



HONG KONG MONETARY AUTHORITY

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

4 May 2020

[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 TREND & MAJOR RISKS

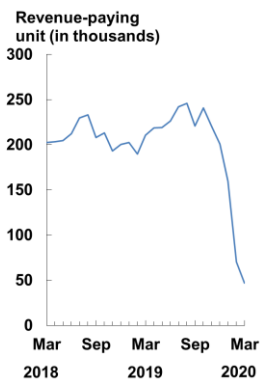
- Economic activities brought to a halt and markets tumbled as pandemic spread globally
- In contrast to previous financial crises, this pandemic cannot be tackled by fiscal or monetary responses alone
- Global economic outlook hinges upon when the pandemic can be contained
- Three major stress points in the financial sector:
 - Tightness in USD liquidity eased slightly but may re-emerge
 - Heightened credit risk
 - Greater risks faced by emerging economies, especially oil-producing countries
- Other geopolitical risks to be monitored

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GLOBAL ECONOMY HIT BY PANDEMIC

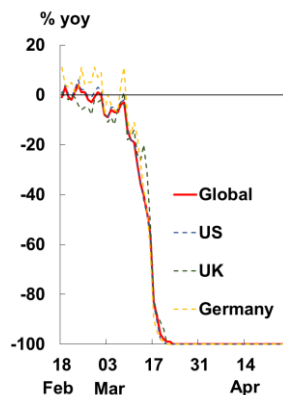
Plunge in global airline passenger traffic



Note: Chart shows revenue passenger-kilometers of major global airlines.

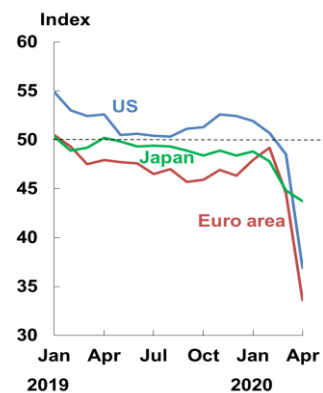
Source: Bloomberg

Steep declines in restaurant patronage around the world



Source: OpenTable

Sharp falls in manufacturing PMIs



Note: Latest (April 2020) figures are flash estimates by Markit.

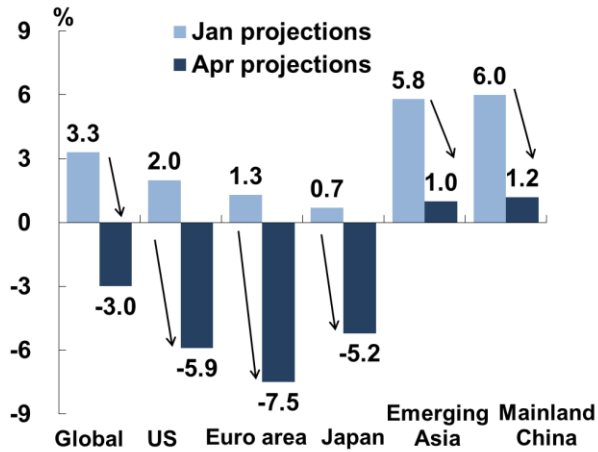
Source: Bloomberg

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GLOBAL ECONOMIC OUTLOOK WORSENS SHARPLY

IMF'S ECONOMIC GROWTH PROJECTIONS FOR 2020



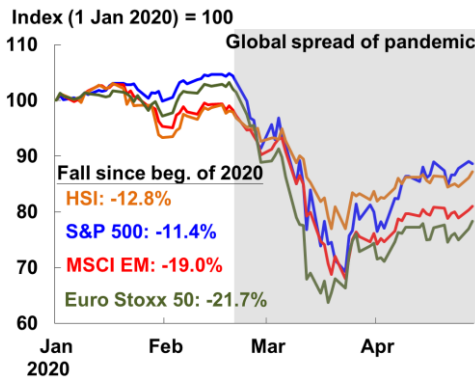
Source: International Monetary Fund

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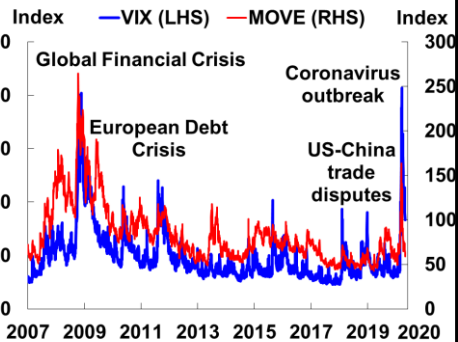


