



**HONG KONG MONETARY AUTHORITY**

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

**4 November 2019**

**[ Translation ]**



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



## GLOBAL ECONOMIC TRENDS AND MAJOR RISKS

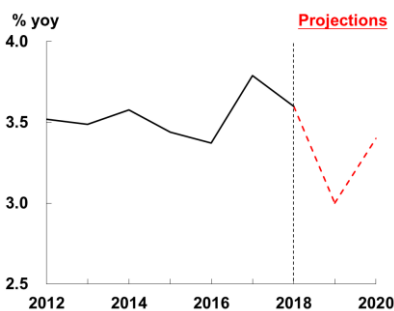
- Significant weakening in global growth momentum
- Uncertainties remain over US-China trade talks
- While various central banks eased monetary policy recently, US interest rate outlook remains uncertain
- Geopolitical risks should be heeded
  - Brexit, political tensions in the Middle East

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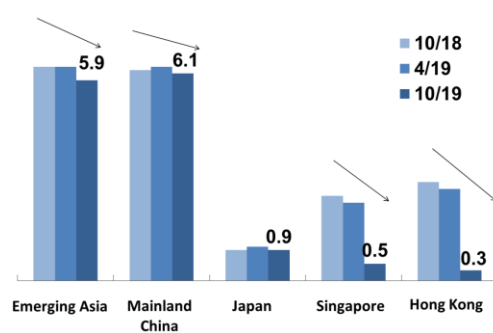
## GLOBAL GROWTH MOMENTUM HAS WEAKENED SIGNIFICANTLY

**Projections for global economic growth**



Source: International Monetary Fund

**Growth projections for Asian economies in 2019**



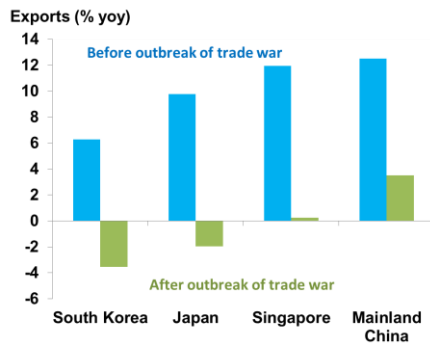
Source: International Monetary Fund

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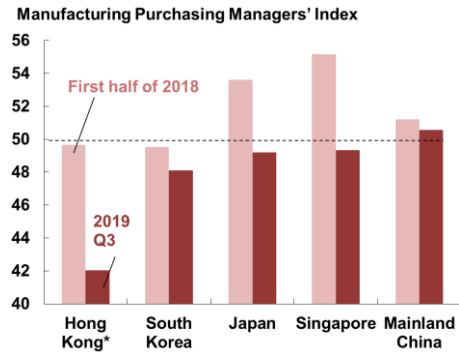


## FAR-REACHING IMPLICATIONS OF TRADE WAR

### Asia's industry chains were affected    Business confidence declined



Note: Before outbreak of trade war denotes the period from January to June 2018 while after outbreak of trade war denotes the period from July 2018 to August 2019  
Sources: CEIC, WIND



Note: \* Composite PMI  
Sources: CEIC, Markit

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## CENTRAL BANKS CUT RATES AMID ECONOMIC DOWNWARD PRESSURE

### Rate cuts by central banks between early 2019 and October

Central bank	Rate cut (%)
US Federal Reserve	0.75
European Central Bank	0.1
People's Bank of China	0.11
Reserve Bank of Australia	0.75

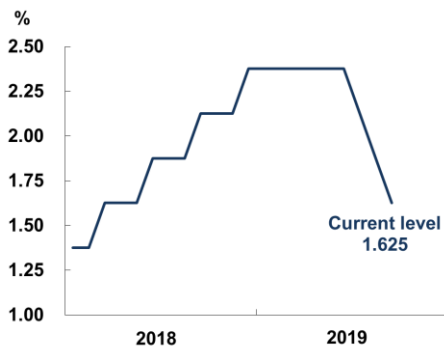
Sources: CEIC and WIND

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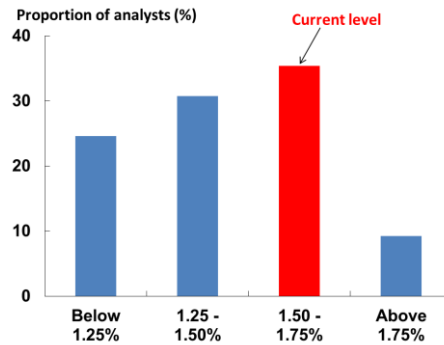
## US INTEREST RATE OUTLOOK REMAINS UNCERTAIN

**Fed funds rate  
(mid-point of target range)**



Source: Bloomberg

**Projections of end-2020 Fed funds  
rate target by market analysts**



Note: Interest rate projections shown above are taken from Bloomberg's survey on market analysts during October 2019.

