

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in 2016, though there was an uptick in interbank rates towards the end of the year amid a rate hike in the United States. After the US Fed raised the Federal Funds Rate in December, the Hong Kong Monetary Authority also adjusted the Base Rate upward.*
- *After weakening visibly against the US dollar in January, the Hong Kong dollar spot exchange rate rebounded in February, and traded within a narrow range near the strong-side Convertibility Undertaking for the rest of 2016.*
- *As the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose further during 2016.*
- *Total loans and advances have resumed expansion since the second quarter of 2016 amid the relative improvement in the domestic economy. Loans for use in Hong Kong grew by 7.4% during the full year 2016, while loans for use outside Hong Kong increased by 4.5%.*
- *The local stock market exhibited considerable volatility in 2016, with sentiment swinging along with various developments in the financial market as well as in the global political and economic arena. The Hang Seng Index fluctuated in a wide range of 18 320 to 24 100, and ended the year at 22 001, a meagre 0.4% higher than at end-2015. Although both trading and fund raising activities moderated from the hectic levels in the preceding year, Hong Kong retained its top global position in terms of funds raised through IPO activity in 2016.*

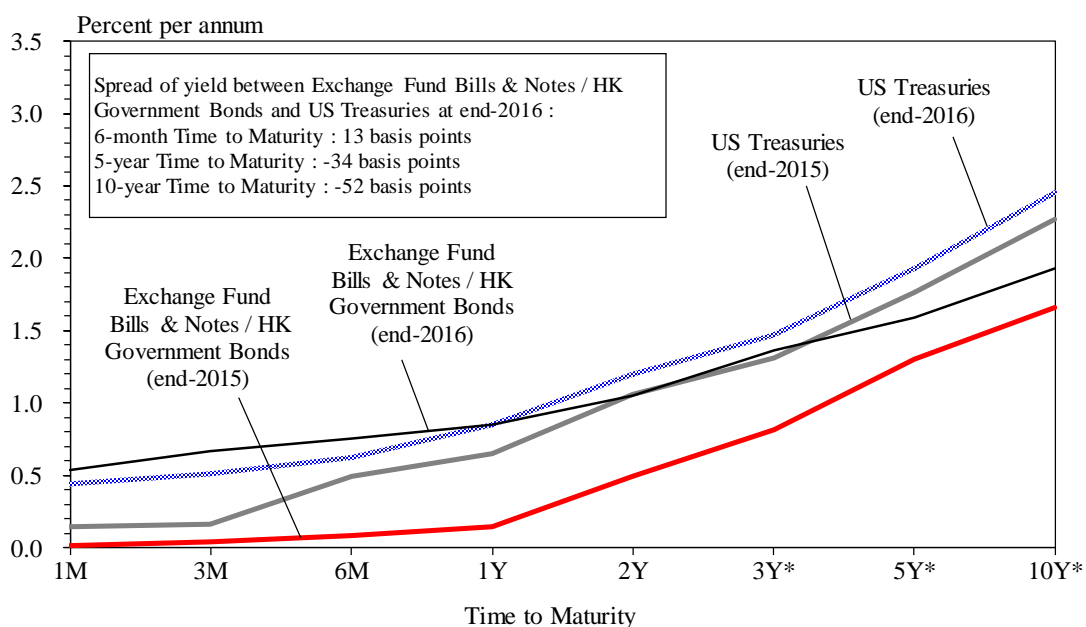
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

5.1 The low interest rate environment in Hong Kong continued in 2016, though there was an uptick in interbank rates towards the end of the year amid a rate hike in the United States. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 0.25-0.5% to 0.5-0.75% in December. Consequentially, the HKMA adjusted upward the *Base Rate* under the Discount Window from 0.75% to 1.00%⁽¹⁾. As to *Hong Kong dollar interbank interest rates*, mainly reflecting the increases in November and December, the overnight HIBOR rose from 0.05% at end-2015 to 0.66% at end-2016 and the three-month HIBOR from 0.39% to 1.02%. Yet these were still low by historical standards.

5.2 Both the *US dollar* and *Hong Kong dollar* yield curves shifted upward in 2016. Reflecting the larger increases in Hong Kong dollar yields, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills turned from negative 41 basis points at end-2015 to positive 13 basis points at end-2016. The negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes also narrowed from 61 basis points to 52 basis points.