PANDEMIC & OIL PRICE PLUNGE TRIGGER HUGE VOLATILITIES IN FINANCIAL MARKETS

Global stock markets tumble



Volatility in equity and bond markets near levels seen during Global Financial Crisis



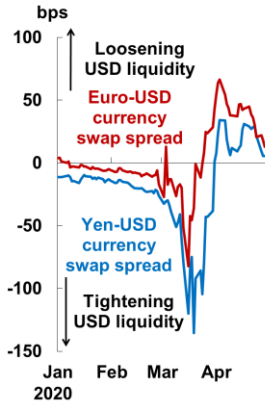
Source: Datastream

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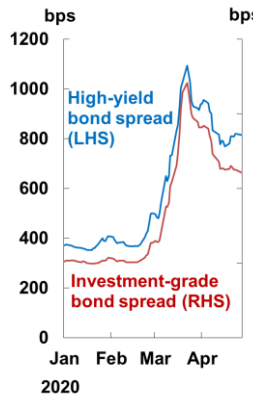


STRESS POINTS IN THE FINANCIAL SECTOR

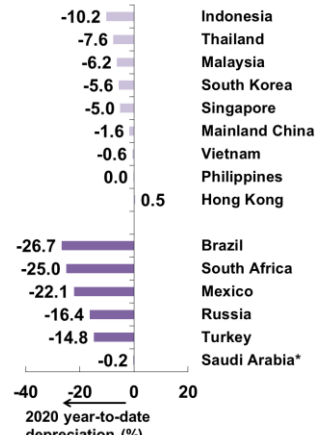
Shortage in USD liquidity may re-emerge



Global corporate bond spreads stay elevated



Sharp currency depreciation in emerging market and oil-producing economies



Note: The left chart shows cross currency basis swap spreads of 3-month euro/USD (red line) and yen/USD (blue line). The more negative the spreads, the tighter the USD liquidity condition.

Source: Bloomberg

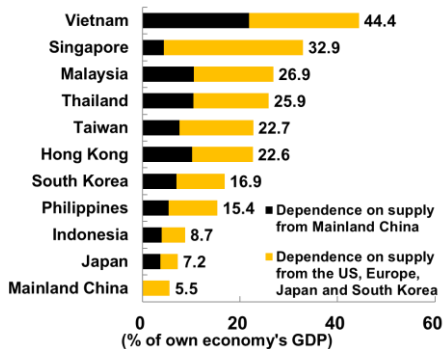
(*) Saudi Arabia adopts a fixed exchange rate regime.

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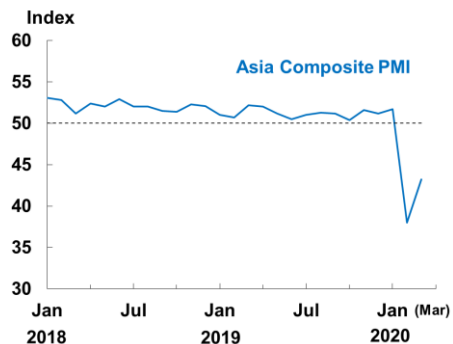
PANDEMIC HITS ASIA'S SUPPLY CHAINS FURTHER

Plagued economies are among major origins of supply chains



Source: OECD's TiVA database

Near-term economic outlook worsens



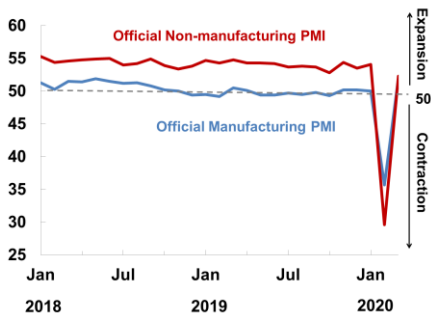
Source: CEIC

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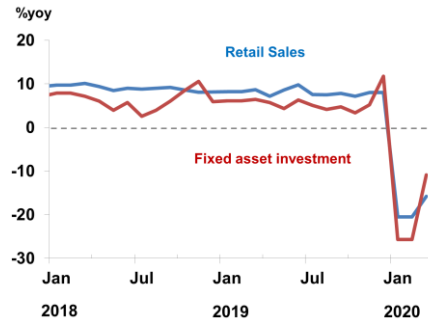
PANDEMIC'S IMPACT ON MAINLAND ECONOMY RECEDED RECEDES