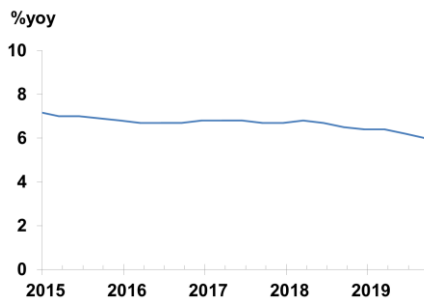
Source: Bloomberg

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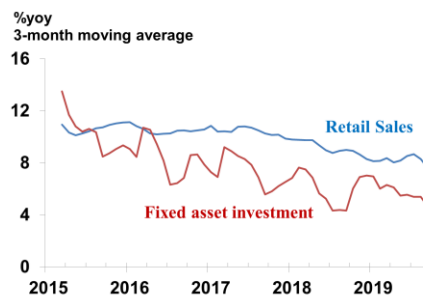
## MAINLAND GROWTH RATE CONTINUES TO SLOW

**Real GDP growth rate of  
Mainland China**



Source: CEIC

**Domestic demand indicators of  
Mainland China**



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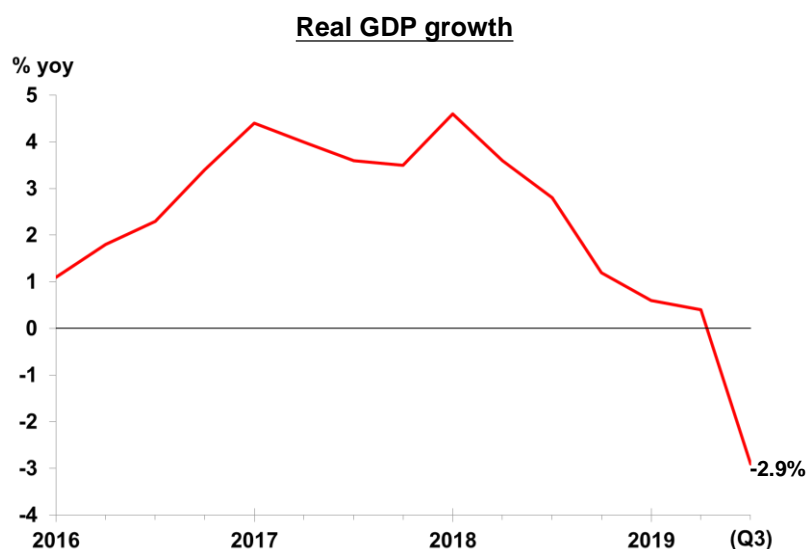
## MAINLAND CHINA ROLLED OUT ECONOMIC SUPPORTIVE MEASURES

- Fiscal policy: Cutting taxes and fees, promoting private and public investment
  - Continuing to reduce SMEs' taxes and fees
  - Accelerating issuance of local government special bonds
- Monetary policy: Keeping bank liquidity at a reasonably adequate level, improving the transmission mechanism
  - Lowering required reserve ratio
  - Refining the Loan Prime Rate formation mechanism
  - Rolling out measures such as the Targeted Medium-term Lending Facility

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## HONG KONG: INCREASED DOWNWARD PRESSURE ON GROWTH

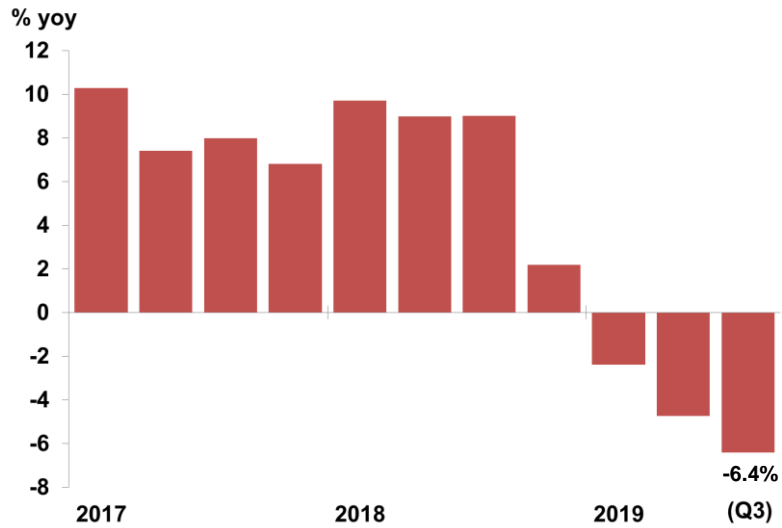


Source: Census and Statistics Department

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## HONG KONG: WEAKENED EXPORTS

