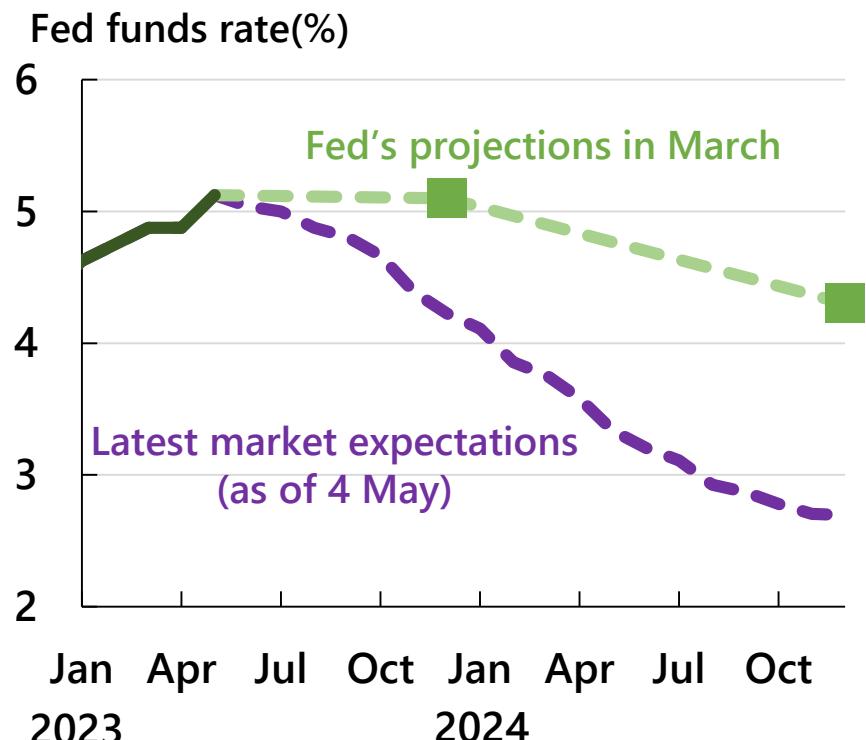


There are uncertainties surrounding the path of the US Fed's policy rate

Wage growth and inflation in the US remain elevated



Divergence between market and the Fed's expectations for policy rate



Sources: US Bureau of Labour Statistics and Federal Reserve Bank of Atlanta

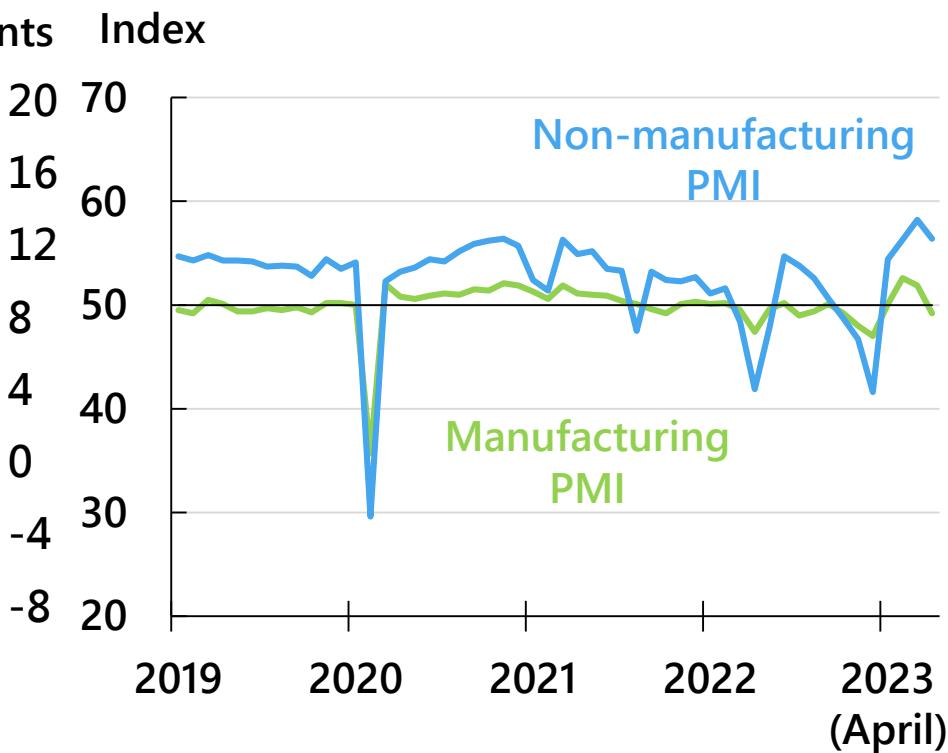
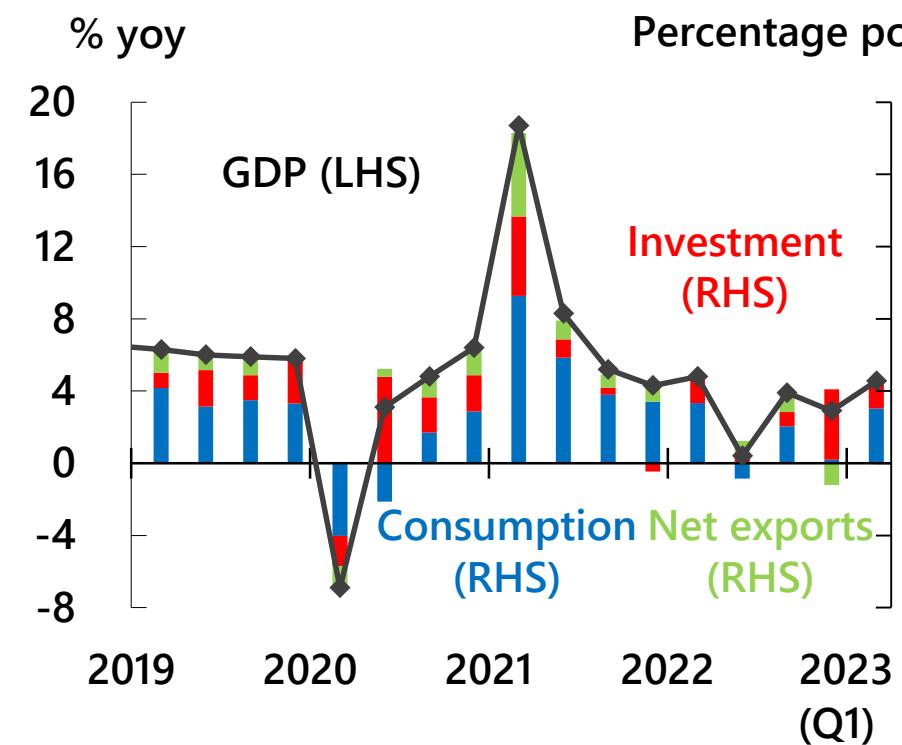
Source: Bloomberg