Business sentiment comes up from dip



Source: National Bureau of Statistics of China

Domestic demand indicators bottom out

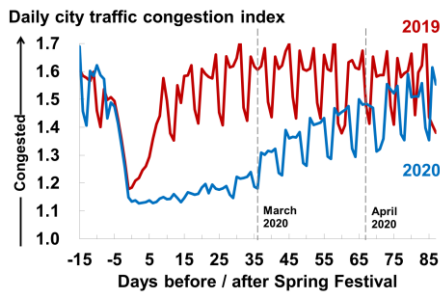


Source: National Bureau of Statistics of China



ECONOMIC ACTIVITIES GRADUALLY RESUME

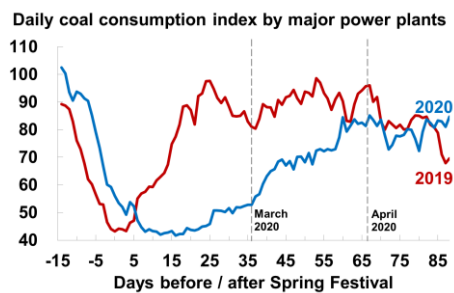
More residents venture out from home



Note: The daily city traffic congestion index is an average of congestion indices of 100 cities in Mainland China

Source: WIND

Industrial production resumes

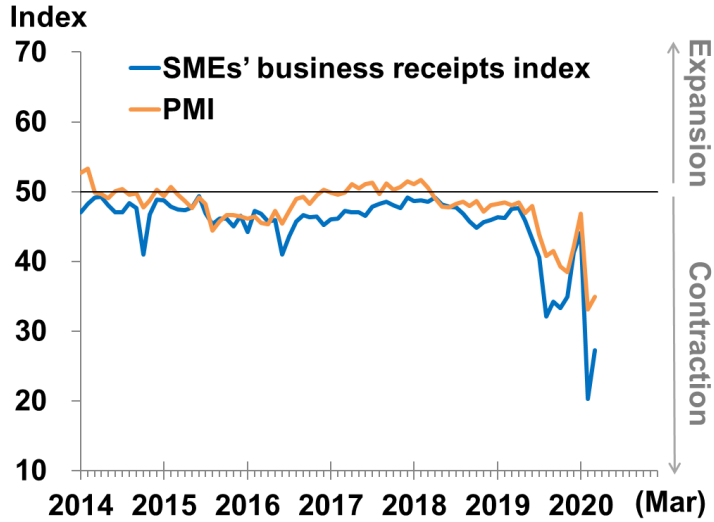


Note: The third week before Spring Festival = 100

Source: WIND



STARK CHALLENGES FOR HONG KONG'S ECONOMY



Sources: C&SD and IHS Markit

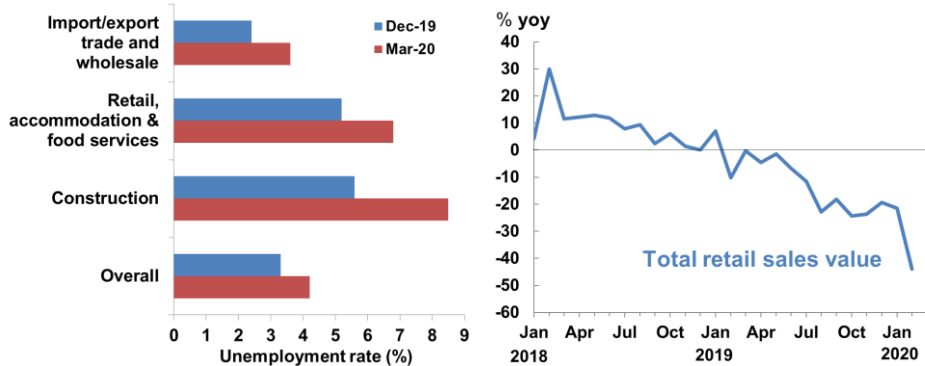
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WORSENING LABOUR MARKET TO WEIGH ON CONSUMPTION