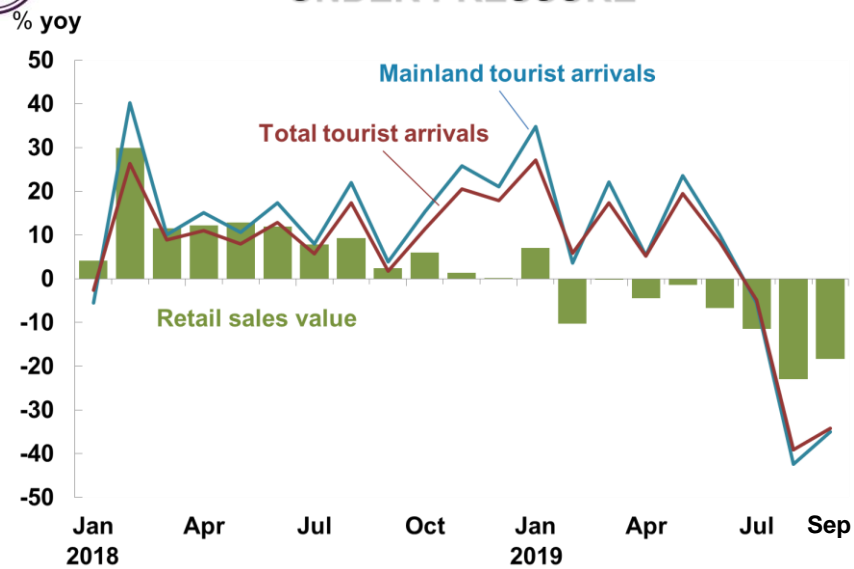


Source: Census and Statistics Department

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## HONG KONG: TOURISM AND RETAIL SECTORS UNDER PRESSURE

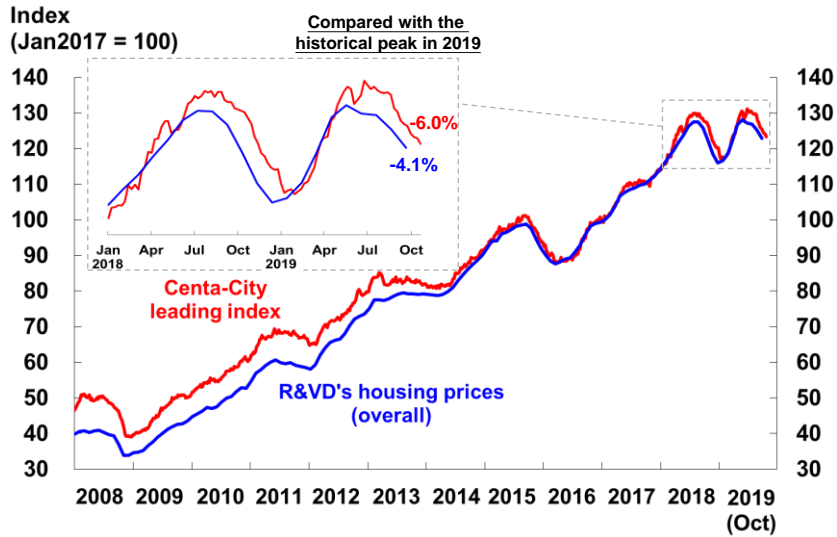


Sources: Census and Statistics Department & Hong Kong Tourism Board

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## HONG KONG: ADJUSTMENT IN PROPERTY MARKET

