

LCQ4: Further building Hong Kong into an offshore Renminbi hub

Following is a question by the Hon Carmen Kan and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (June 28):

Question:

There are views that Hong Kong, as an international financial centre and offshore Renminbi (RMB) hub, should continue to leverage its own advantages in the process of actively dovetailing itself with the high-quality Belt and Road development. In this connection, will the Government inform this Council:

(1) as there are views pointing out that with the increasing recognition of RMB in the Belt and Road countries, the market demand for the internationalisation of RMB is on the rise, how the Government continues to further build Hong Kong into an offshore RMB hub, such as launching more products that comply with international trading rules and promoting issuance of offshore RMB bonds in Hong Kong by multinational enterprises from the Belt and Road countries;

(2) as there are views that Hong Kong is performing an important function of reallocating RMB funds to the world, how the Government continues to strengthen market entities' awareness of exchange rate risk neutrality, enhance the transparency of market regulation, improve market support facilities and enhance the level of mutual access of RMB financial markets, so as to bring convenience to the optimal allocation of RMB funds around the world; and

(3) on the aspect of international co-operation on digital currencies, how the Government will further enhance market infrastructure, explore flexible interface of multiple systems, expand application scenarios and develop retail central bank digital currencies, so as to promote safe, convenient and inexpensive cross-border payment by digital RMB?

Reply:

President,

Hong Kong has unique advantages under the "One Country, Two Systems" and serves as a bridge linking the Mainland and the rest of the world. The Government is committed to seizing historic opportunities offered by the national development and contributes to the Belt and Road initiative with quality financial services.

In consultation with the Hong Kong Monetary Authority (HKMA), my reply

to the three parts of the question raised by Hon Kan is as follows:

(1) and (2) With the increasing economic and trade connectivity between the Mainland and the Belt and Road countries and regions, the use of and demand for Renminbi (RMB) in bilateral trade, investment and reserves continue to grow. As a global offshore RMB business hub, Hong Kong can provide support for related RMB economic activities and at the same time further promote the sustainable development of its own offshore RMB business.

As at April this year, RMB deposits (including outstanding Certificates of Deposit) in Hong Kong was at about RMB980 billion, providing liquidity support to offshore RMB transactions and financial activities in the Belt and Road countries and regions, and globally. Statistics of the Society for Worldwide Interbank Financial Telecommunications (SWIFT) also indicate that about 75 per cent of global offshore RMB payments are processed in Hong Kong.

Following the expansion of scope of eligible securities under Stock Connect to cover exchange-traded funds (ETFs) as well as eligible constituent stocks of the Shanghai Stock Exchange A Share Index and the Shenzhen Stock Exchange Composite Index and stocks of overseas enterprises primary listed in Hong Kong since July 2022 and March 2023 respectively, Northbound trading of Swap Connect was launched on May 15, 2023, extending the mutual access arrangements in the realm of financial derivatives products. This provides a convenient and secure channel for offshore investors holding onshore bonds to trade interest rate swap products in the Mainland via a connection between the infrastructure institutions in the two places. On the first day of the programme's launch, 27 offshore investors traded onshore RMB interest rate swaps with a notional value exceeding RMB8,200 million.

The "Hong Kong Dollar (HKD)-RMB Dual Counter Model" was launched on June 19 in the securities market, so that investors can trade securities of the same issuer in both HKD and RMB, and transact across HKD and RMB counters. Twenty-four listed companies stocks are designated as dual-counter securities by Hong Kong Exchanges and Clearing Limited (HKEX), accounting for about 40 per cent of the daily turnover for equity securities. The operation of the model has been smooth after the launch. HKEX will continue to closely communicate with the trade to assist relevant parties to familiar with the trading and clearing processes. At the same time, we are collaborating closely with the Mainland with a view to setting up RMB securities trading counter under Southbound Trading of Stock Connect promptly.

Looking ahead, the Government and the regulators will continue to explore with relevant Mainland authorities various proposals on expansion of mutual market access and enriching the product choices, including the provision of more diversified risk management tools such as launching Mainland Government bond futures in Hong Kong.

Besides, we also actively promote the issuance of more offshore RMB bonds in Hong Kong. Last year, the issuance of offshore RMB bonds (including Certificates of Deposit) in Hong Kong reached RMB330 billion, increasing by more than 100 per cent compared to 2021. Earlier this month, we successfully

issued green bonds worth around US\$6 billion under the Government Green Bond Programme, including RMB tranches of RMB15 billion with a new 10-year tenor. These help extend the offshore RMB yield curve and enrich offshore RMB product offerings.

(3) The Government is committed to promoting the development of Central Bank Digital Currency (CBDC). On wholesale CBDC, with the concerted efforts of the Digital Currency Institute of the People's Bank of China (PBoC), the HKMA, the Bank of Thailand, the Central Bank of the United Arab Emirates and the Bank for International Settlements Innovation Hub Centre in Hong Kong, the Multiple Central Bank Digital Currency Bridge (mBridge) Project went beyond experimentation and entered into the pilot phase in the third quarter of 2022. The HKMA and other members of the project team will continue to work towards developing the mBridge platform into a Minimum Viable Product and ultimately a production-ready system.

On retail CBDC, the HKMA is making preparation and laying the foundation for the possible implementation of e-HKD under a three-rail approach. The work under Rail 1 is in good progress. As regards Rail 2, the HKMA announced the commencement of the e-HKD Pilot Programme in May 2023 and will conduct a series of pilots in close collaboration with various stakeholders to examine the use cases, as well as implementation and design issues relating to e-HKD.

The Digital Currency Institute of the PBoC and the HKMA are also exploring the use of e-CNY in cross-boundary payments. The first phase of technical testing was completed in December 2020. The second phase of technical testing commenced in July 2022, involving more banks in Hong Kong and the use of Faster Payment System to top up e-CNY wallets, thus allowing residents to use e-CNY wallets more conveniently in future.

We will continue to make good use of Hong Kong's distinctive strengths as an international financial centre and a global offshore RMB business hub with a view to actively contributing to the Belt and Road Initiative. Thank you President.