Diagram 5.1 : Both US dollar and Hong Kong dollar yield curves shifted upward in 2016

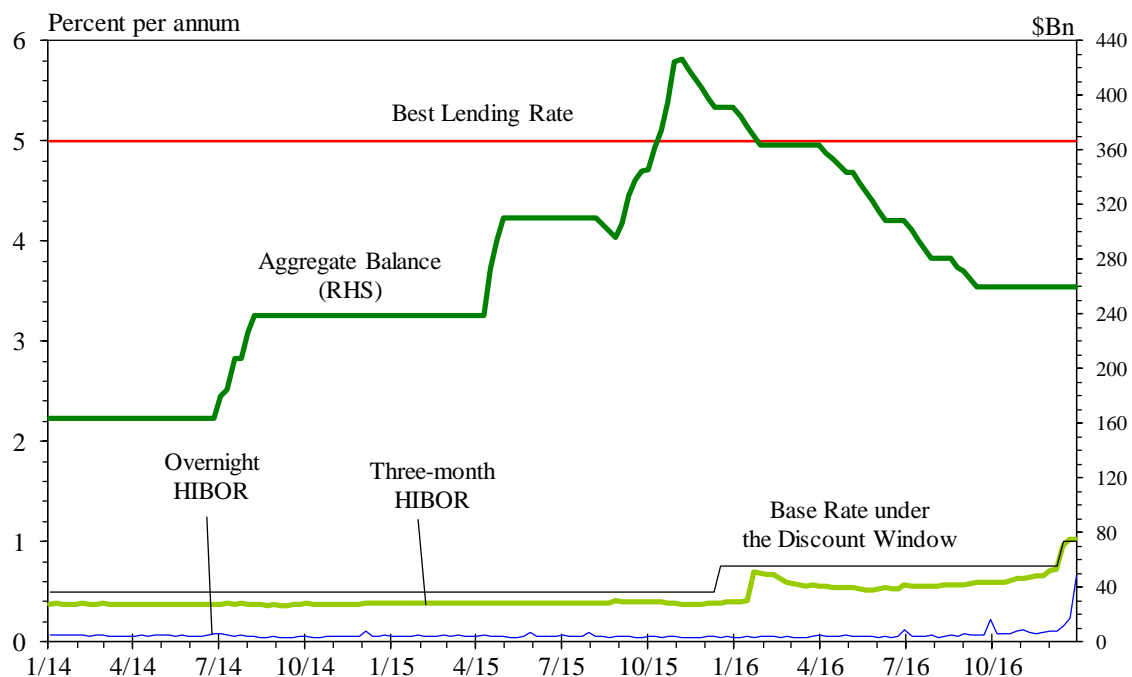


Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

5.3 Interest rates on the retail front stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% throughout 2016, while the *average savings deposit rate* and the *one-year time deposit rate* quoted by

the major banks for deposits of less than \$100,000 stayed low at 0.01% and 0.15% respectively at end-2016. The *composite interest rate*⁽²⁾, which indicates the average funding cost for retail banks, edged up from 0.26% a year earlier to 0.31% at end-2016.

**Diagram 5.2 : Hong Kong dollar interest rates remained low
(end for the week)**



5.4 After weakening visibly to 7.821 in January, the *Hong Kong dollar spot exchange rate* against the US dollar rebounded in February, and traded within a narrow range near the strong-side Convertibility Undertaking for the rest of 2016. It closed the year at 7.754, little changed from the 7.751 a year earlier. As regards the *Hong Kong dollar forward rates*, the differential between the 12-month Hong Kong dollar forward rate and spot rate soared from -125 pips (each pip is equivalent to HK\$0.0001) at end-2015 to +650 pips in January 2016, before falling back to +145 pips at end-2016. The differential between the 3-month forward rate and spot rate moved within a narrower range, and closed at -25 pips at end-2016, compared with -51 pips at end-2015.

5.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed that of the US dollar. During 2016, the US dollar strengthened against most major currencies including the euro, pound sterling and renminbi (RMB). As a result, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ rose further, both by 3.5% during 2016.

