

LCQ13: Currency swap agreements with People's Bank of China

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (June 24):

Question:

On June 1, 2020, the Financial Secretary revealed that the Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBoC) had signed a currency swap agreement on Hong Kong dollars and the United States (US) dollars last year, and that such agreement would help defend the Linked Exchange Rate System, under which the Hong Kong dollar is pegged to the US dollar. In this connection, will the Government inform this Council:

(1) of the date on which the agreement was signed, as well as the purpose and other details of the agreement;

(2) whether HKMA signed the agreement with PBoC because of the consideration that relying solely on Hong Kong's foreign exchange reserve was insufficient for defending the Linked Exchange Rate System; and

(3) whether, apart from the agreement and the Renminbi-Hong Kong dollar currency swap agreement which has been in force for more than a decade, HKMA and PBoC have signed any other currency swap agreements; if so, of the details?

Reply:

President,

Our reply to the various parts of the question is as follows.

(1) and (3) To facilitate the development of the offshore Renminbi (RMB) market in Hong Kong, the Hong Kong Monetary Authority (HKMA) signed an RMB/Hong Kong dollar (HKD) currency swap agreement with the People's Bank of China (PBoC) in January 2009. The HKD/United States dollar (USD) currency swap arrangement mentioned by the Financial Secretary is an enhancement made on the basis of this agreement. It is a one-way arrangement allowing the HKMA to swap in USD from the PBoC using HKD if any such need arises.

(2) Hong Kong has strong fundamentals and solid financial strengths. Our banking system is also sound and robust. Underpinned by sizeable foreign reserves of over US\$440 billion as well as strong market confidence, the Linked Exchange Rate System has been operating smoothly and served us well for 36 years since its implementation. The above-said enhancement arrangement aims at providing Hong Kong with more flexibility atop its already abundant

reserves, thereby facilitating the regulatory authority to maintain market stability.