Mainland economy gradually stabilises following the release of pent-up demand



Mainland growth rebounded in Q1

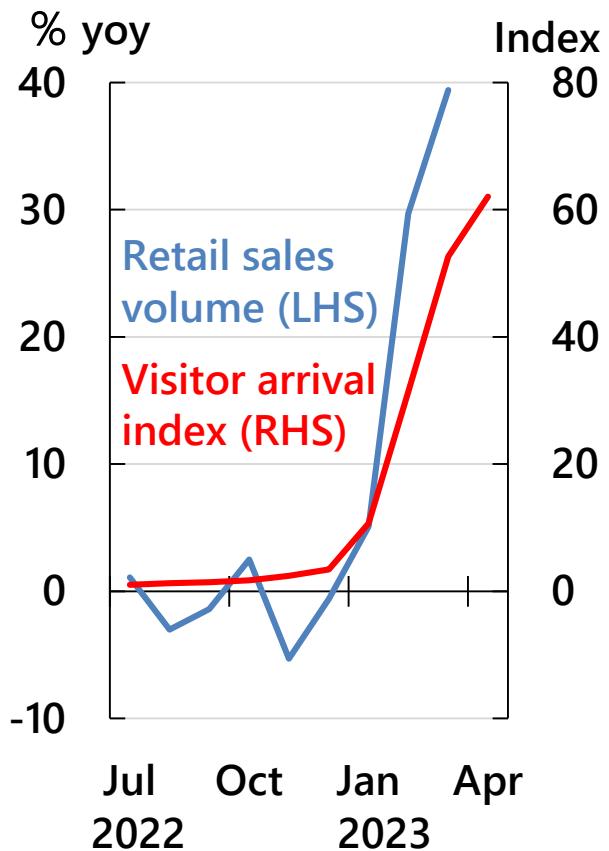
Service sector activities continue to grow in Q2



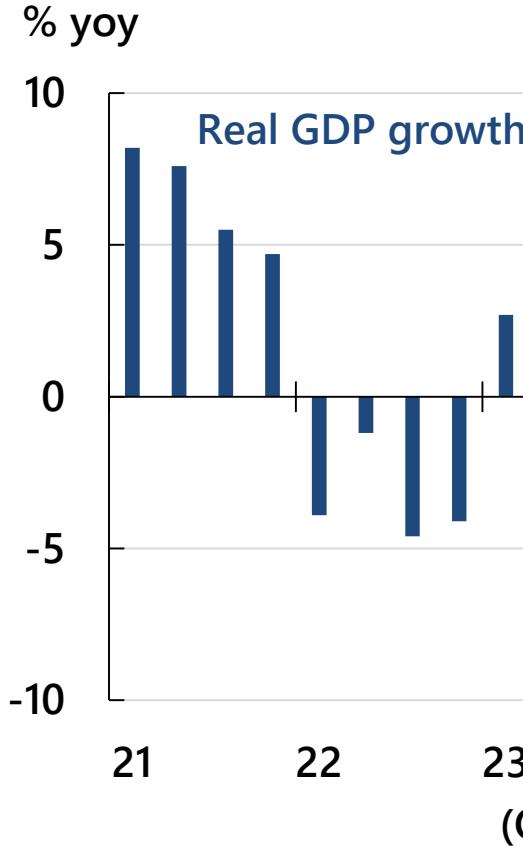
Hong Kong economy continues to recover along with the full resumption of cross-boundary travel and return to normalcy



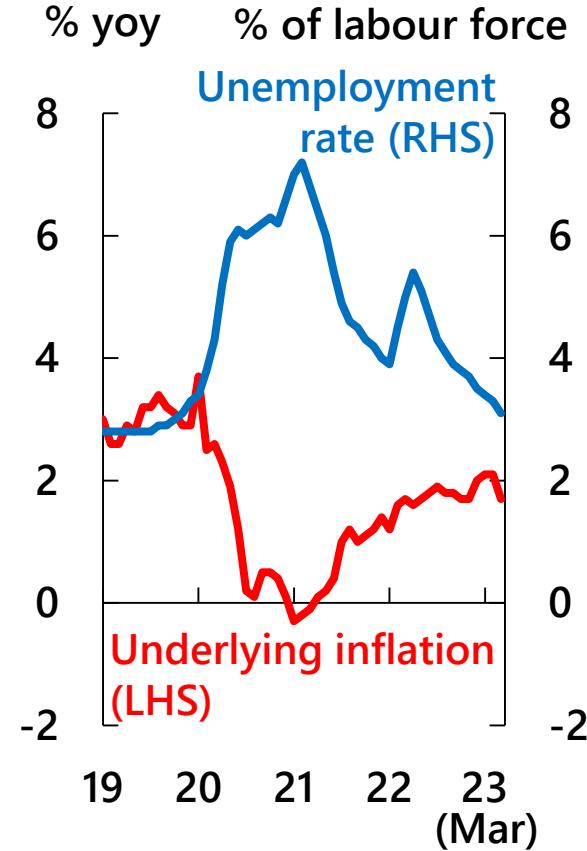
Inbound tourism and retail sectors recover visibly