Unemployment in some sectors rises sharply

Retail sales drop substantially



Source: C&SD

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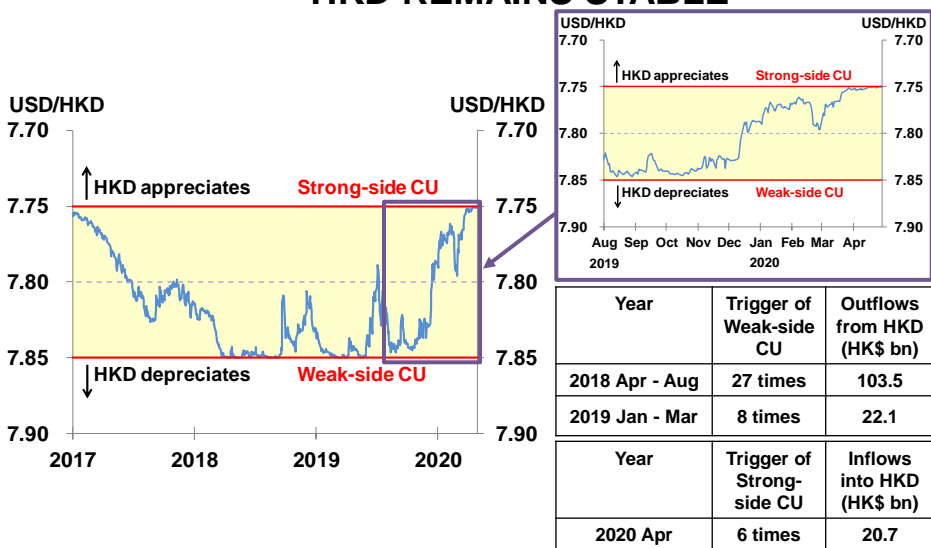
HKMA & BANKING SECTOR WORK TOGETHER TO HELP LOCAL ECONOMY TIDE OVER PLIGHT

Easing cash-flow pressure	Boosting lending capacity	Increasing market liquidity
<p>Pre-approved Principal Payment Holiday Scheme for corporates</p> <p>Principal repayment holidays for residential mortgages and relief loans</p> <p>Special 100% Loan Guarantee for SMEs</p>	<p>Lowered Countercyclical Capital Buffer by 1.5%</p> <p>Cut Regulatory Reserves by half</p> <p>Clarified HKMA's supervisory expectations on liquidity regulatory requirements</p> <p>Deferred implementation of new Basel III requirements</p>	<p>Reduced issuance size of Exchange Fund Bills to increase HKD liquidity</p> <p>Elaborated on HKMA's Standing Liquidity Facilities Framework</p> <p>Introduced US Dollar Liquidity Facility to lend US dollars to local banks</p>

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ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: HKD REMAINS STABLE

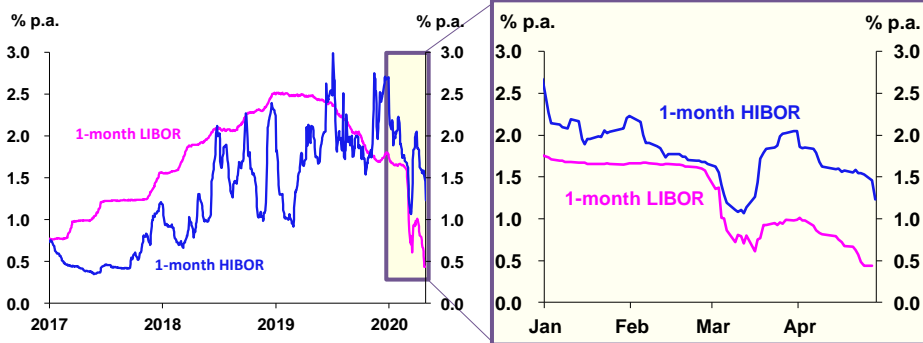


Source: HKMA

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ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: ORDERLY OPERATION OF MONEY MARKET