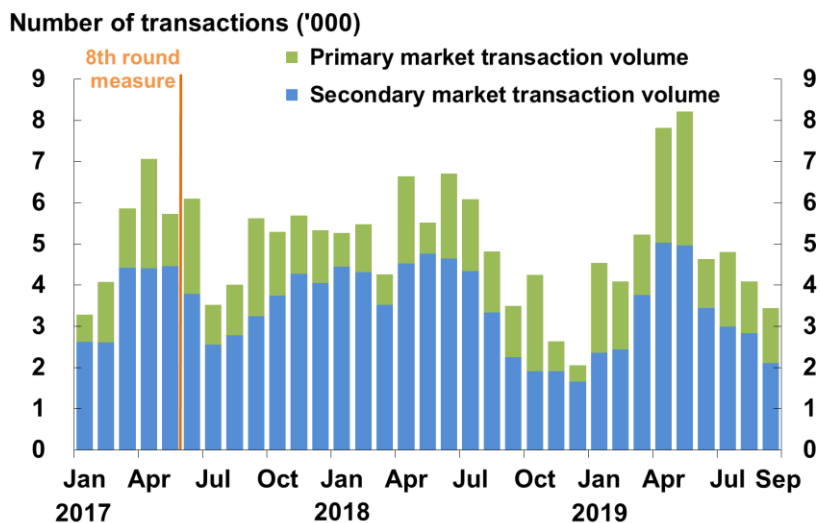


Sources: Rating and Valuation Department and Centaline Property Agency Limited

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## HONG KONG: ADJUSTMENT IN PROPERTY MARKET



Source: Land Registry

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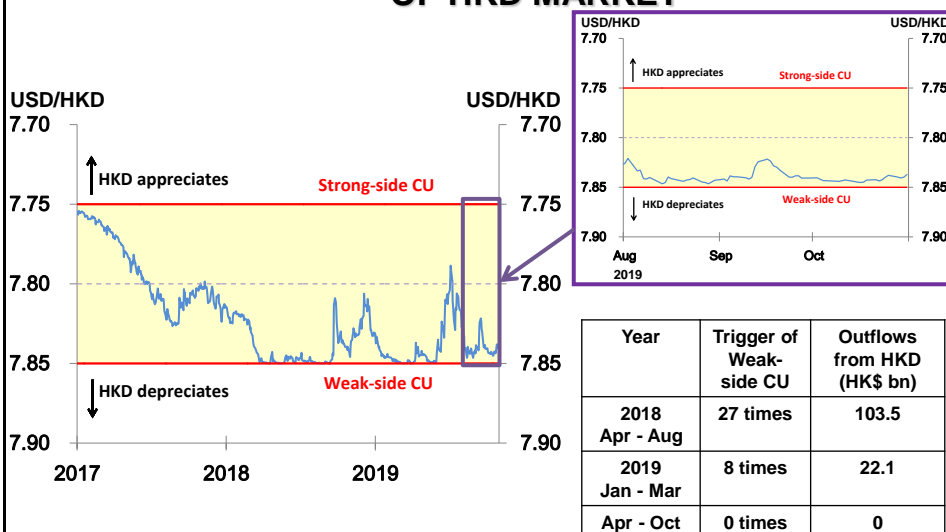
## HONG KONG'S FINANCIAL SECTOR IS ROBUST AND SOUND

- No major deposit or fund outflows; banks are well-capitalised with abundant liquidity
- HK dollar exchange rate remains stable
- HKMA promptly and repeatedly refuted rumours to reassure the public
  - Hong Kong has neither the need nor the intention to change Linked Exchange Rate System
  - Hong Kong will not impose capital or foreign exchange controls (Article 112 of the Basic Law)
  - Our financial sector is well positioned to withstand market shocks
- We have the capability, resources and determination to maintain Hong Kong's monetary and financial stability

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## ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: SMOOTH FUNCTIONING OF HKD MARKET