Economic growth rebounded in Q1



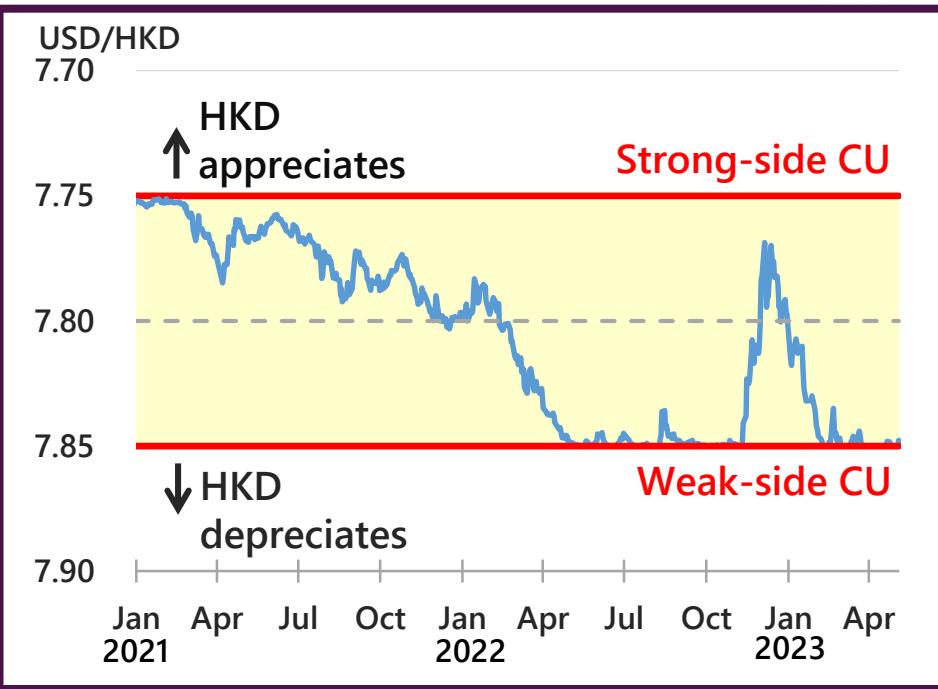
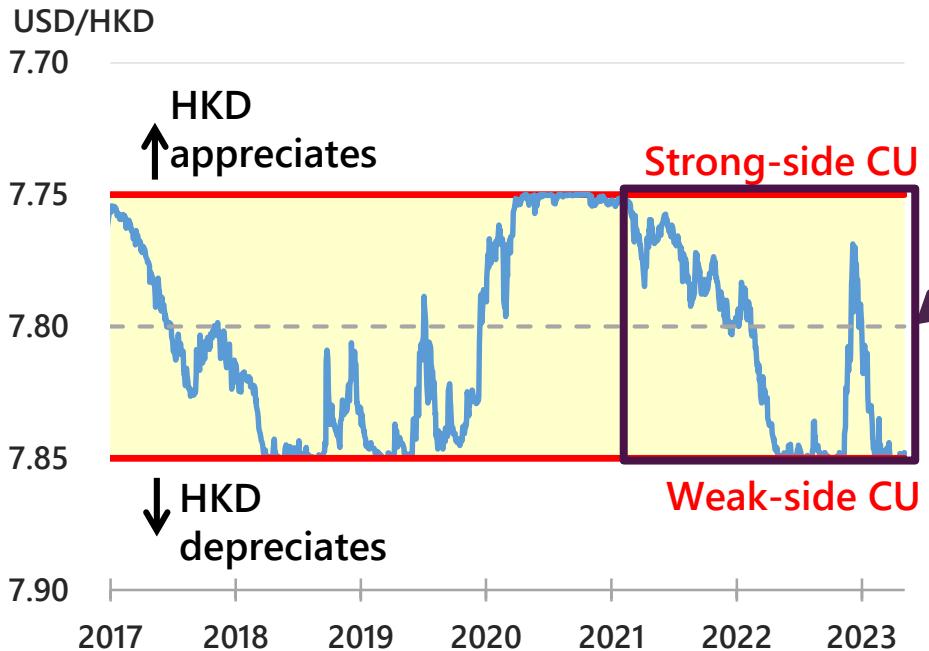
Unemployment rate declines further, inflation remains moderate



Note: 1. Visitor arrival index is defined as number of visitor arrivals in each month as a percentage of monthly average in 2019.
2. Underlying inflation data takes the first two months of 2023 together to neutralise the effect of the Lunar New Year.

Sources: Census & Statistics Department, Immigration Department and HKMA staff estimates

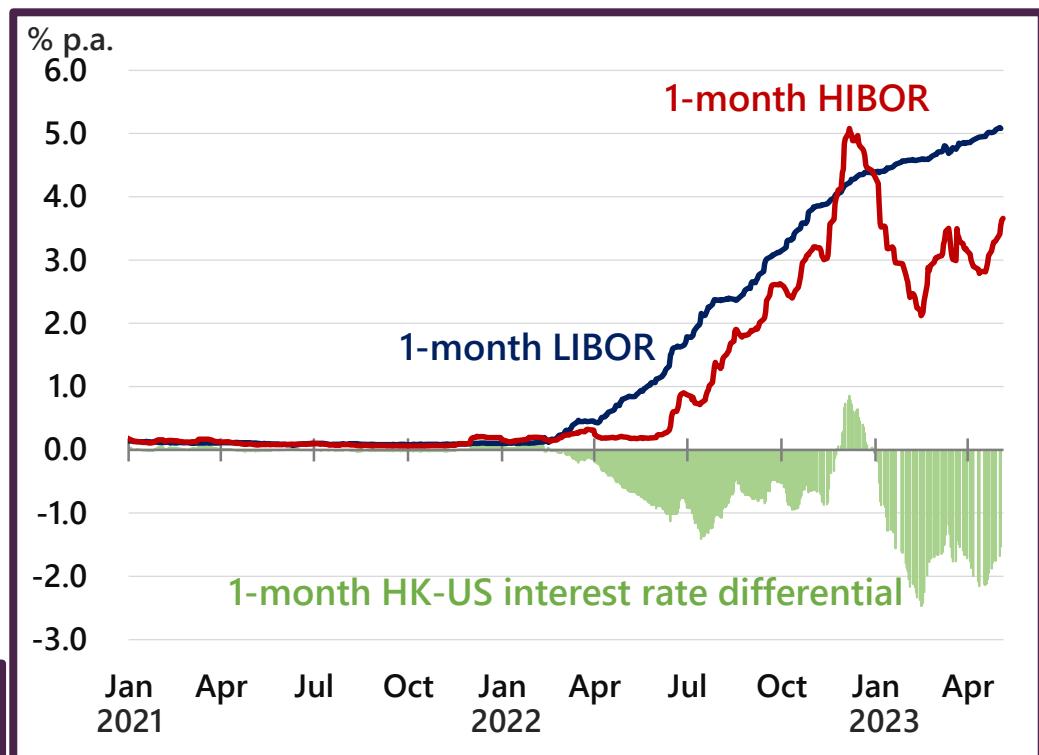
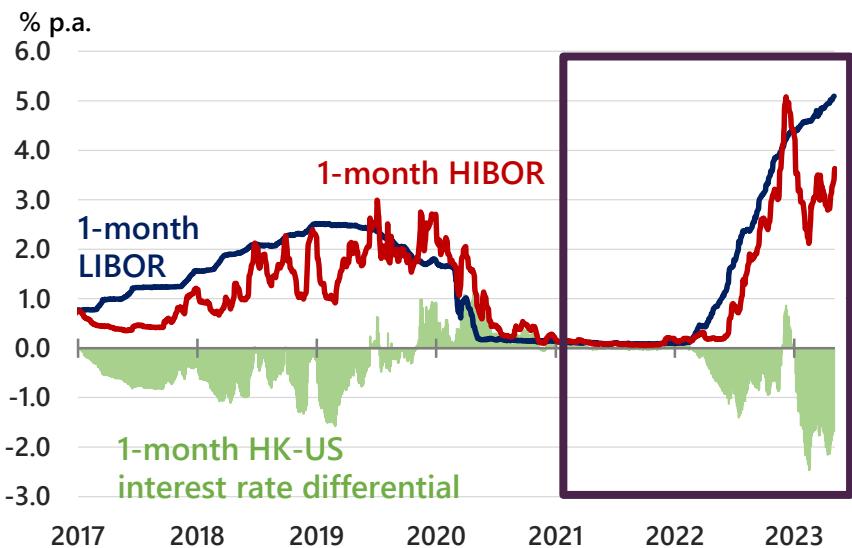
HKD remains weak amid rising USD interest rates



