

**Supplementary information in relation to the meeting of the
Legislative Council Panel on Financial Affairs
held on 15 May 2018**

**Agenda Item V –
Briefing on the work of Hong Kong Monetary Authority**

The Hong Kong Monetary Authority (HKMA) sets out below supplementary information as requested by the Legislative Council Panel on Financial Affairs —

- (a) measures taken by HKMA (including the Hong Kong Mortgage Corporation (HKMC)'s Mortgage Insurance Programme (MIP)) to alleviate the difficulties encountered by genuine home buyers arising from the existing stringent loan-to-value ratio caps for residential mortgages**

The HKMA has introduced eight rounds of counter-cyclical macro-prudential measures on property mortgage loans since October 2009. The measures seek to strengthen the resilience of banks and mortgage borrowers to cope with any possible downturn in the local property market. The HKMA understands the aspiration of the public for home ownership, and fully appreciates the potential impact of these measures on some prospective homebuyers. Therefore, in introducing each round of the measures, the HKMA has strived to minimise the impact on genuine end-users, particularly first-time homebuyers.

Currently, prospective homebuyers can borrow mortgage loans at a maximum loan-to-value (LTV) ratio of 60% for residential properties with value below HK\$8.3 million for self-use. Moreover, the MIP of the HKMC¹ enables banks to provide mortgage loans with higher LTV ratio without incurring

¹ The operation of the MIP was transferred to HKMC Insurance Limited, a wholly-owned subsidiary of the HKMC, on 1 May 2018.

additional credit risk. As long as an application meets the relevant eligibility criteria (e.g. maximum property value and maximum loan amount), banks can provide a mortgage loan of up to 90% LTV ratio under the MIP, which can alleviate the down payment burden on the homebuyer. In 2017, the amount of loans drawn down under the MIP increased by over 30% year on year. The amount of loans drawn down under the MIP in the first quarter of this year further increased by over 30% to HK\$9.2 billion from HK\$6.9 billion in the first quarter of 2017, offering timely assistance to eligible homebuyers who are in need.

The HKMA will continue to closely monitor market conditions and introduce appropriate measures in response to the development of the property market cycle to safeguard banking stability.

(b) a comparison of the Exchange Fund's investment income in the first quarter of 2017 and 2018.

The investment income of the Exchange Fund in the first quarter of 2017 and 2018 is shown below.

	Q1 2018 HK\$ bn (unaudited)	Q1 2017 HK\$ bn
Hong Kong equities*	1.7	14.3
Other equities	(7.4)	24.5
Bonds	5.5	6.4
Foreign exchange [#]	26.3	11.9
Other investments [@]	<u>-</u>	<u>7.8</u>
Investment income	26.1	64.9

* Excluding valuation changes of the Strategic Portfolio.

This represents mainly the effect of translating foreign currency assets into Hong Kong dollar.

@ Data for the first quarter of 2018 not yet available.

Global stock markets kept on reaching record highs last year, which was one of the major reasons for the Exchange Fund's historically high investment income in 2017. This has resulted in a relatively high base of comparison. However, global stock markets have generally pulled back since the end of January this year amid worries over China-US trade frictions and pick-up in US inflation. This has weighed on the short-term investment performance of the Exchange Fund's equities portfolio.

Due to uncertainties over the pace of US Federal Reserve's monetary policy tightening, China-US trade negotiations and geopolitical tensions, the Exchange Fund's quarterly investment income may be subject to larger fluctuations. In fact, the long-standing principle of Exchange Fund investments is "Capital Preservation First, Long-term Growth Next". Through allocating funds across different asset classes, markets and currencies, the Exchange Fund seeks to achieve a relatively stable overall investment return in the medium and long term. Therefore, when looking at the Exchange Fund's investment performance, we should focus on medium and long-term performance instead of simply comparing quarterly investment income.

The HKMA will, as always, manage the Exchange Fund prudently through appropriate defensive measures and investment diversification in order to enhance its resilience.