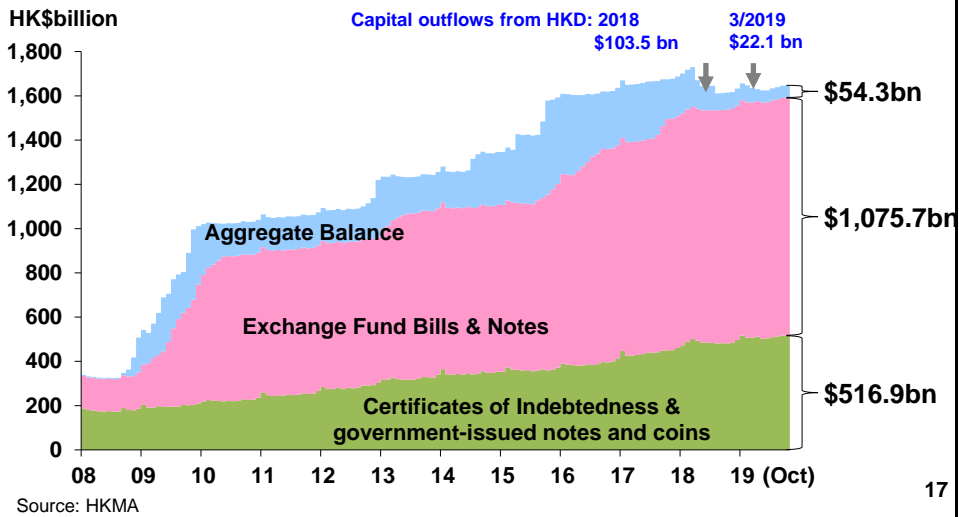
Source: HKMA

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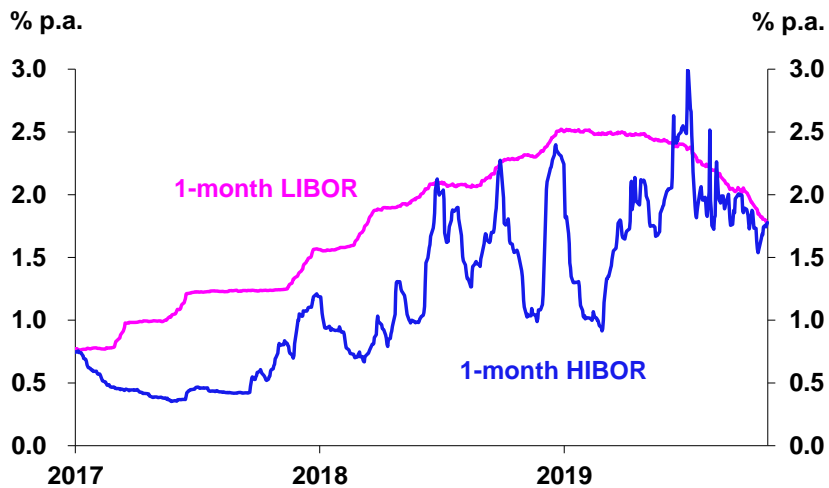




## ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: MONETARY BASE REMAINS STABLE



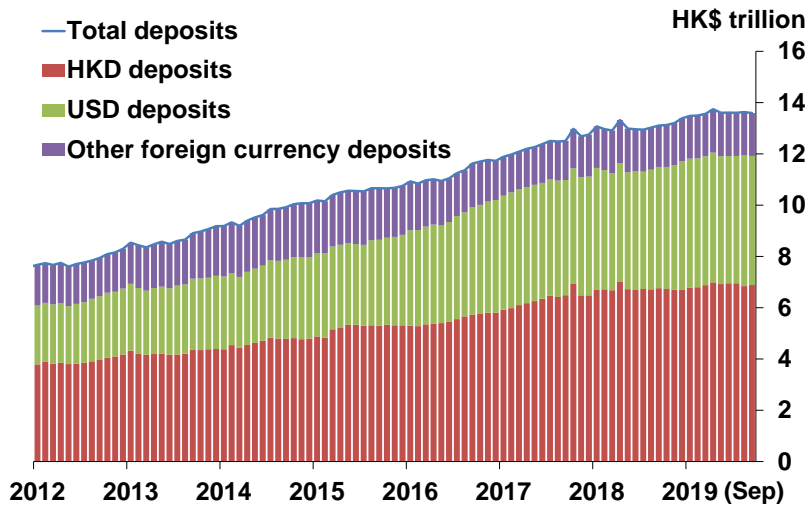
## ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: HKD RATES STAY CLOSE TO USD COUNTERPARTS



Source: HKMA



## ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: STABLE DEPOSIT LEVELS

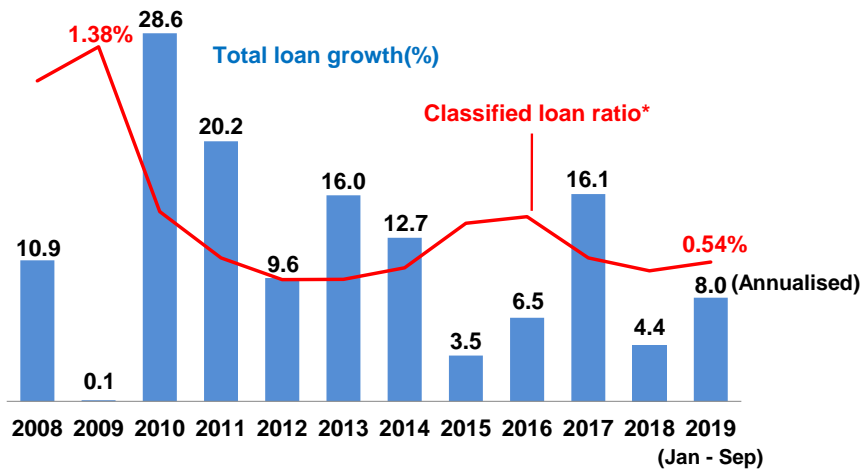


Source: HKMA

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## ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: ASSET QUALITY OF BANK LOANS REMAINS GOOD



Note: \* Classified loan ratio covers only retail banks. Classified loan ratio for 2019 denotes figure for Q2.