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
2023 Feb - May	8 times	51.5



HKD interest rates may remain elevated



Bank deposits in Hong Kong increase, and there is limited impact from the banking problems in the US and Europe



Change during the period(%)

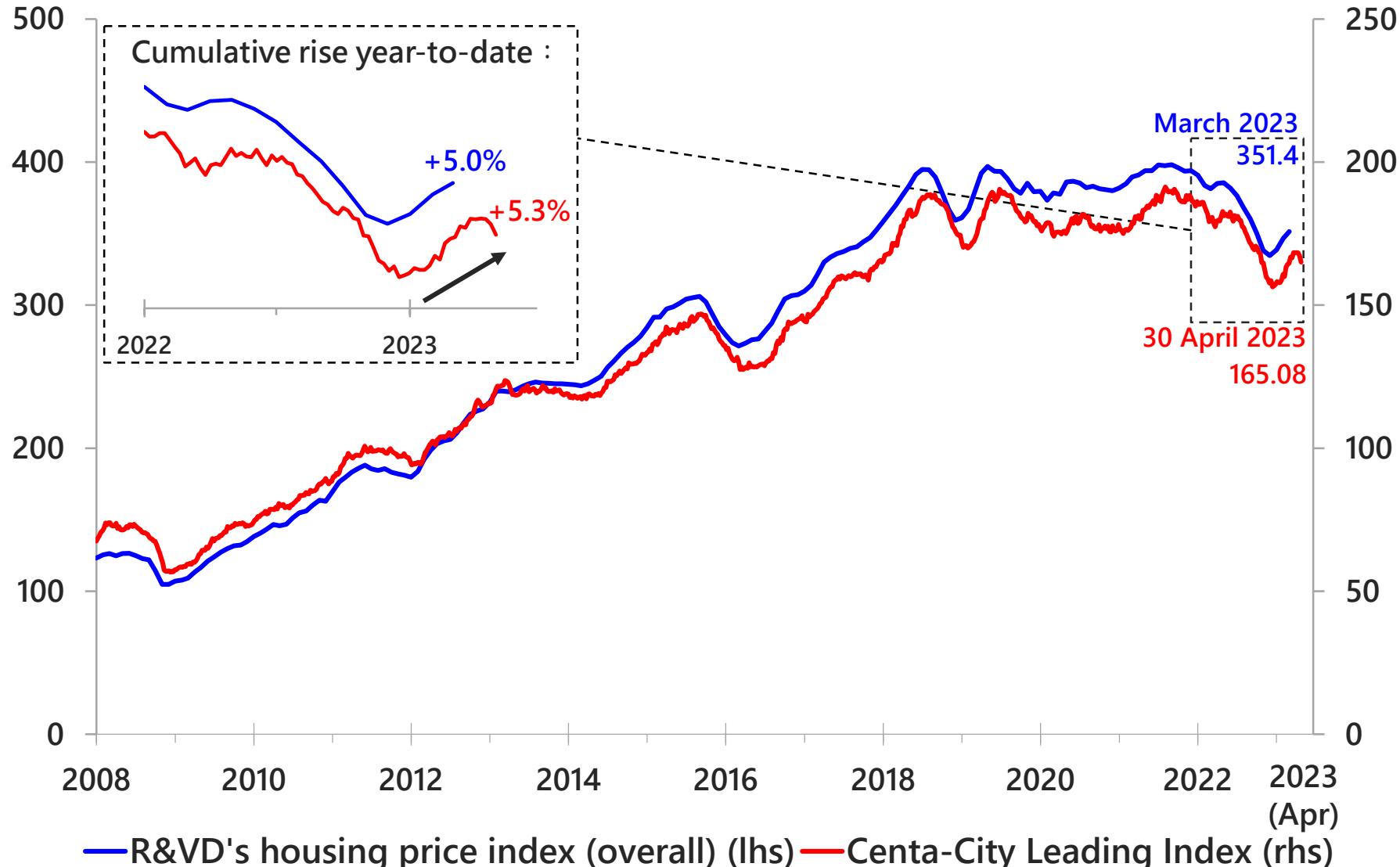
	Total deposits	HKD deposits
Full year 2022	+1.7%	+0.7%
First quarter of 2023	+0.5%	+2.6%
January	+1.3%	+2.4%
February	-1.6%	-1.1%
March	+0.9%	+1.2%

Housing prices rebound alongside improved market sentiment



Index (1999 = 100)

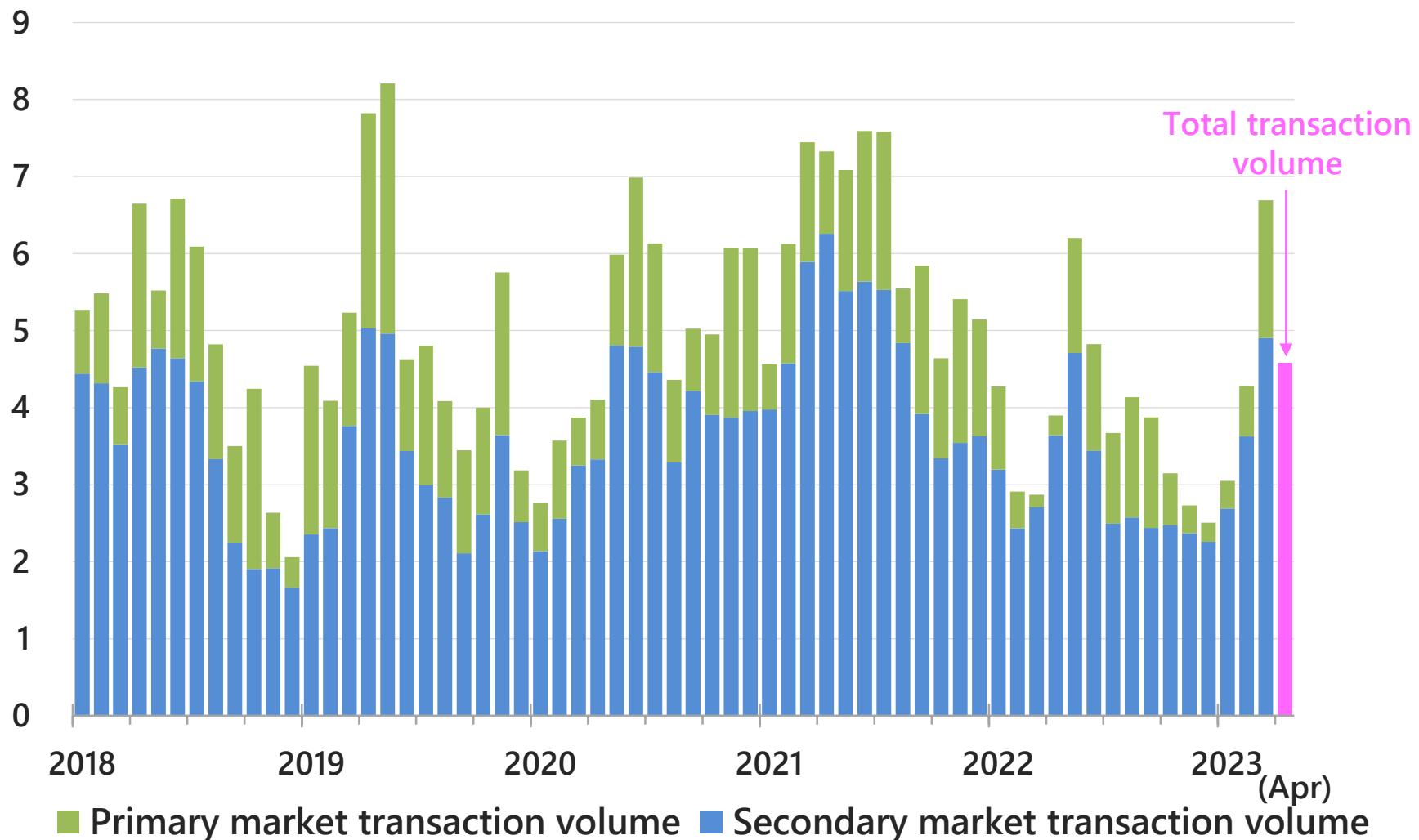
Index (Jul 1997 = 100)