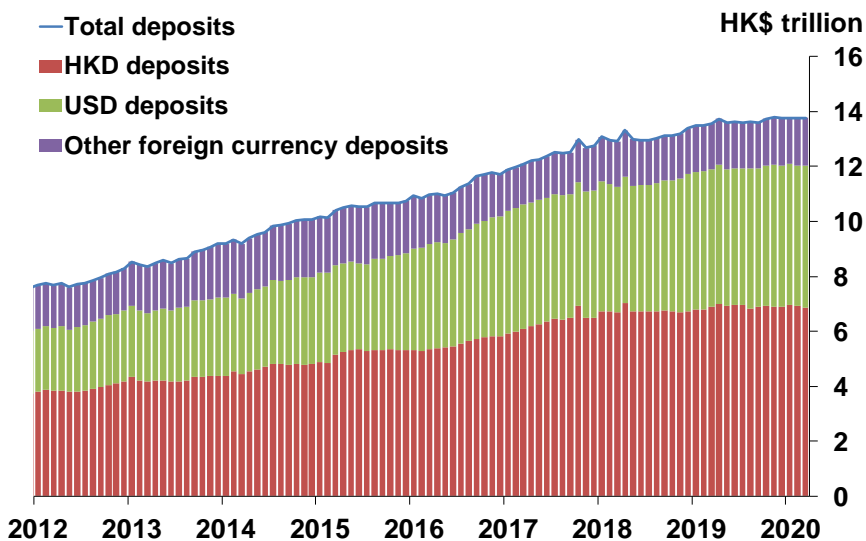


Source: HKMA

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

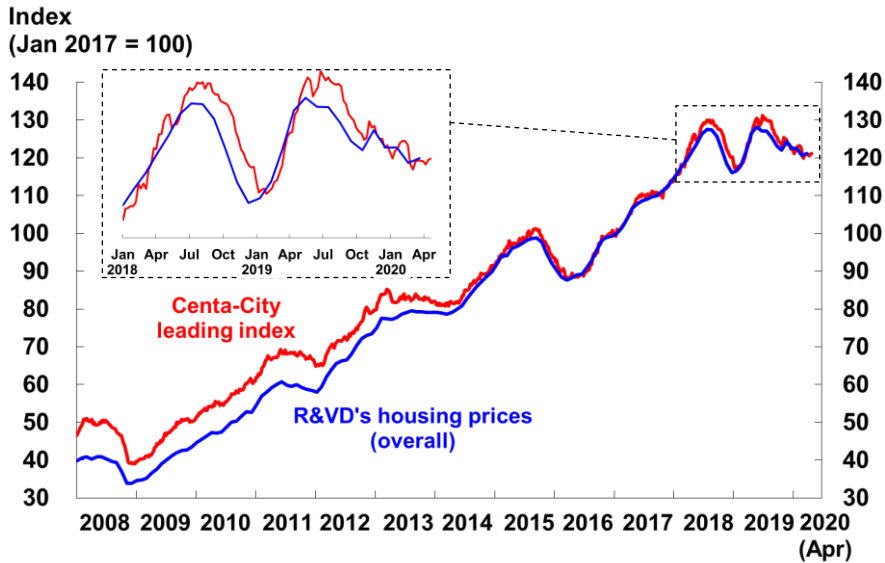


Source: HKMA

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ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY PRICES FLUCTUATE



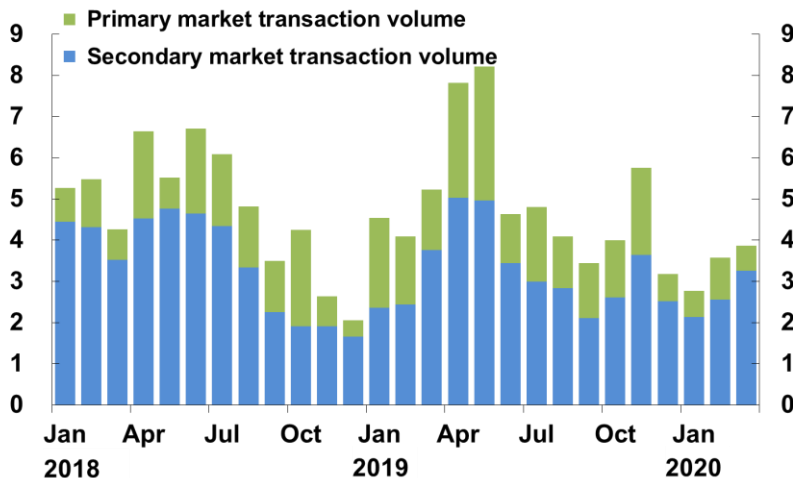
Sources: Rating and Valuation Department and Centaline Property Agency Limited

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ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY TRANSACTIONS INCREASE

Number of transactions ('000)



