



HONG KONG MONETARY AUTHORITY

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

2 November 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

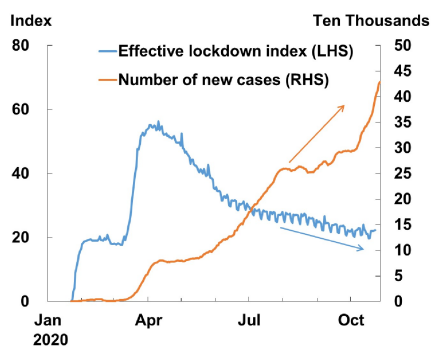
- A new wave of pandemic is hitting the global economy, clouding the prospect of recovery
- The new monetary policy framework adopted by the Federal Reserve will further prolong the low interest rate environment
- Amid unprecedented policy accommodation, financial markets are increasingly disconnected from the real economy
- The financial markets are facing a number of downside risks
 - Surging public debt across the world
 - Rising default risk of corporate debt
 - Heightened geopolitical risks

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PANDEMIC CONTINUES TO CAST A SHADOW ON THE GLOBAL ECONOMY

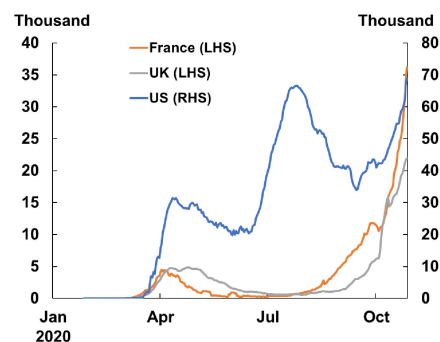
Global new COVID-19 cases and global effective lockdown index



Note: Number of new cases in 7-day moving average

Sources: WHO and Goldman Sachs

Regions with rising number of new cases: Europe and North America



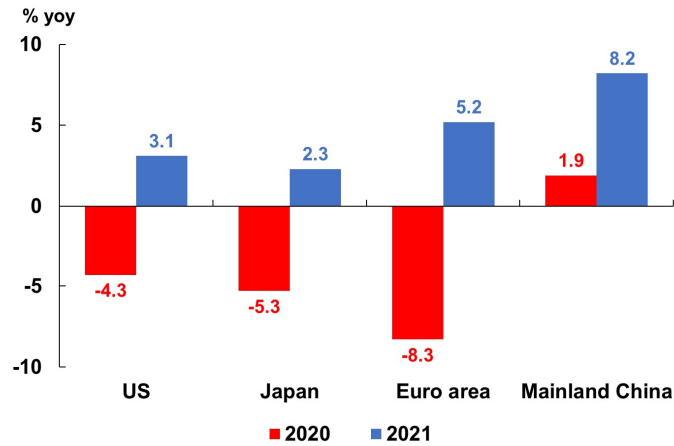
Source: WHO

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RECOVERY OF GLOBAL ECONOMY WILL TAKE TIME

IMF's Growth Projections



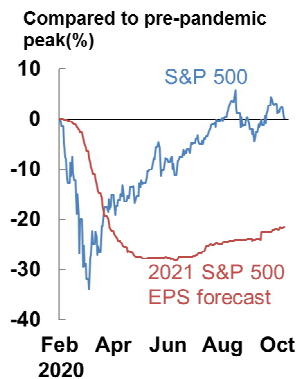
Source: IMF World Economic Outlook (October 2020)

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DISCONNECT BETWEEN FINANCIAL MARKETS AND THE REAL ECONOMY

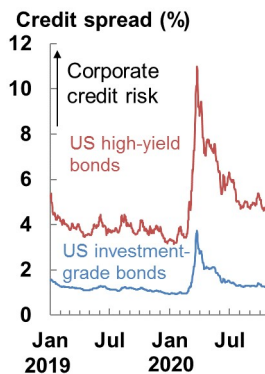
Earning forecasts – stock price divergence



Note: The peak prior to the outbreak refers to the high of S&P 500 recorded on 19 February 2020.

Source: Bloomberg

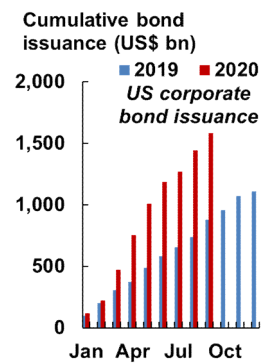
Credit spreads narrowed to pre-pandemic level



Note: Credit risk of the US high yield (investment grade) bonds shown above is measured by the average option-adjusted spread of the Bloomberg-Barclays US High Yield (Aggregate) Index.