Housing market transactions become more active



Number of transactions ('000)



Hong Kong economy recovers visibly, and financial system remains robust



- Hong Kong economy recovers visibly along with the full resumption of cross-boundary travel and return to normalcy. Banking problems in the US and Europe has very limited impact on the local banking system and the money market continues to operate smoothly
- Although US inflation stays high, the impact of continual rate hikes in the past year on the economy remains to be seen. As such, there are uncertainties surrounding the future US interest rate path
- Geopolitical tensions may further exacerbate volatility in financial markets, leading to capital outflow pressures on Asian economies
- Despite a host of uncertainties in the external environment, Hong Kong's financial system remains highly resilient and the HKMA will continue to closely monitor market situations
- As HKD interbank rates may remain elevated, the public should carefully assess and manage the relevant risks when making property purchase, taking out mortgage or making other borrowing decisions

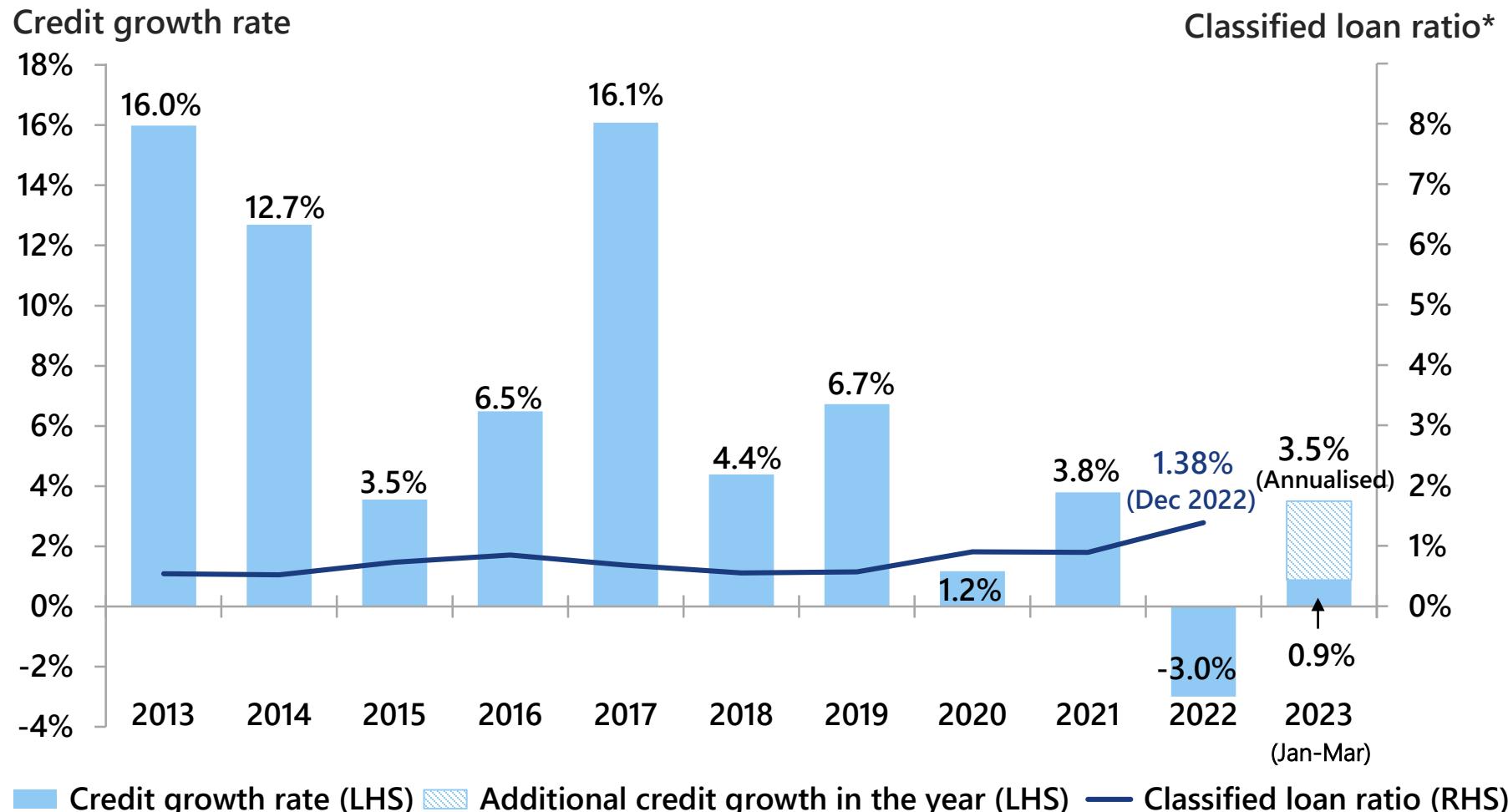


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Banking sector performance

Total loans grew slightly while asset quality stays healthy



* Classified loan ratio of all authorized institutions



Supporting SMEs

Pre-approved Principal Payment Holiday Scheme

- Participation rate of eligible corporates declined to 1% from 16% initially
- Uptake of partial principal repayment increases steadily
- To engage stakeholders on the way forward for the Scheme after its expiry in July 2023