Source: Land Registry

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HONG KONG'S FINANCIAL SECTOR - HIGHLY RESILIENT

- The pandemic has triggered huge volatilities in global financial markets and heightened risk-off sentiment
- Faced with stark challenges for Hong Kong's economy in the short term, the HKMA has introduced measures to lend support to the economy, particularly to the SMEs
- Local banking sector and financial markets operate smoothly, with strong resilience against impact from the pandemic
- The HKMA will closely monitor market situation and safeguard monetary stability in accordance with the Linked Exchange Rate System
- Global markets may experience big swings, so the general public should all manage the risks properly

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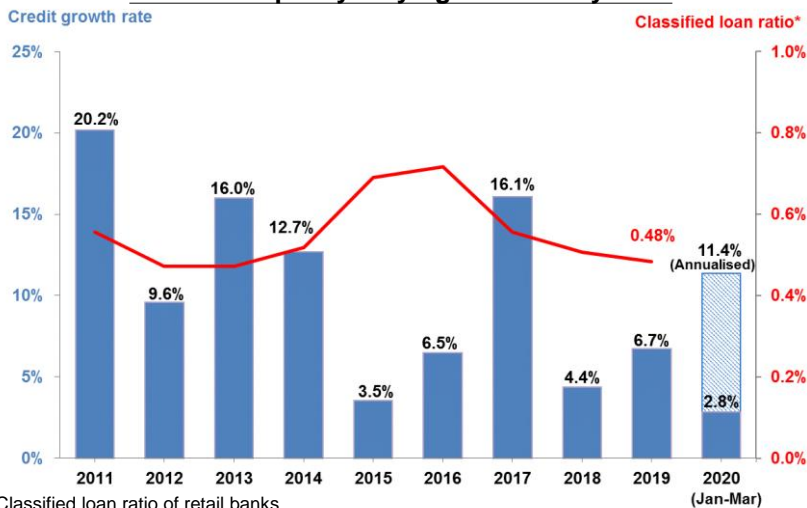
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BANKING SECTOR PERFORMANCE

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



Note: * Classified loan ratio of retail banks

Source: HKMA

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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
 - Principal payment holiday for subsidised housing mortgages
- As of 24 April 2020, applications for relief measures approved by banks:
 - Corporate customers: over 14,000 applications (HK\$93 billion)
 - Personal customers: over 7,700 applications (HK\$21 billion)

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LEGISLATIVE WORK

International Standards

- Banking (Capital) (Amendment) Rules 2020

Resolution Regime

- Public consultation on rules on contractual stays on termination rights in financial contracts for authorized institutions closed on 22 March 2020

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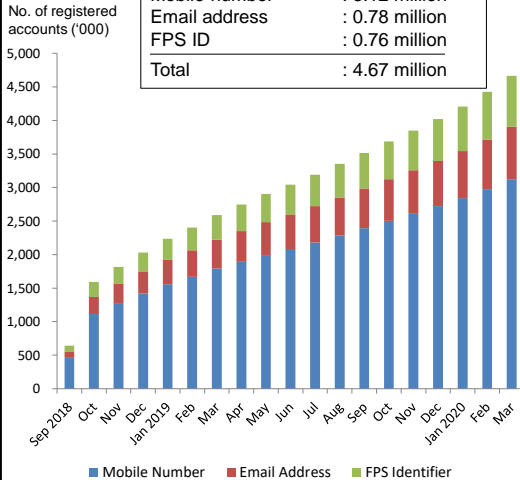
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FASTER PAYMENT SYSTEM (FPS)

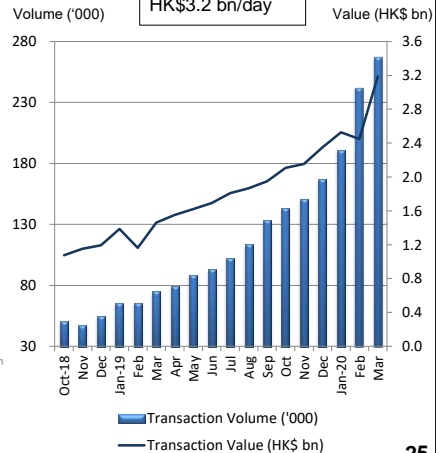
Number of registered accounts

As at end-March 2020	
Mobile number	: 3.12 million
Email address	: 0.78 million
FPS ID	: 0.76 million
Total	: 4.67 million