Source: Bloomberg

Corporate bond issuance on the rise



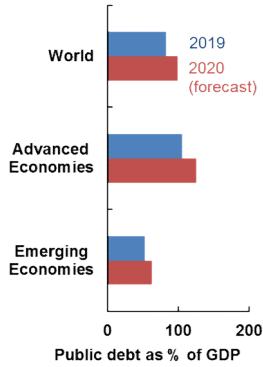
Source: Dealogic

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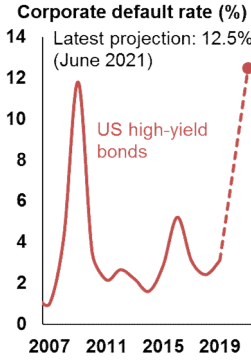
THE FINANCIAL SECTOR IS FACING A NUMBER OF DOWNSIDE RISKS

Surging government debt



Source: IMF

Corporate default rate on the rise



Note: Dotted part in the above chart represents market projections

Source: Standard & Poor's

Heightened geopolitical risk

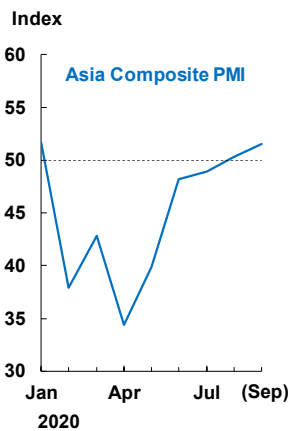
- Rising US-China tensions
- US presidential election
- Linger risk of a "no-deal" Brexit

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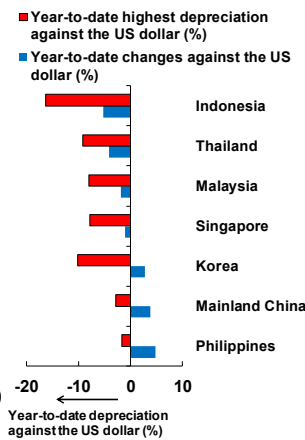
ASIAN ECONOMIES ARE STABILISING

Near-term economic outlook stabilised



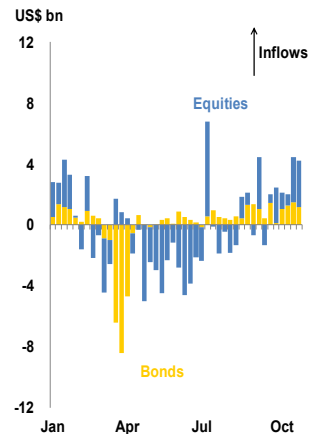
Source: CEIC

Currency depreciation narrowed



Source: Bloomberg

Funds registered net inflows



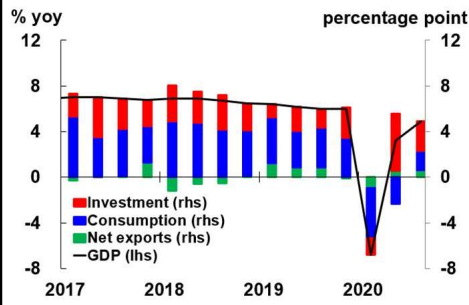
Source: EPFR

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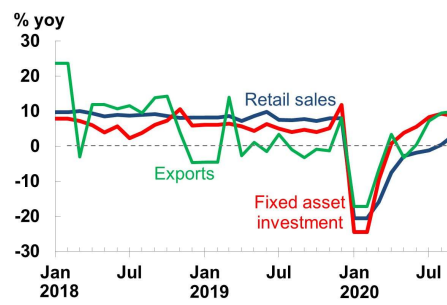
MAINLAND ECONOMY IS RECOVERING AT A FASTER PACE

Economy continued to recover in Q3



Source: National Bureau of Statistics of China

Major economic indicators continue to rebound



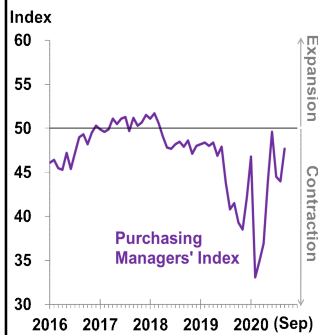
Source: National Bureau of Statistics of China