Source: HKMA

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## **HONG KONG'S FINANCIAL SECTOR IS STABLE BUT NEEDS TO GUARD AGAINST RISKS**

- Risks of slowing global growth and trade tension remain
- Significant worsening in Hong Kong's real economy, with much pressure on small and medium-sized enterprises
- However, there have been no major capital outflows, and Hong Kong dollar market continues to function smoothly
- The banking and financial systems are robust and sound, with resilience against shocks
- As market conditions are subject to change, the HKMA has stepped up surveillance effort and stands ready to introduce measures as necessary to maintain banking and financial stability

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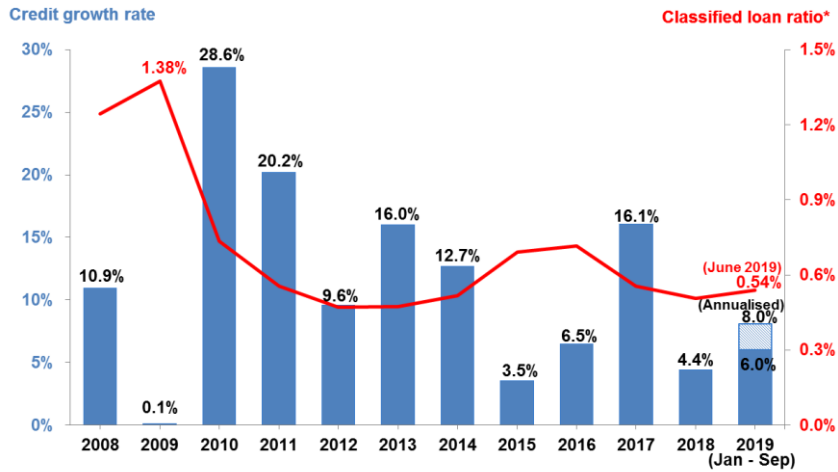
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## BANKING SECTOR PERFORMANCE

Total loans grew at a moderate pace,  
with asset quality staying at a healthy level



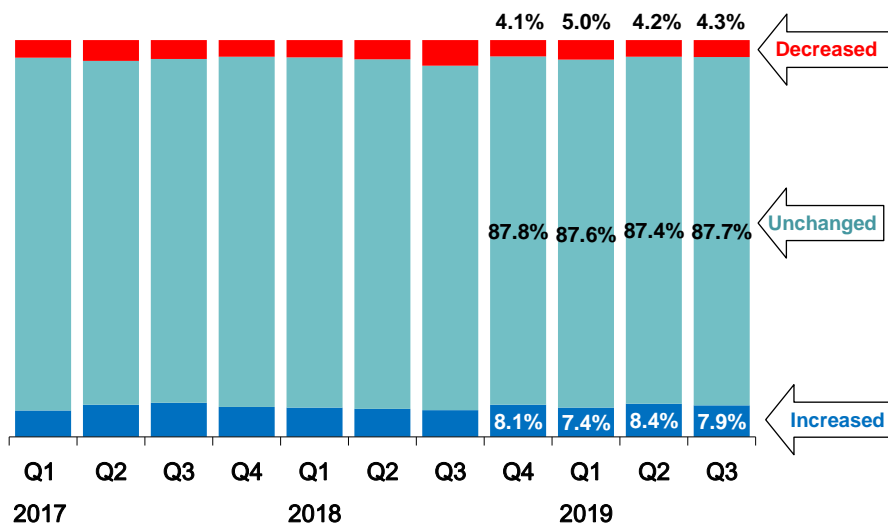
Note: \* Classified loan ratio of retail banks

Source: HKMA

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## CHANGES IN BANK LENDING LIMITS TO SMEs