Diagram 5.3 : Hong Kong dollar traded near the strong-side Convertibility Undertaking during most of 2016 (end for the week)

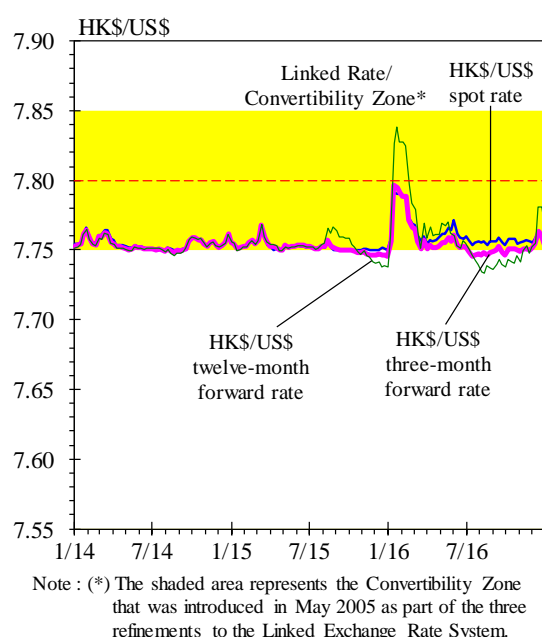
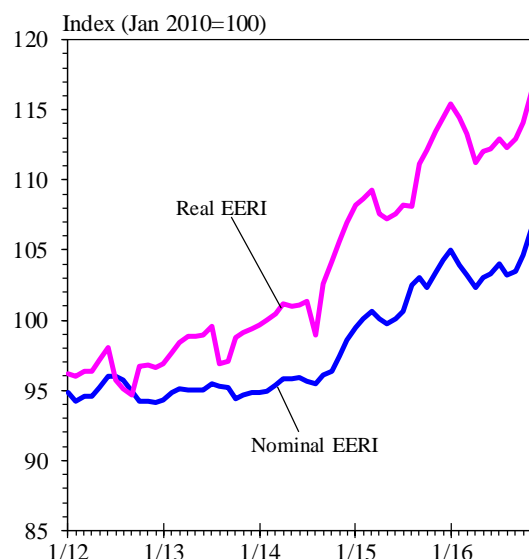


Diagram 5.4 : The trade-weighted nominal and real EERIs rose further (average for the month)



Money supply and banking sector

5.6 The monetary aggregates expanded further in 2016. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by an accelerated 14.2% over a year earlier to \$1,437 billion at end-2016. The broad money supply (HK\$M3) also increased notably, by 8.9% to \$6,293 billion⁽⁴⁾. Over the period, *total deposits* with authorized institutions (AIs)⁽⁵⁾ went up by 9.1% to \$11,727 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 9.3% and 8.8% respectively.