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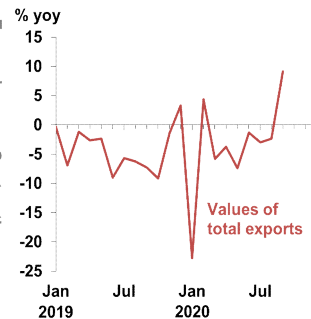
HONG KONG ECONOMY IS SHOWING SIGNS OF PICKING UP

Business sentiment improves



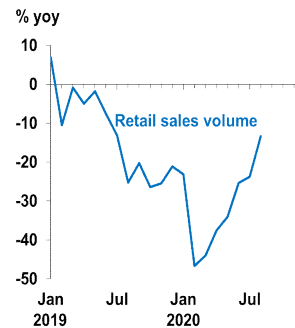
Source: IHS Markit

Values of total exports stabilise



Source: C&SD

Declines in retail activities narrow



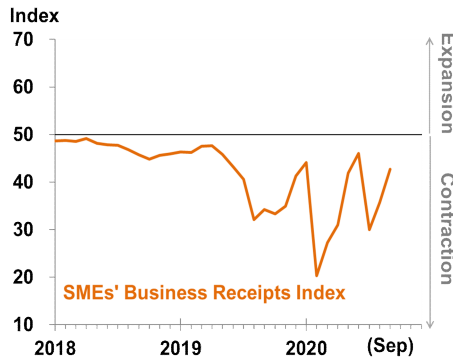
Source: C&SD

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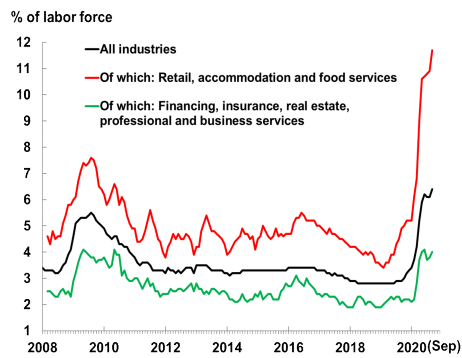


YET SMEs AND LABOUR MARKET ARE STILL UNDER TREMENDOUS PRESSURE

SMEs are still under pressure



Unemployment rate in certain sectors remains high



Source: C&SD

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A MULTI-PRONGED APPROACH TO MAINTAIN FINANCIAL STABILITY AND SUPPORT THE ECONOMY

Maintaining market resilience and confidence

- Strengthened market surveillance and contingency planning
- Maintained close dialogues with the industry to understand and address their concerns

Easing cash-flow pressure

- Encouraged banks to make good use of their lending headroom
- Introduced Pre-approved Principal Payment Holiday Scheme and other support measures
- Enhanced the SME Financing Guarantee Scheme

Increasing market liquidity

- Reduced issuance size of Exchange Fund Bills to increase overall Hong Kong dollar liquidity
- Clarified the "Hong Kong Dollar Liquidity Facilities" and arranged drills for banks
- Introduced the "US Dollar Liquidity Facility"