International standards implementation

Basel III final reforms

- Amendments to Banking (Capital) Rules and Banking (Disclosure) Rules

Consequential and other updates

- Amendments to Banking (Exposure Limits) Rules and Banking (Liquidity) Rules

Target implementation date(s)

- No earlier than 1 January 2024

Deposit Protection Scheme (DPS)



- The DPS, established in 2006, has been effective in maintaining depositors' confidence in the banking system in Hong Kong
- Under the current protection limit of HK\$500,000, close to 90% of depositors are fully covered
- To ensure DPS remains in line with international best practice and latest developments in Hong Kong, the Hong Kong Deposit Protection Board (the Board) conducted a comprehensive review of the DPS in the past year or so
- The Board aims to launch a public consultation later this year on proposed enhancements to the DPS

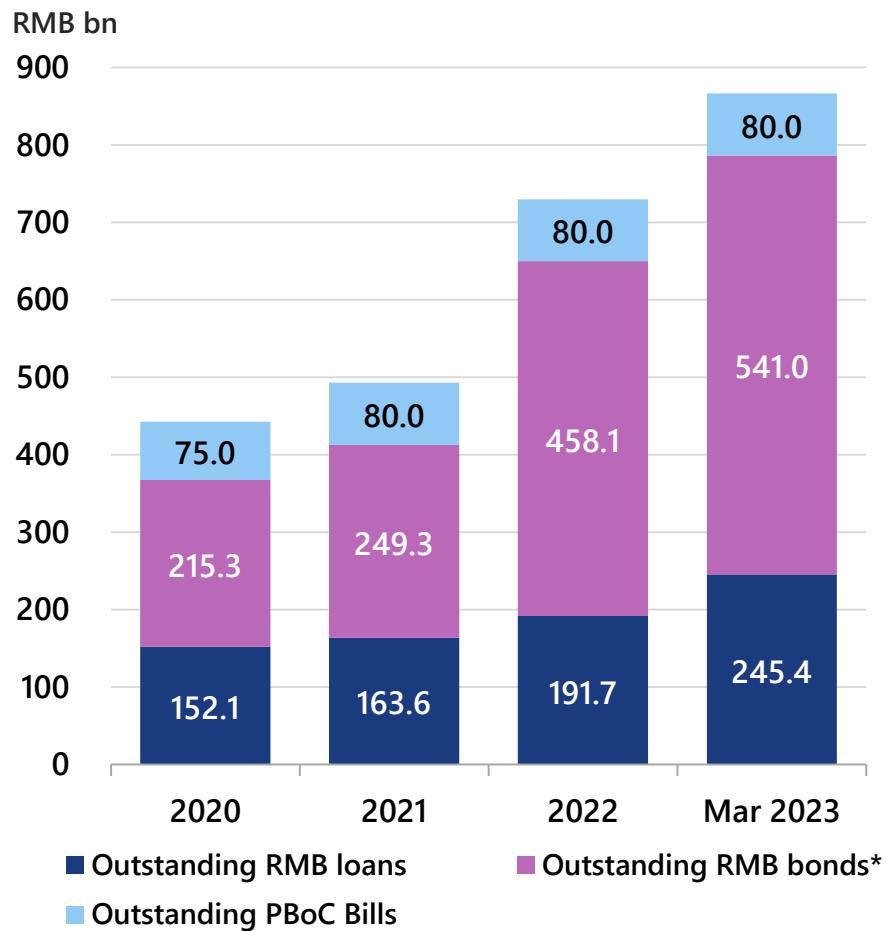


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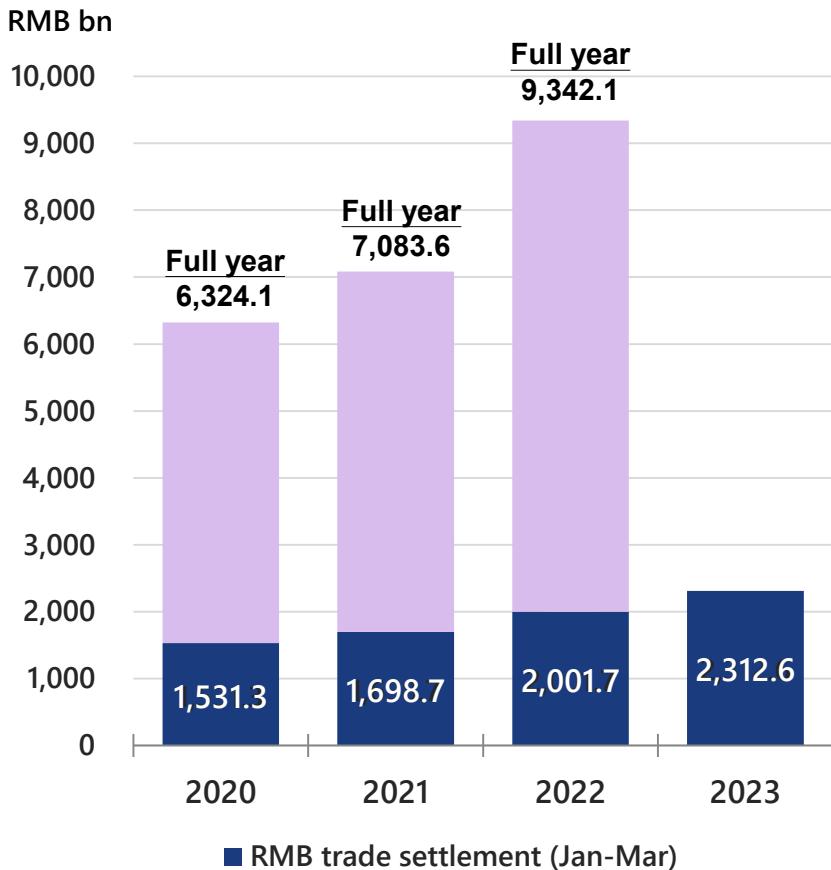
Steady growth of Hong Kong's offshore renminbi (RMB) business



RMB financing activities
(at period end)



RMB trade settlement
handled by banks in Hong Kong



* Including certificates of deposit.