Average daily turnover of HKD real-time payments

In March 2020	
267,000 txn/day	
HK\$3.2 bn/day	



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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 stored value facility 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 on CFI enhancement underway

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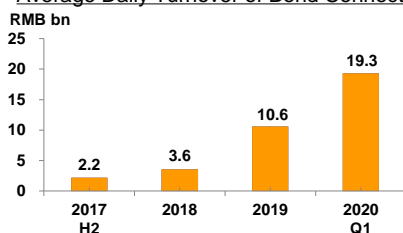
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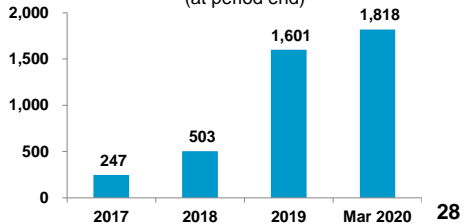
MUTUAL MARKET ACCESS SCHEMES OPERATE SMOOTHLY

- Despite the COVID-19 outbreak, mutual market access schemes between Hong Kong and Mainland's capital markets continue to operate smoothly, strengthening Hong Kong's role as the dominant platform for international investors to access the onshore markets
- JPMorgan benchmark GBI-EM index began to include Chinese government bonds in February 2020. Inflows into the Mainland bond market is expected to remain strong

Average Daily Turnover of Bond Connect



No. of Investors
Number of Bond Connect Registered Investors (at period end)



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DEVELOPING HONG KONG'S FINANCIAL PLATFORM

Private equity (PE) fund platform

- New limited partnership regime for PE funds — the relevant bill was gazetted on 20 March 2020 for introduction into LegCo

Green Finance

- Continue to support green finance to combat climate change — in our capacity as a bank regulator, asset owner, and market facilitator, we have been taking measures to promote green and sustainable banking, implement responsible investing, and build capacity
- Promote the development of green finance in Hong Kong — the HKMA will assist the Government to issue more green bonds

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INVESTMENT ENVIRONMENT IN Q1 2020

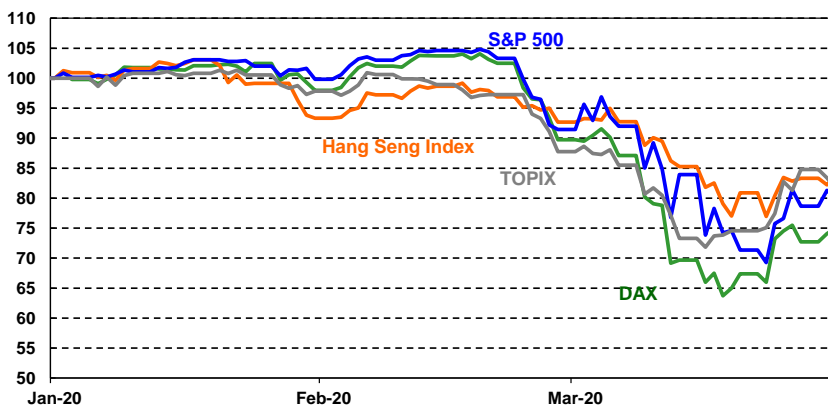
- The COVID-19 crisis, compounded by the outbreak of the oil price war, led to significant deterioration in market sentiment and sharp correction in global equities
- Taking US equities as an example, the S&P 500 index tumbled by 30% from its historical peak in mid-February in just around a month's time, posing a more rapid correction than the 2008 global financial crisis
- In mid-March, the VIX index, widely regarded as the market's "fear gauge", also surged to an all-time closing high
- 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

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EQUITY MARKETS CORRECTED SHARPLY

Normalised Index Level (2019 year-end = 100)



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INVESTMENT INCOME

	2020	2019	2018	2017
	(unaudited)			
(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.

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INCOME AND EXPENDITURE

	2020	2019	2018	2017
	(unaudited)			
(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	<u>(6.0)</u>	<u>(24.8)</u>	<u>(17.9)</u>	<u>(9.9)</u>
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.)

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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

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SFGS – 80% & 90% GUARANTEE

- The government announced in its latest relief measures:
 - Maximum loan amount for the 80% Guarantee Product is increased to HK\$18 million;
 - Maximum 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
- For 90% Guarantee Product, 600 applications were approved with total loan amount at about HK\$1 billion, reflecting a strong demand for loans of smaller ticket size

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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

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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