Diagram 5.5 : The monetary aggregates expanded further in 2016

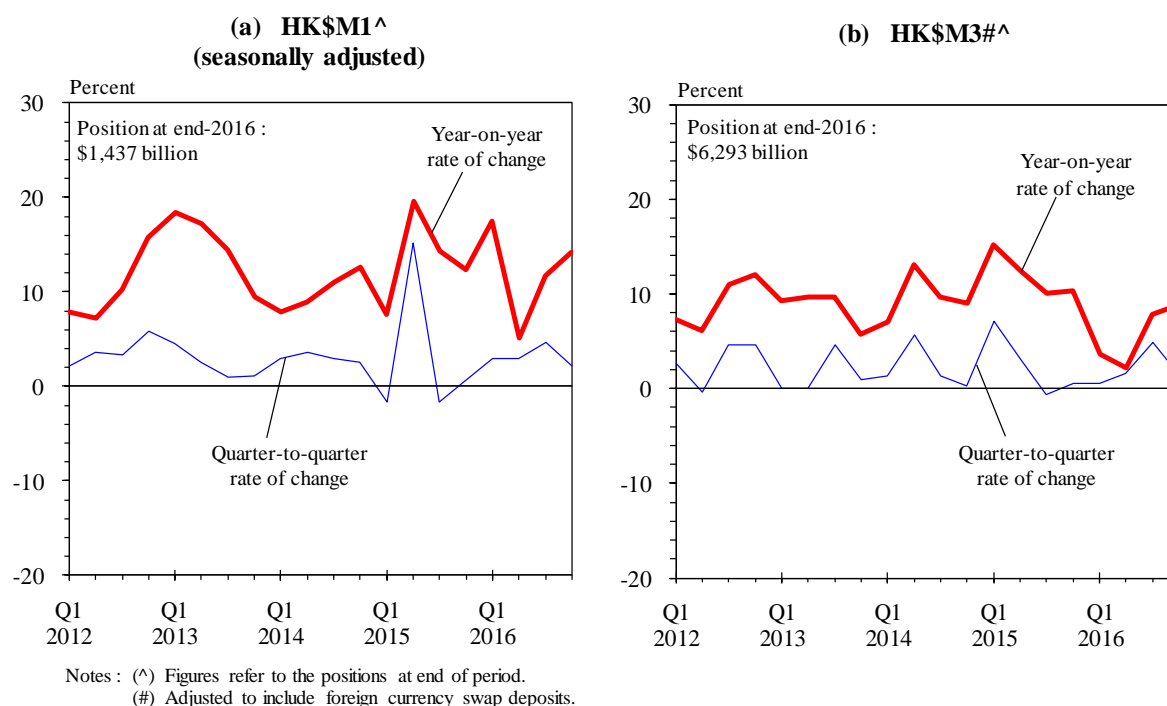


Table 5.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2015	Q1	-1.6	13.6	7.2	3.0	7.2	3.0
	Q2	15.2	-1.3	3.1	0.8	3.1	0.8
	Q3	-1.6	5.3	-0.6	0.1	-0.7	0.1
	Q4	0.7	-2.4	0.5	1.5	0.5	1.5
2016	Q1	2.9	5.4	0.6	1.1	0.6	1.1
	Q2	3.0	0.6	1.7	0.4	1.7	0.4
	Q3	4.7	6.9	4.9	5.1	4.9	5.1
	Q4	2.9	-0.9	1.5	1.0	1.5	1.0
Total amount at end-2016 (\$Bn)		1,437	2,214	6,280	12,508	6,293	12,551
% change over a year earlier		14.2	12.3	8.9	7.7	8.9	7.7

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

5.7 *Total loans and advances* have resumed expansion since the second quarter of 2016 amid the relative improvement in the domestic economy. Total loans and advances grew by 6.5% over a year earlier to \$8,023 billion at end-2016. Within the total, Hong Kong dollar loans and foreign currency loans rose by 7.9% and 4.8% respectively. Reflecting the corresponding movements in loans and deposits, the loan-to-deposit ratio for Hong Kong

dollar declined from 78.2% a year earlier to 77.1% at end-2016, and that for foreign currency from 62.2% to 59.9%.

5.8 Loans for use in Hong Kong (including trade finance) rose by 7.4% over a year earlier to \$5,641 billion at end-2016, and loans for use outside Hong Kong by 4.5% to \$2,383 billion. Within loans for use in Hong Kong, loans to most economic sectors recorded increases. Loans to financial concerns and loans to stockbrokers surged by 20.6% and 17.8% respectively, while loans to manufacturing and trade finance recorded modest increases of 1.1% and 0.2% respectively. On the other hand, loans to wholesale and retail trade fell by 7.1% alongside the weak retail sales performance. As for property-related lending, loans to building, construction, property development and investment expanded by 10.7%, underpinned by sustained increases in private construction activities. Loans for purchase of residential property also rose by 4.1%, with a faster expansion in the second half of the year along with the pick-up in property transactions.

Table 5.2 : Loans and advances

All loans and advances for use in Hong Kong											
% change during the quarter		Loans to :							All loans and advances for use outside Hong Kong ^(c)		Total loans and advances
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers			
									Total ^(b)		
2015	Q1	4.2	-3.8	1.0	1.3	2.7	-0.5	338.7	5.6	3.2	4.8
	Q2	0.7	-0.2	-1.5	4.1	1.7	4.8	-55.2	-0.5	3.4	0.6
	Q3	-11.6	0.0	-2.1	2.5	3.0	0.3	-53.3	-1.3	-2.0	-1.5
	Q4	-9.8	-4.3	-3.6	-0.6	1.0	11.5	17.8	0.2	-1.6	-0.3
2016	Q1	-1.5	-2.9	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.8	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.7	-6.9	1.5	1.9	1.6
	Q4	-2.8	0.1	-2.4	4.7	2.1	5.1	9.9	2.5	2.7	2.5
Total amount at end-2016 (\$Bn)		455	247	413	1,261	1,165	546	65	5,641	2,383	8,023
% change over a year earlier		0.2	1.1	-7.1	10.7	4.1	20.6	17.8	7.4	4.5	6.5

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

5.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 19.6% at end-September 2016. The ratio of classified loans to total loans stayed low, though slightly up from 0.69% at end-2015 to 0.81% at end-September 2016. Compared with end-2015, the delinquency ratio for credit card lending remained unchanged at 0.25% at end-September 2016, and the delinquency ratio for residential mortgage loans also stayed unchanged at 0.03% at end-2016.