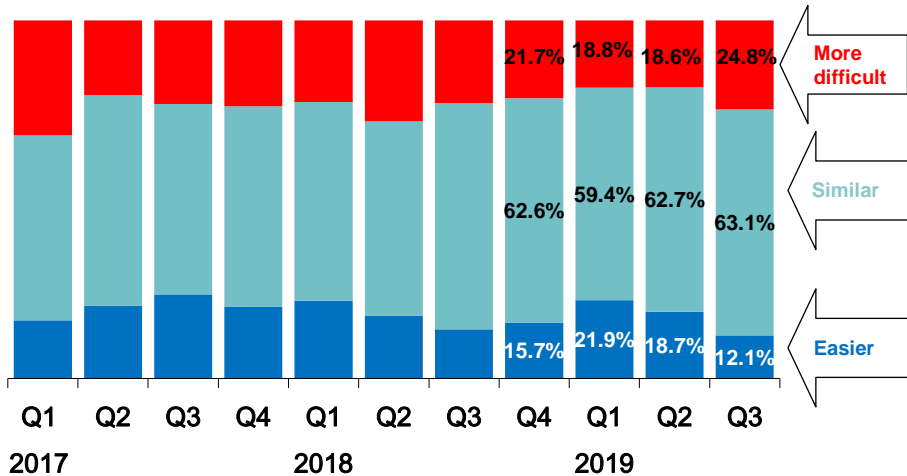
Source: HKMA

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## PERCEIVED CREDIT APPROVAL STANCE OF BANKS

Relative to 6 months ago



Source: HKMA

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## BANKING SECTOR SME LENDING COORDINATION MECHANISM

- Established a Banking Sector Small and Medium Enterprise (SME) Lending Coordination Mechanism
- Members include the Hong Kong Mortgage Corporation Limited, the Hong Kong Association of Banks, and major banks active in SME financing
- Key measures:
  - make good use of the reduction in countercyclical capital buffer (CCyB) requirement to support SMEs
  - clarify the regulatory requirements on rescheduled loans to facilitate banks in restructuring repayment schedules
  - strengthen banks' internal communication to ensure frontline staff fully understand banks' policy on SMEs
  - set up industry platform to collect SMEs' views

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## LEGISLATIVE WORK

### International Standards

- Banking (Liquidity) (Amendment) Rules 2019
- Banking (Capital) (Amendment) Rules 2020
- Banking (Exposure Limits) (Amendment) Rules 2020

### Resolution Regime

- Standard disclosure templates under Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules are expected to be finalised and published in early Q4 2019
- Introduced on 26 August 2019 a resolution facility and a number of refinements to various established arrangements within an updated HKMA liquidity facilities framework

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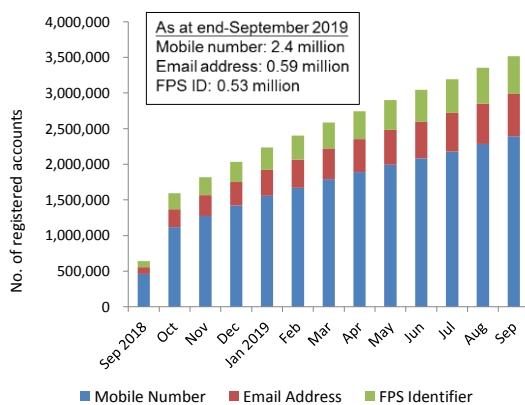
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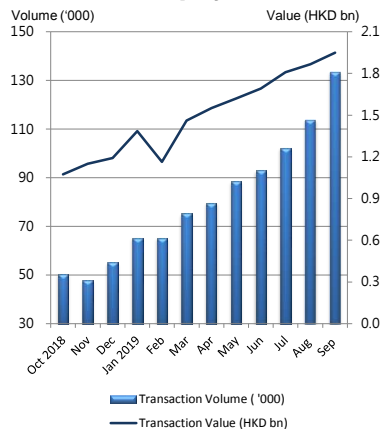


## FASTER PAYMENT SYSTEM (FPS)

### Number of registered accounts



### Average daily turnover of HKD real-time payments



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## LATEST FINTECH INITIATIVES

### Open Application Programming Interface for the banking industry

- Phase I largely completed
- Phase II launched by banks in October 2019

### Bank for International Settlements Innovation Hub Centre

- First Innovation Hub Centre has been opened in Hong Kong

### Fintech Career Accelerator Scheme 2.0

- 110 students accepted offers in the current gap year placement programme

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## **CROSS-BORDER RMB BUSINESS**

- Mutual market access schemes are operating smoothly. In September, one more major international bond index announced its decision to include RMB bonds. Bond Connect now has over 1,300 registered investors, with an average daily turnover of RMB8.7 billion in the first three quarters, up 140% from 2018
- The HKMA continues to discuss with Mainland authorities on financial facilitation measures in the Greater Bay Area
- RMB deposit pool remained stable at around RMB650 billion in recent months. Average daily turnover recorded by RMB Real Time Gross Settlement system stayed at a high level of above RMB1,100 billion