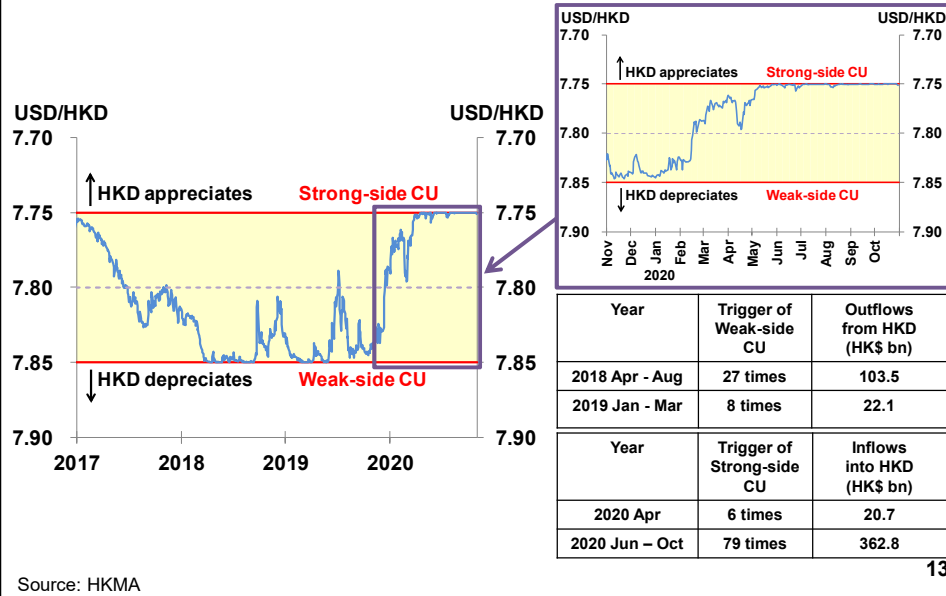
Suitably releasing buffers

- Reduced the Countercyclical Capital Buffer ratio of banks by 1.5 percentage points
- Lowered the regulatory reserve requirement on banks by half
- Raised the applicable loan-to-value ratio caps for mortgage loans on non-residential properties by 10 percentage points

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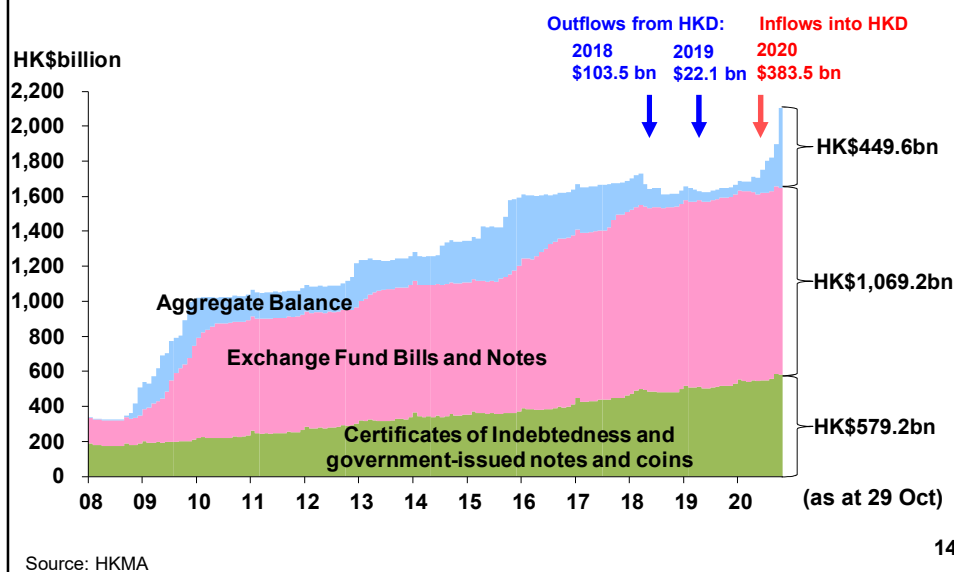
ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: HKD REMAINS STABLE



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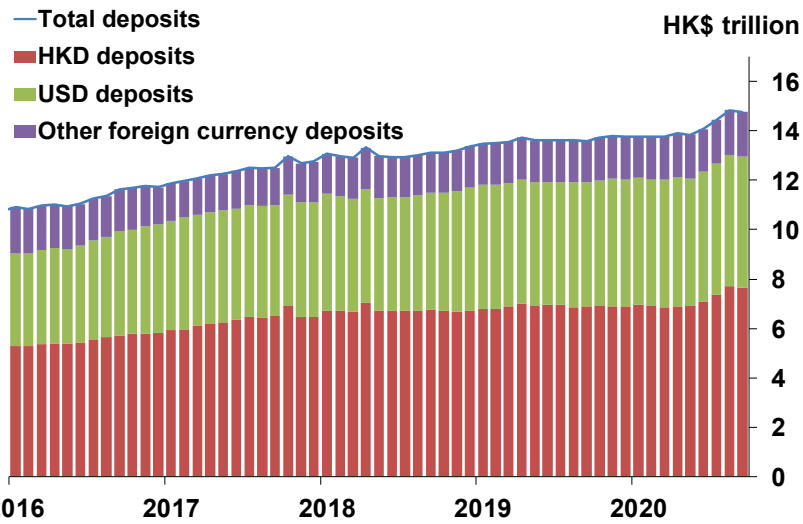
ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: CONTINUED INFLOWS INTO THE HONG KONG DOLLAR