Table 5.3 : Asset quality of retail banks*
(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 [^]	97.87	1.44	0.69
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80
	Q3	97.68	1.51	0.81

Notes : Due to rounding, figures may not add up to 100.

(*) Period-end figures relate to Hong Kong offices and overseas branches. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

([^]) Figures prior to December 2015 cover retail banks’ Hong Kong offices and overseas branches. Starting from December 2015, the coverage was expanded to include the banks’ major overseas subsidiaries.

5.10 *Offshore RMB business* generally weakened in 2016. Total RMB deposits (including customer deposits and outstanding certificates of deposit) contracted further, by 38.1% from a year earlier to RMB625.1 billion at end-2016. Meanwhile, RMB trade settlement transactions handled by banks in Hong Kong retreated by 33.5% to RMB4,542.1 billion in 2016, having gone through rapid expansion in the past few years. For RMB-related financing, RMB bond issuance dropped from RMB75 billion in 2015 to RMB53 billion in 2016, while RMB bank lending edged up by 0.9% over end-2015 to RMB294.8 billion at end-2016.

Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

		<u>Interest rates on^(a)</u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement^(c)</u> (RMB Mn)
<u>As at end of period</u>		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)		
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
	Q3	165,849	729,516	895,365	0.25	0.53	145	2,050,107
	Q4	160,908	690,198	851,106	0.25	0.53	145	1,587,184
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
	Q4	135,520	411,187	546,707	0.25	0.53	144	987,651
% change over a year earlier		-15.8%	-40.4%	-35.8%	N.A.	N.A.	N.A.	-37.8%

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

5.11 The Hong Kong dollar *debt market* continued to expand in 2016, with total gross issuance growing by 22.3% to \$3,052.6 billion. Public sector debt issuance recorded a notable growth of 19.9% to \$2,739.9 billion, due mainly to the increase in issuance of Exchange Fund paper, which accounted for 98.2% of public sector issuance or 88.1% of total issuance. Private sector debt issuance surged by 46.7% to \$307.1 billion, with issuance by AIs, local corporations and non-Multilateral Development Banks overseas borrowers all registering significant increase⁽⁶⁾. As a result, the total outstanding balance of Hong Kong dollar debt securities grew by 14.1% over a year earlier to a record high of \$1,730.6 billion at end-2016, equivalent to 27.5% of HK\$M3 or 22.7% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁷⁾.

5.12 As to the Government Bond (“GB”) programme, a total of \$16.4 billion institutional GBs were issued through tenders in 2016. Meanwhile, another batch of iBonds with a size of \$10.0 billion and the inaugural Silver Bonds (for residents aged 65 or above) with a size of \$3.0 billion were issued in the second and third quarter respectively. At

end-2016, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$101.3 billion, comprising 12 institutional issues totaling \$68.3 billion and four retail issues (three iBonds and one Silver Bond) totaling \$33.0 billion. In addition, two US dollar sukukuks, each with an issuance size of US\$1.0 billion, were outstanding under the Programme.

