

LCQ11: Development of central bank digital currency

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (October 21):

Question:

As shown in a survey report released by the Bank for International Settlements in January this year, more than 80% of the 66 central banks across the globe indicated that they had engaged in work related to central bank digital currency (CBDC) in 2018. It has been reported that the Central Bank of Lithuania issued in July this year a CBDC known as the LB Coin, which is the first of its kind worldwide. Furthermore, the People's Bank of China is now taking the lead in the research and development of digital Renminbi (RMB), and announced in April this year the roll-out of related trials in four Mainland cities. The aforesaid situations have shown that developing CBDC has become an irreversible trend. In this connection, will the Government inform this Council:

- (1) of the progress and other details of the various research projects related to CBDC undertaken by the Hong Kong Monetary Authority;
- (2) whether the authorities have carried out any assessment on the opportunities that the development of digital RMB may bring about for Hong Kong; if so, of the details; if not, the reasons for that; and
- (3) given that Hong Kong is a global offshore RMB business hub, whether the authorities have any plan to strive for the designation of Hong Kong as the first trial city outside the Mainland for digital RMB; if so, of the details; if not, the reasons for that?

Reply:

President,

The Government attaches great importance to the development of financial technologies (Fintech), and is determined to enhance Hong Kong's position as a global hub for offshore Renminbi (RMB) business. In consultation with the Hong Kong Monetary Authority (HKMA), our reply to the Hon Chan Chun-ying's question is as follows:

- (1) The HKMA began researching on Central Bank Digital Currency (CBDC) in 2017 under a project named "Project LionRock". Research findings pointed out that as Hong Kong already had efficient retail payment infrastructure and services, the application of CBDC would have greater potential at the wholesale and cross-border payment level.

Research findings of "Project LionRock" is conducive to the HKMA to

explore how CBDC could be applied at the cross-border payment level. Against this background, in 2019, the HKMA and the Bank of Thailand (BOT) initiated a joint study named "Project Inthanon (Note)-LionRock". The joint study entered Phase 2 this year, which involved trials of cross-border trade payments by banks and corporates from both sides.

The HKMA has also been paying attention to international researches on the use of CBDC for other purposes, and will continue to monitor relevant developments.

(2) If the Digital Currency/Electronic Payment (DC/EP) being developed by the People's Bank of China (PBoC) can be applied to cross-boundary payment, it would further promote the mutual connectivity between the Mainland (including the Guangdong-Hong Kong-Macao Greater Bay Area) and Hong Kong. The Government and the HKMA will continue to maintain communication, and explore the possibility of collaboration with the PBoC.

In addition, the Financial Services Development Council has formed a working group to study how Hong Kong can seize the opportunities from DC/EP's development.

(3) We have been paying attention to the developments of the PBoC's DC/EP. We understand that currently, the trial of DC/EP is primarily used for retail payments in the Mainland. The PBoC is also conducting DC/EP trials in selected cities in the Mainland. In the event that the PBoC would like to explore the use of DC/EP in places outside of the Mainland, including Hong Kong, the Government and the HKMA will actively respond and collaborate. We will also continue to explore with the industry and Mainland authorities on the enhancement and expansion of channels for two-way flow of cross-boundary RMB funds.

Note: "Project Inthanon" was the name of BOT's prior research on CBDC.