

LCQ15: Application of Central Bank Digital Currency in Hong Kong

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 (January 26):

Question:

In 2017, the Hong Kong Monetary Authority (HKMA) began researching on the application of Central Bank Digital Currency (CBDC) in Hong Kong under a project named Project LionRock. Research findings pointed out that the application of CBDC would have greater potential at the wholesale and cross-border payment level. HKMA subsequently joined forces with various central banks such as the People's Bank of China to study the application of CBDC to cross-border payments, and the development of the project concerned has eventually led to the formation of the Multiple CBDC Bridge (mBridge) platform. The Financial Services Development Council has also started studying how Hong Kong can seize the opportunities from the development of digital Renminbi (e-CNY). In this connection, will the Government inform this Council:

(1) of the progress of the studies on the applications of retail and wholesale CBDCs in Hong Kong and to cross-border payments; whether it has plans to conduct trials concerning the applications of these CBDCs; if so, of the details; if not, the reasons for that;

(2) whether it has examined the impacts of the application of CBDC on the banking industry and monetary policy in Hong Kong; if so, of the details; if not, the reasons for that; and

(3) whether it has plans to discuss with the Mainland the use of e-CNY for cross-border settlement by Hong Kong banks via mBridge or some other platforms, so as to expand the application of e-CNY, thereby fortifying Hong Kong's position as the premier offshore Renminbi centre; if so, of the details; if not, the reasons for that?

Reply:

President,

With the increasing adoption of digital payments, e-commerce and cross-border transactions, many central banks around the world have commenced studies on Central Bank Digital Currency (CBDC) with a view to providing a more convenient and effective and safer payment tool. Hong Kong has also started the study early. The Hong Kong Monetary Authority (HKMA) commenced its study on CBDC in 2017, and has since then been expanding the scope of it, and collaborating with other central banks. In fact, strengthening research

work on CBDC is one of the key aspects of work of the HKMA under its Fintech 2025 strategy.

After consulting the HKMA, my response to the Hon Chan's questions is as follows:

(1-2) The HKMA is studying both wholesale level CBDC (wCBDC) and retail level CBDC (rCBDC) in depth. On wCBDC, the HKMA, together with three central banks, namely the Digital Currency Institute of the People's Bank of China, the Bank of Thailand, and the Central Bank of the United Arab Emirates, as well as the Bank for International Settlements Innovation Hub Hong Kong Centre, are conducting a project named Multiple CBDC Bridge (mBridge). The project seeks to conduct in-depth analysis of the functions of the Distributed Ledger Technology in facilitating conduct of real-time cross-border foreign exchange payment-versus-payment transactions in a multi-jurisdictional context and on a round-the-clock basis, as well as the cases for relevant business use. The HKMA, together with the participating authorities of the project, have earlier identified 15 potential business use cases, and selected the function of international trade settlement for testing on a trial platform. The test has proved that mBridge can enhance the efficiency of cross-border payments, while ensuring appropriate mechanisms are in place for complying with the relevant policy, regulatory and privacy protection requirements. We expect the function of international trade settlement under mBridge will enter the pilot stage this year, with the aim to develop a system that could support the full process of international trade settlement.

In parallel, the HKMA is examining the feasibility of issuing rCBDC in Hong Kong, i.e. e-HKD, covering both technical and policy considerations. It published a technical whitepaper in October last year to elaborate on the technical design, and invite the academia and industry to submit comments. It expects to come up with an initial view on e-HKD in the middle of this year. The study of e-HKD is conducted based on the existing currency board mechanism, hence the study would have no impact on the monetary system of Hong Kong.

(3) We note that the People's Bank of China (PBoC) has indicated that e-CNY would mainly be used for retail payments. In fact, the Renminbi (RMB) is already in use in Hong Kong, and the status of e-CNY is the same as cash in circulation. Its usage will offer an additional means which is safe, convenient and innovative for cross-boundary retail consumption to residents in Hong Kong and Mainland. It will also enhance the efficiency and user experience of cross-boundary payment services, help promote mutual access in the Guangdong-Hong Kong-Macao Greater Bay Area, and support the consolidation of Hong Kong's status as a global offshore RMB business hub. The HKMA and the Digital Currency Institute of the People's Bank of China completed the first phase of technical testing of using e-CNY for making cross-boundary payments in Hong Kong in December 2020. The HKMA is discussing with the PBoC the next phase of the technical testing, including the involvement of more banks in Hong Kong and using the Faster Payment System to top up e-CNY wallets.