Mutual market connect schemes

- **Northbound Trading under Bond Connect** remained active. In the first quarter of 2023, average daily turnover amounted to RMB37.0 billion. **Southbound Trading** has been smooth. Collaborating with relevant Mainland authorities on possible enhancements to Southbound Trading
- **Cross-boundary Wealth Management Connect** has been operating smoothly. Closely liaising with Mainland authorities on enhancements (e.g. expanding the scope of eligible products and participating institutions, and improving sales arrangements)
- Preparation for **Swap Connect** under way. Announcement made by Mainland and Hong Kong regulators to launch Northbound Trading on 15 May 2023
- **Dual-counter market maker regime** to facilitate the trading of Hong Kong-listed stocks in RMB in good progress, target launch in 1H 2023. A number of Hong Kong-listed companies have applied for the addition of a RMB trading counter

Developing Hong Kong's financial platform (1)



Outreach

- The Basel Committee on Banking Supervision meeting and the HKMA-BIS Joint Conference held in Hong Kong in March 2023 brought together over 100 senior officials of central banks, regulators, as well as top executives of financial institutions
- Preparing for the Global Financial Leaders' Investment Summit and an international financial conference (jointly organised with the Bank for International Settlements) to be held in November 2023. Also encouraging global financial institutions to organise international meetings in Hong Kong
- The HKMA is organising visits to the Middle East and South East Asia, together with representatives from the Hong Kong banking industry, to enhance bilateral cooperation with the respective central banks, and to promote Hong Kong as an international financial centre

Developing Hong Kong's financial platform (2)



Green finance

- The HKMA assisted the Government in issuing the inaugural tokenised green bond in February 2023
- In 2022, total green and sustainable debt issued in Hong Kong increased by over 40% to reach US\$80.5 billion. Hong Kong remained the largest arranging hub for green and sustainable bonds in Asia, capturing 35% of the market

Asset and wealth management

- The family office tax concession bill was introduced into the Legislative Council and will apply retrospectively from 1 April 2022 if passed into law
- The HKMA and SFC consulted the private wealth management industry on enhancement of sales process in order to improve customer experience



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Financial infrastructures and fintech initiatives (1)



Financial infrastructures

- Operation of all financial infrastructures remains safe and efficient
- Number of registrations and turnover of the Faster Payment System growing steadily
- Enhancement work of the Central Moneymarkets Unit in good progress

Fintech initiatives

- The connection between the Commercial Data Interchange and the Commercial Credit Reference Agency (known as "CCRA@CDI") has come into operation
- Benefitted more than 130 postgraduate students through the Industry Project Masters Network scheme

Financial infrastructures and fintech initiatives (2)



Project e-HKD

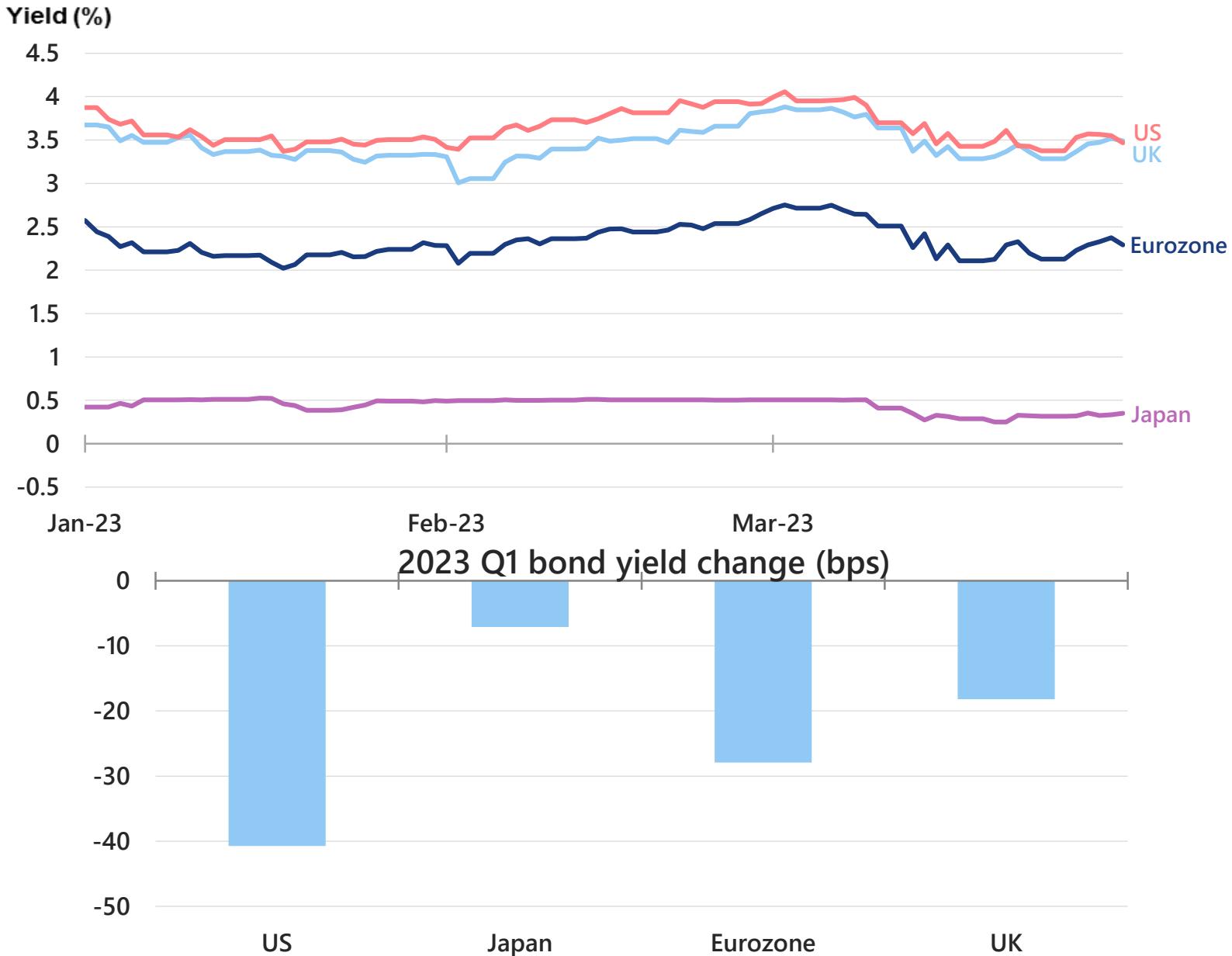
- After setting out its policy stance in the position paper published in September 2022, the HKMA is laying the groundwork for the potential implementation of e-HKD by adopting a three-rail approach
- The work under Rail 1 is in good progress. The HKMA will soon kick-start the Pilot Programme under Rail 2 to take deep dives into use cases with selected participants from the financial, payment, and tech industries
- The pilots will explore different use cases, including programmable payments, offline payments, and settling transactions in Web3 and tokenised assets



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Major 10-year sovereign bond yields fell





Major equity markets rose moderately

Normalised Index Level (2022 year-end = 100)