**Table 5.5 : New issuance and outstanding value of
Hong Kong dollar debt securities (\$Bn)**

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern -ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New Issuance											
2015	Annual	2,242.2	12.0	30.4	2,284.6	136.4	14.2	58.9	209.4	1.3	2,495.4
	Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	1.3	574.8
	Q2	541.2	4.0	4.7	550.0	23.2	2.1	15.5	40.8	0.0	590.7
	Q3	599.9	0.8	10.6	611.3	14.8	2.8	12.0	29.6	0.0	641.0
	Q4	609.1	2.9	7.2	619.2	44.0	4.9	20.7	69.6	0.0	688.8
2016	Annual	2,689.6	20.9	29.4	2,739.9	181.2	24.7	101.2	307.1	5.5	3,052.6
	Q1	622.4	4.4	1.6	628.4	53.8	4.7	21.4	79.9	0.8	709.1
	Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
	Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8
	Q4	712.3	2.2	6.5	720.9	42.4	7.3	27.2	76.9	0.0	797.8
% change in 2016 over 2015		20.0	73.9	-3.3	19.9	32.9	73.8	72.0	46.7	313.5	22.3
Outstanding (as at end of period)											
2015	Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
	Q2	753.0	43.2	94.1	890.3	245.9	140.1	148.5	534.5	5.3	1,430.1
	Q3	773.2	43.2	104.7	921.1	230.7	141.1	149.8	521.6	5.3	1,448.1
	Q4	828.4	43.4	100.4	972.2	240.0	141.7	157.9	539.6	5.3	1,517.0
2016	Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2
	Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
	Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6
	Q4	963.1	50.0	102.8	1,115.9	273.1	153.4	177.6	604.1	10.5	1,730.6
% change at end-2016 over end-2015		16.3	15.4	2.4	14.8	13.8	8.3	12.4	12.0	99.0	14.1

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

(a) AIs : Authorized institutions.

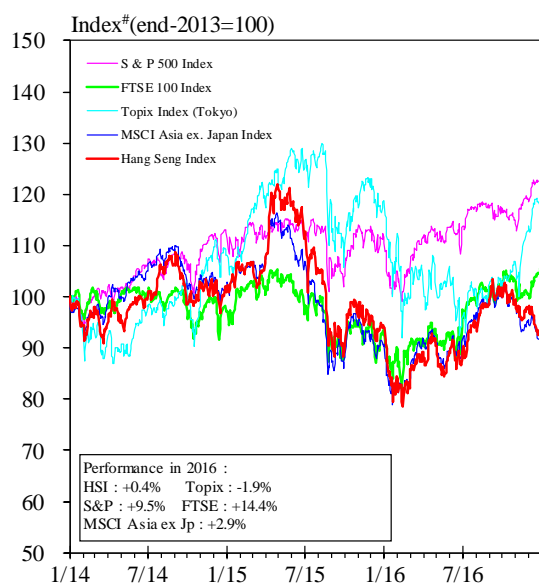
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

5.13 The *local stock market* exhibited considerable volatility in 2016. Market sentiment was first dented by concerns over further interest rate hike in the US at the start of the year and then the referendum result of the UK to leave the European Union in late June. While the market staged a strong rally in the third quarter amid easing concerns over these downside factors and the announcement of the Shenzhen-Hong Kong Stock Connect, it corrected again towards the end of the year as concerns over a US interest rate rise re-surfaced. The Hang Seng Index (HSI) fluctuated in a wide range of 18 320 to 24 100 during 2016, and ended the year at 22 001, a meagre 0.4% higher than at end-2015. In parallel, the *market capitalisation* edged up by 0.3% to \$24.8 trillion. The local stock market was the eighth largest in the world and the fourth largest in Asia⁽⁸⁾.

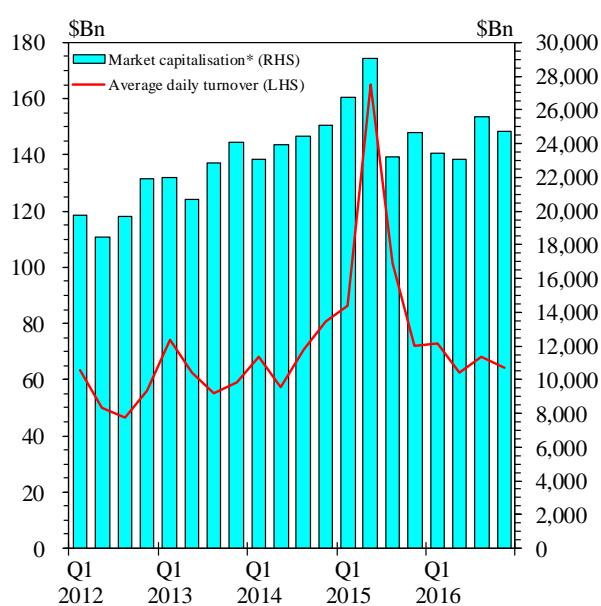
5.14 Trading activities moderated in 2016 from the hectic level in the preceding year. *Average daily turnover* in the securities market plunged by 36.6% from the record high to \$66.9 billion. Within the total, the average daily trading value of unit trusts (including Exchange-Traded Funds), derivative warrants, equities and callable bull/bear contracts⁽⁹⁾ fell by 50.7%, 39.0%, 35.6% and 24.7% respectively. As to futures and options⁽¹⁰⁾, the average daily trading volume edged down by 0.9%. Within the total, trading of stock options and H-shares Index futures declined by 20.4% and 1.0% respectively, while that of HSI futures and HSI options rose by 52.1% and 24.5% respectively.