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ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: DEPOSITS INCREASING STEADILY

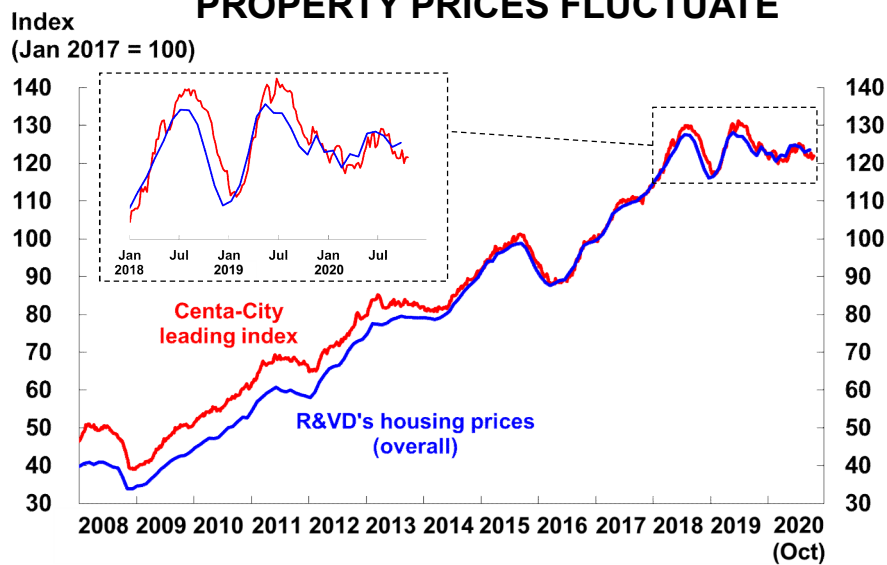


Source: HKMA

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



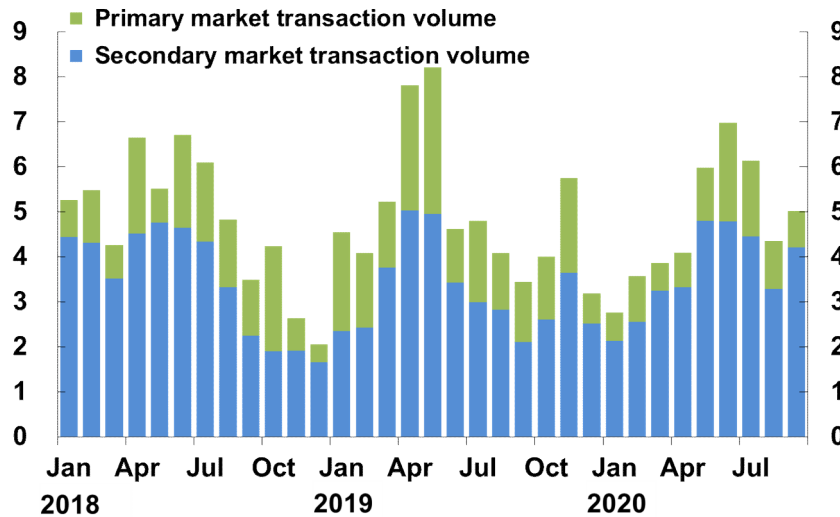
Sources: Rating and Valuation Department and Centaline Property Agency Limited

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

Number of transactions ('000)



Source: Land Registry

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HONG KONG'S FINANCIAL SECTOR – HIGHLY RESILIENT AGAINST CHALLENGES

- The pandemic will continue to drag the global economy in the near term and its long-term impact needs to be monitored
- Amid various downside risks and more limited room for policy manoeuvring, the markets may experience volatility
- Emerging market economies including those in Asia and fund flows may be affected again
- Hong Kong's financial markets and the Linked Exchange Rate System continue to operate smoothly, and the banking sector is sound
- The HKMA will continue to closely monitor market situation and the public should also manage risks carefully