115

Hang Seng Index

110

DAX

105

S&P 500

CSI300

TOPIX

100

Jan-23

Feb-23

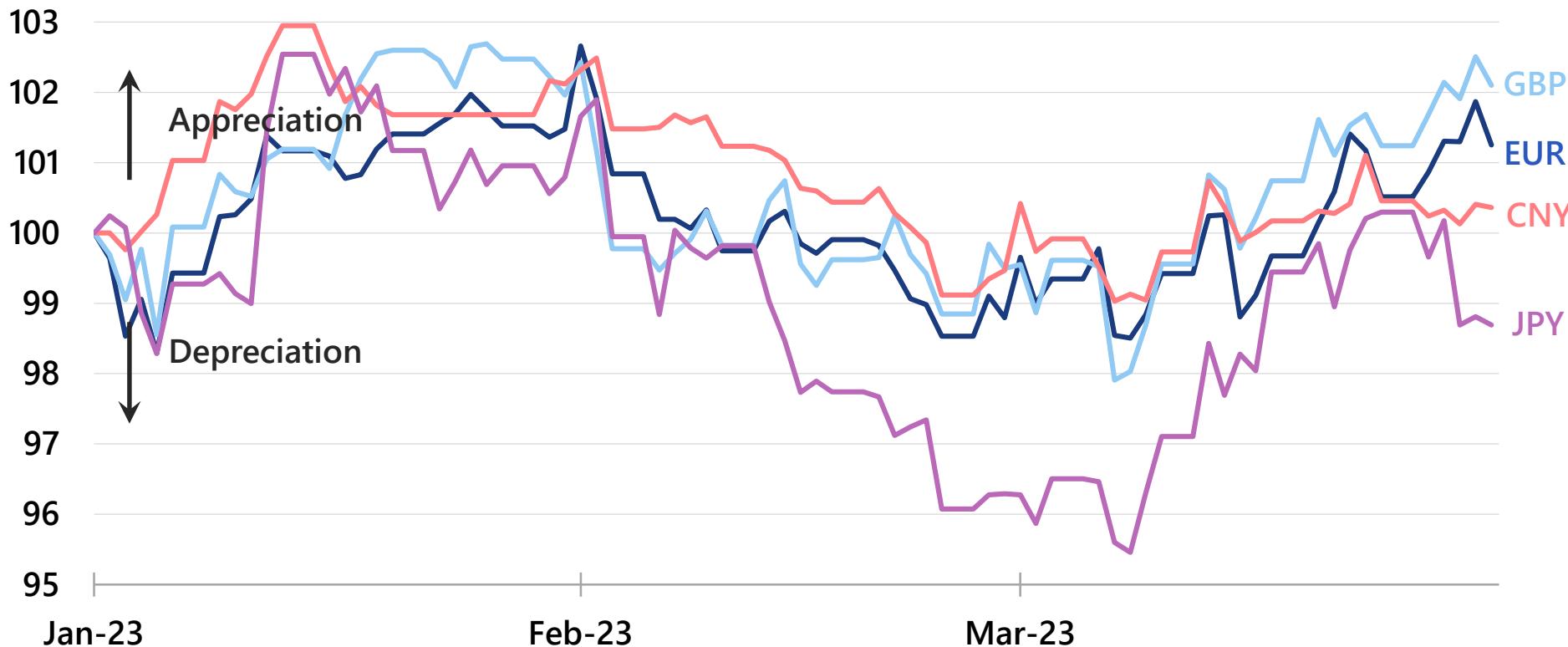
Mar-23

95

Major currencies strengthened slightly against USD



Normalised FX Level Against USD (2022 year-end=100)



Investment income



	2023	2022	2021	2020
(HK\$ billion)	Q1	Full year	Full year	Full year
Hong Kong equities*	3.3	(19.5)	(21.0)	4.0
Other equities	25.5	(61.0)	68.8	69.9
Bonds	43.9	(53.2)	12.6	92.7
Foreign exchange#	25.2	(40.0)	16.8	9.6
Other investments@	-	(31.7)	114.7	59.6
Investment income/(loss)	97.9	(205.4)	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

Valuation changes of these investments for the first quarter of 2023 are not yet available



Income and expenditure

	2023	2022	2021	2020
(HK\$ billion)	Q1	Full year	Full year	Full year
Investment income/(loss)	97.9	(205.4)	191.9	235.8
Other income	-	0.2	0.2	0.2
Interest and other expenses	(11.6)	(18.8)	(6.1)	(14.6)
Net income/(loss)	86.3	(224.0)	186.0	221.4
Fee payment to Fiscal Reserves* [#]	(5.4)	(26.0)	(93.0)	(69.8)
Fee payment to HKSAR Government funds and statutory bodies*	(3.9)	(22.1)	(16.8)	(11.5)

* The rate of fee payment is 3.7% for 2023, 5.6% for 2022, 4.7% for 2021 and 3.7% for 2020

This does not include the 2023 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2023 is available

The composite rate was -3.0% for 2022, 17.8% for 2021 and 12.3% for 2020. Fee (reversed from)/payable to the Future Fund was HK\$(9.0) billion for 2022, HK\$58.6 billion for 2021 and HK\$37.2 billion for 2020



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Mortgage Insurance Programme (MIP)

- In 2023, as of 15 April, around 15,000 applications were approved, of which about 2,300 were under the new coverage after the MIP revisions in February 2022. Over 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)

- The Financial Secretary announced in the 2023-24 Budget an extension of the application period of the 80% Guarantee Product, the 90% Guarantee Product and the Special 100% Loan Guarantee of the SFGS from end-June 2023 to end-March 2024
- As of 15 April 2023, over 61,600 applications were approved under the Special 100% Loan Guarantee, amounting to about HK\$125.2 billion. The average loan amount per application was HK\$2.03 million, and the average approved loan amount per borrower was HK\$3.41 million. Over 43,100 applications (around 70 %) have chosen the principal moratorium option
- As of 15 April 2023, around 32,600 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$121.5 billion. Over 2,600 applications have chosen the principal moratorium option



Other loan guarantee schemes

- 100% Personal Loan Guarantee Scheme: As of 15 April 2023, around 64,900 applications were approved, amounting to about HK\$4.5 billion. Average loan size per borrower was about HK\$78,200. Over 54,900 applications (around 85%) have chosen the principal moratorium option. The application period of the Scheme expired in end-April this year
- Dedicated 100% loan guarantee schemes: The Financial Secretary announced in the 2023-24 Budget to launch new 100% loan guarantee schemes to support the business resumption of the cross-boundary passenger transport and the travel industries, and to encourage taxi owners to replace their existing taxis with battery electric taxis. The loan schemes for the cross-boundary passenger transport and the travel industries have been launched in end-April. The loan scheme for battery electric taxis is expected to be launched in mid-2023