Diagram 5.6 : The local stock market exhibited considerable volatility in 2016



Note : (#) Position at end of month.

Diagram 5.7 : Market capitalisation edged up, while trading activities moderated



Note : (*) Position at end of quarter.

Table 5.6 : Average daily turnover of futures and options of the Hong Kong market

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*
2015	Annual	85 991	30 427	135 139	374 346	768 520
	Q1	64 351	27 727	108 774	363 322	672 678
	Q2	81 541	35 129	154 553	523 860	946 336
	Q3	82 743	33 238	152 006	375 780	819 085
	Q4	114 430	25 752	125 310	241 192	641 404
2016	Annual	130 826	37 869	133 729	297 903	761 744
	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
	Q4	119 016	37 295	121 896	300 596	737 238
% change in 2016 Q4 over 2015 Q4		4.0	44.8	-2.7	24.6	14.9
% change in 2016 over 2015		52.1	24.5	-1.0	-20.4	-0.9

Note : (*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

5.15 Fund raising activities were subdued in 2016 though there was some relative improvement in the second half. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹¹⁾, plunged by 56.1% from the record high in the preceding year to \$490.1 billion. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) shrank by 25.8% to \$195.3 billion. Yet Hong Kong still ranked the first globally in terms of the amount of funds raised through IPOs in 2016.

5.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-2016, a total of 1 002 Mainland enterprises (including 241 H-share companies, 153 “Red Chip” companies and 608 private enterprises) were listed on the Main Board and the GEM, accounting for 51% of the total number of listed companies and 63% of total market capitalisation. Mainland-related stocks accounted for 71% both of equity turnover and also of total equity fund raised in the Hong Kong stock exchange in 2016.

Fund management and investment funds

5.17 Different segments of the fund management business showed varied performance. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹²⁾ rose by another 9.3% over a year earlier to \$646.3 billion at end-2016. Meanwhile, the gross retail sales of *mutual funds* dropped by 8.8% to US\$65.9 billion⁽¹³⁾ in 2016. The amount of net assets managed by *retail hedge funds* shrank further⁽¹⁴⁾.

Insurance sector

5.18 The *insurance sector*⁽¹⁵⁾ continued to record solid expansion in the third quarter of 2016. Gross premium income from long-term business surged by 76.1% over a year earlier, mainly driven by the sharp growth in premium income from non-investment linked plans. As to general business, gross premium and net premium increased by 1.2% and 2.5% respectively.

Table 5.7 : Insurance business in Hong Kong* (\$Mn)

	General business			Premium for long-term business^					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2015 Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
2016 Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
Q3	11,727	8,094	215	49,250	1,422	70	116	50,858	62,585
% change in 2016 Q3 over 2015 Q3	1.2	2.5	-73.2	80.0	7.1	62.8	-20.0	76.1	54.7

Notes : (*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

Highlights of policy and market developments

5.19 Further to the Shanghai-Hong Kong Stock Connect launched in 2014, the Shenzhen-Hong Kong Stock Connect, a mutual stock market access programme of the Hong Kong and Shenzhen stock markets, was announced in August and subsequently launched on 5 December 2016. This expanded trading link would help promote the further opening up of the Mainland's capital markets and the internationalisation of the RMB, and also reinforce Hong Kong's position as an international financial centre and a premier offshore RMB business hub.

Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2009 and 2010.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-2016, there were 156 licensed banks, 22 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 195 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

- (7) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-2016, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-2016, there were 1 713 and 260 companies listed on the Main Board and GEM respectively.
- (12) At end-2016, there were 18 approved trustees. On MPF products, 33 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 484 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 277 000 employers, 2.58 million employees and 202 000 self-employed persons have participated in MPF schemes.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-2016, the survey covered a total of 1 138 active authorised funds.
- (14) At end-2016, there were two SFC-authorised retail hedge funds with combined net asset size of US\$29 million. The amount of net assets under management represented a 65.9% decrease over a year earlier, and a 81.9% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-2016, there were 160 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 24 countries and territories (including Hong Kong).