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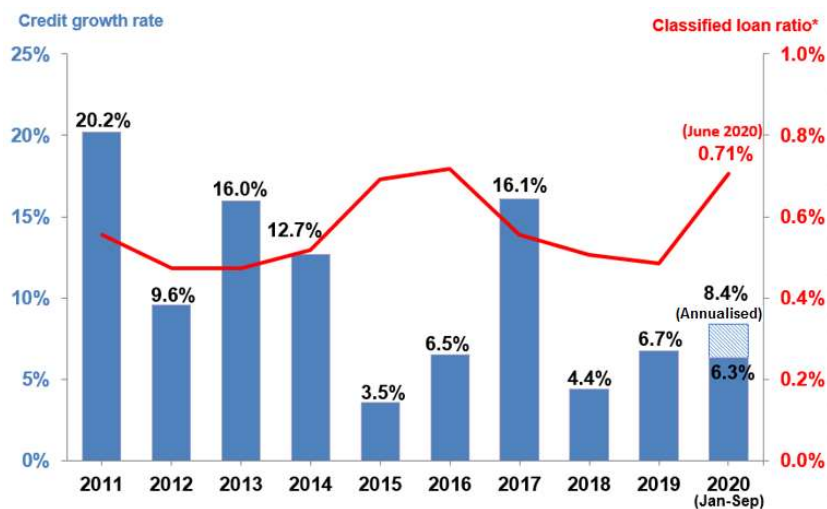
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BANKING SECTOR PERFORMANCE

**Total loans grew moderately
while asset quality remained healthy**



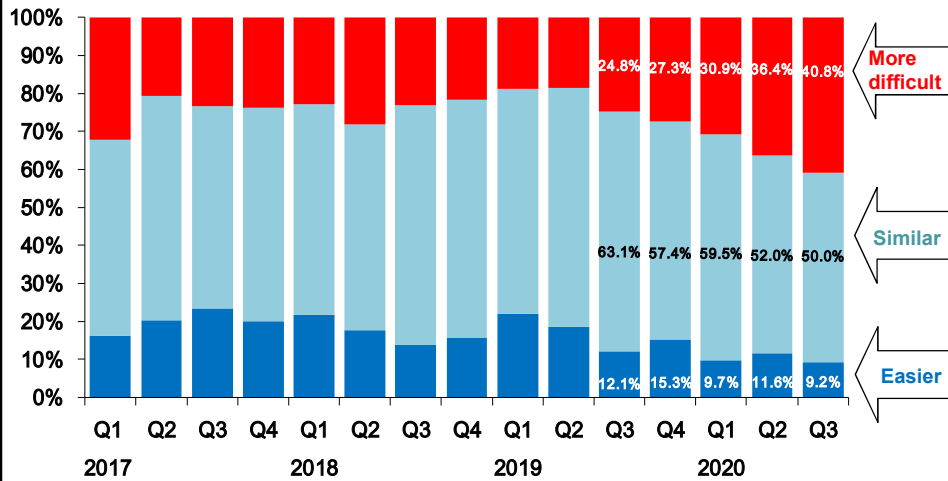
Notes: * Classified loan ratio of retail banks
Source: HKMA

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SMEs' PERCEIVED CREDIT APPROVAL STANCE OF BANKS

Relative to six months ago

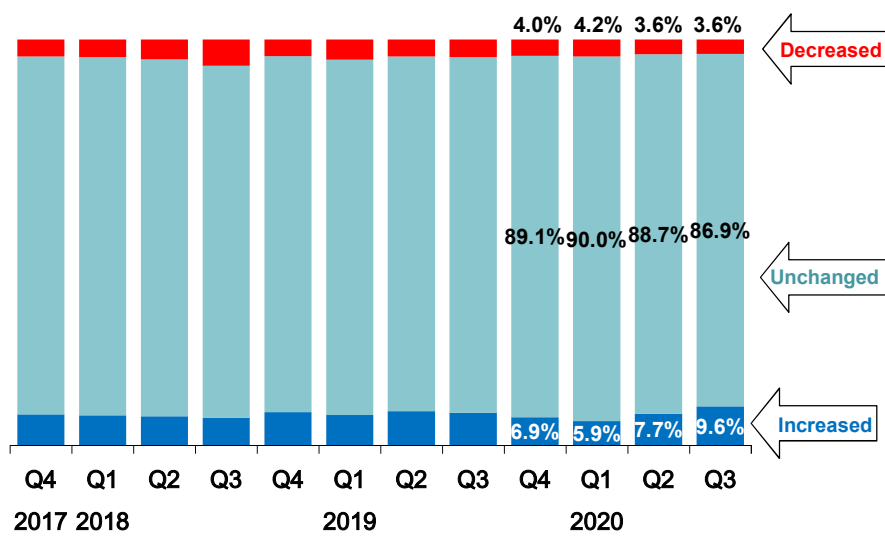


Source: HKMA

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CHANGES IN BANK LENDING LIMITS FOR SMEs