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## DEVELOPING HONG KONG'S FINANCIAL PLATFORM

### Private equity (PE) fund platform

- The HKMA is working with the Government to develop a legislative proposal on a new limited partnership regime to attract more PE funds to set up and operate in Hong Kong. An industry consultation was conducted in Q3 this year and we are assisting the Government to evaluate industry feedback

### Green Finance

- Announced in May three sets of measures to promote green finance:
  - Three-phased approach to promote Green and Sustainable Banking;
  - Responsible investment by the Exchange Fund; and
  - Setting up a Centre for Green Finance (CGF) under HKMA Infrastructure Financing Facilitation Office (IFFO)
- Successfully assisted the Government to issue its inaugural US\$1 billion green bond under the Government Green Bond Programme in May. The issuance received favourable market responses, attracting orders exceeding US\$4 billion

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## INVESTMENT INCOME

(HK\$ billion)	← 2019 → 2018 2017			
	(unaudited)			
	Jan - Sep	Q3	Full Year	Full Year
<b>Bonds</b>	<b>106.3</b>	<b>29.9</b>	<b>57.4</b>	<b>34.4</b>
<b>Hong Kong equities*</b>	<b>8.0</b>	<b>(12.3)</b>	<b>(20.7)</b>	<b>58.3</b>
<b>Other equities</b>	<b>69.7</b>	<b>4.6</b>	<b>(38.7)</b>	<b>80.4</b>
<b>Foreign exchange#</b>	<b>(5.5)</b>	<b>(2.0)</b>	<b>(9.0)</b>	<b>53.5</b>
<b>Other investments@</b>	<b>20.1</b>	<b>-</b>	<b>21.9</b>	<b>37.4</b>
<b>Investment income</b>	<b>198.6</b>	<b>20.2</b>	<b>10.9</b>	<b>264.0</b>

\* 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. This figure represents valuation changes up to the end of June 2019. Valuations of these investments from July to September are not yet available.

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## INCOME AND EXPENDITURE

(HK\$ billion)	← 2019 → 2018 2017			
	(unaudited)			
	Jan - Sep	Q3	Full year	Full year
<b>Investment income</b>	<b>198.6</b>	<b>20.2</b>	<b>10.9</b>	<b>264.0</b>
Other income	0.1	-	0.2	0.2
Interest and other expenses	<u>(17.8)</u>	<u>(6.4)</u>	<u>(17.9)</u>	<u>(9.9)</u>
Net income/(loss)	180.9	13.8	(6.8)	254.3
Fee payment to Fiscal Reserves**	(22.6)	(7.3)	(60.2)	(46.2)
Fee payment to HKSAR government funds and statutory bodies*	(6.7)	(2.2)	(13.8)	(8.6)

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

# This does not include the 2019 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2019 is available.

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

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## **MORTGAGE INSURANCE PROGRAMME (MIP)**

- The following revisions were made to the MIP with effect from 16 October 2019:
  - Raising the cap on the value of a property eligible for a mortgage loan of maximum cover of 80% loan-to-value (LTV) ratio from the existing HK\$6 million to HK\$10 million
  - For a property eligible for a mortgage loan of maximum cover of 90% LTV ratio, raising the cap on its value from HK\$4 million to HK\$8 million
  - The revised criteria shall apply to completed residential properties only, with additional 15% insurance premium
  - Generally speaking, the maximum debt-to-income (DTI) ratio for all MIP loans is set at 50%, and borrowers have to meet the stressed DTI ratio. A first-time homebuyer is still eligible to apply even if he or she cannot meet the stressed DTI ratio, subject to additional premium based on relevant risk factors

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## **SME FINANCING GUARANTEE SCHEME (SFGS)**

- Extension of application period of 80% guarantee product and continuation of enhancement measures until end-June 2022. Enhancement measures include (1) reducing guarantee fee rates by half; (2) increasing maximum loan amount from HK\$12 million to HK\$15 million; and (3) lengthening maximum loan guarantee period from 5 years to 7 years
- In the first eight months of 2019, the number and amount of applications approved increased significantly by 71% and 110% respectively as compared to the same period in 2018
- A new relief measure in the form of principal moratorium was introduced in September 2019. An SME borrower may apply for principal moratorium of up to 6 months which is renewable, subject to a maximum of 12 months in total
- A 90% loan guarantee product will be introduced. LegCo approval on funding will be sought by Government. In parallel, HKMC is working with the industry on the implementation details