Source: HKMA

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FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

Extended Pre-approved Principal Payment Holiday Scheme

- Extended Pre-approved Principal Payment Holiday Scheme by six months to April 2021
- Extended the principal payment holiday for trade loans by another 90 days

Enhanced SME Financing Guarantee Scheme

- Extended principal moratorium for 80% and 90% Guarantee Products by six months to March 2021
- Enhanced the Special 100% Loan Guarantee

- As of end-September 2020, applications for principal payment holidays, extensions of repayment schedules, contingency loans and other relief measures approved by banks:
 - Corporate customers: around 49,000 applications (HK\$590 billion)
 - Individual customers: over 21,000 applications (HK\$37 billion)

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LEGISLATIVE WORK

International Standards

- 2021
 - Amendments to Banking (Capital) Rules
 - Amendments to Banking (Exposure Limits) Rules
- 2022
 - Amendments to Banking (Capital) Rules

Resolution Regime

- Public consultation on rules on contractual stays on termination rights in financial contracts for authorized institutions closed on 22 March 2020. Our current intention is to introduce the rules into LegCo in the first half of 2021

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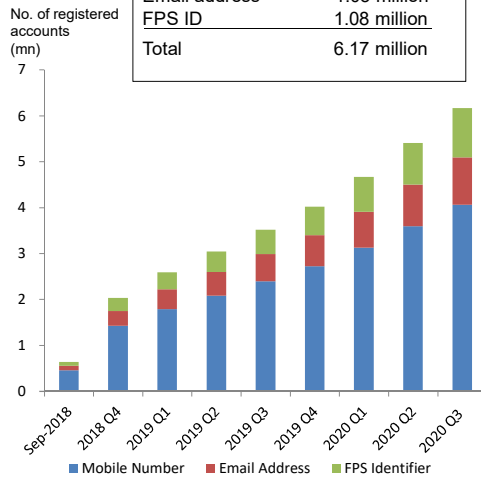
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FASTER PAYMENT SYSTEM (FPS)

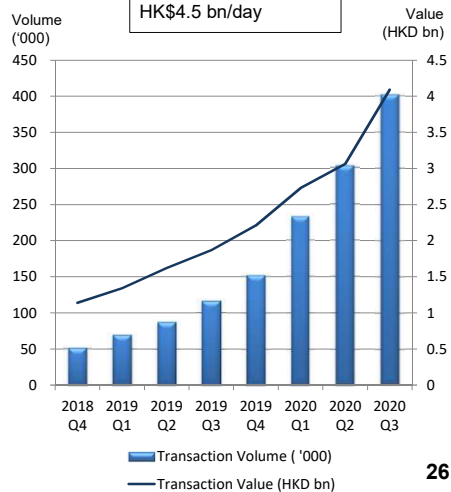
Number of registered accounts

As at end-September 2020	
Mobile number	4.06 million
Email address	1.03 million
FPS ID	1.08 million
Total	6.17 million



Average daily turnover of HKD real-time payments

In September 2020	
426,000 txn/day	
HK\$4.5 bn/day	





LATEST FINTECH INITIATIVES

Cross-border financial collaboration

- Co-organised “TechChallenge” competition with Bank for International Settlements (BIS) Innovation Hub Hong Kong Centre
- Collaborating with other central banks to study the use of central bank digital currency in cross-border payments

Co-organising “Hong Kong FinTech Week 2020” with InvestHK

- Exploring the development of new financial infrastructure to allow SMEs to utilise their own business data to obtain bank financing more easily and quickly
- Publication of a white paper on Regtech

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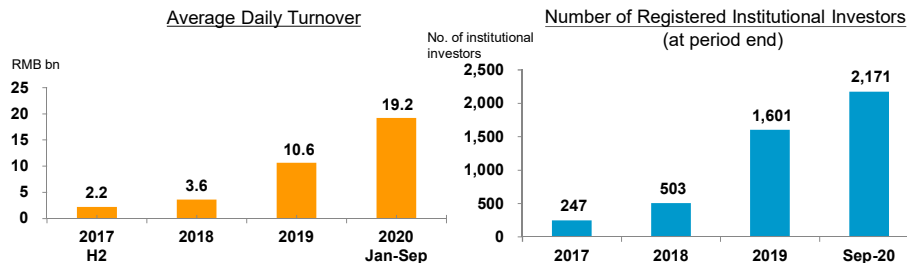
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MUTUAL MARKET ACCESS SCHEMES OPERATE SMOOTHLY

- Trading activities under Bond Connect continued to thrive



- In September 2020, another major global index announced the inclusion of RMB bonds starting next year, which is expected to further boost trading activities under the scheme. Bond Connect has also rolled out a series of enhancements, including special settlement cycle, trading hour extension, and allowing investors to engage more foreign exchange counterparties
- Jointly announced with the People's Bank of China and the Monetary Authority of Macao on 29 June 2020 the introduction of Wealth Management Connect in the Greater Bay Area

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DEVELOPING HONG KONG'S FINANCIAL PLATFORM

Private equity (PE) fund platform

- Limited Partnership Fund Ordinance (Cap. 637) has come into operation since 31 August. Responses from the market are positive and over 30 funds had been registered under the new law as of end-October

Green finance

- Co-initiated the establishment of the Cross-Agency Steering Group on Green and Sustainable Finance with the Securities and Futures Commission in May 2020, which aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong, and support the Government's climate strategies
- Promote the development of green finance in Hong Kong: the HKMA is assisting the Government to issue green bonds equivalent to HK\$66 billion for the next five years

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INVESTMENT INCOME

(HK\$ billion)	← 2020 →		2019	2018
	Jan - Sep	Q3		
	(unaudited)			
			Full Year	Full Year
Bonds	83.2	8.5	114.5	57.4
Hong Kong equities*	(19.9)	(0.3)	22.1	(20.7)
Other equities	14.5	29.9	100.7	(38.7)
Foreign exchange#	(9.7)	14.7	(13.0)	(9.0)
Other investments@	(5.7)	-	37.9	21.9
Investment income	62.4	52.8	262.2	10.9

* 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 2020. Valuations of these investments from July to September are not yet available.

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INCOME AND EXPENDITURE

(HK\$ billion)	← 2020 →		2019	2018
	Jan - Sep	Q3	Full year	Full year
	(unaudited)			
Investment income	62.4	52.8	262.2	10.9
Other income	0.1	-	0.2	0.2
Interest and other expenses	<u>(12.0)</u>	<u>(1.8)</u>	<u>(24.8)</u>	<u>(17.9)</u>
Net income/(loss)	50.5	51.0	237.6	(6.8)
Fee payment to Fiscal Reserves*#	(26.0)	(7.4)	(53.8)	(60.2)
Fee payment to HKSAR government funds and statutory bodies*	(8.6)	(2.8)	(9.0)	(13.8)

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

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 and 6.1% for 2018. Fee payable to the Future Fund was HK\$24.4 billion for 2019 and HK\$16.4 billion for 2018.)

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SME FINANCING GUARANTEE SCHEME

- Special 100% Loan Guarantee:
 - Maximum loan amount per enterprise increased to the total amount of employee wages and rents for 12 months, or HK\$5 million, whichever is lower
 - Maximum repayment period extended to five years
 - As of 28 October 2020, around 19,400 applications had been approved, amounting to over HK\$30 billion
- 80% and 90% Guarantee Products:
 - Maximum loan amount per enterprise increased to HK\$18 million and HK\$8 million respectively
 - Interest subsidy, subject to a cap of 3%
 - Application period of principal moratorium extended for six months to 31 March 2021, with a maximum duration of principal moratorium of 18 months
 - From 1 January to 28 October 2020, almost 4,000 applications had been approved, with total loan amount of about HK\$12.2 billion

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MORTGAGE INSURANCE PROGRAMME (MIP)

- Revisions to MIP 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
 - The maximum debt-to-income ratio for all MIP loans is set at 50%
- As of 28 October 2020, around 30,400 applications under the new coverage had been approved, with over 90% being first-time homebuyers
- Principal moratorium or extension of repayment schedules available to borrowers to help reduce their repayment burden

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