

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *With the interest rate normalisation in the United States proceeding slowly so far, the low interest rate environment in Hong Kong continued in the first quarter of 2017. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate weakened slightly against the US dollar during the first quarter. Meanwhile, as the US dollar depreciated against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices decreased by 1.3% and 0.5% respectively.*
- *Total loans and advances expanded by an accelerated 4.6% during the first quarter amid a further pick-up in economic activity and increased funding demand by multinational corporations. Loans for use in and outside Hong Kong increased by 4.0% and 6.2% respectively.*
- *The local stock market staged a strong rally in the first quarter, as market sentiment was first boosted by improved global economic outlook and then easing concerns about a faster-than-expected rate hike in the US. The Hang Seng Index ended the quarter at 24 112 or 9.6% higher than at end-2016. Trading activities picked up while fund raising activities were subdued.*

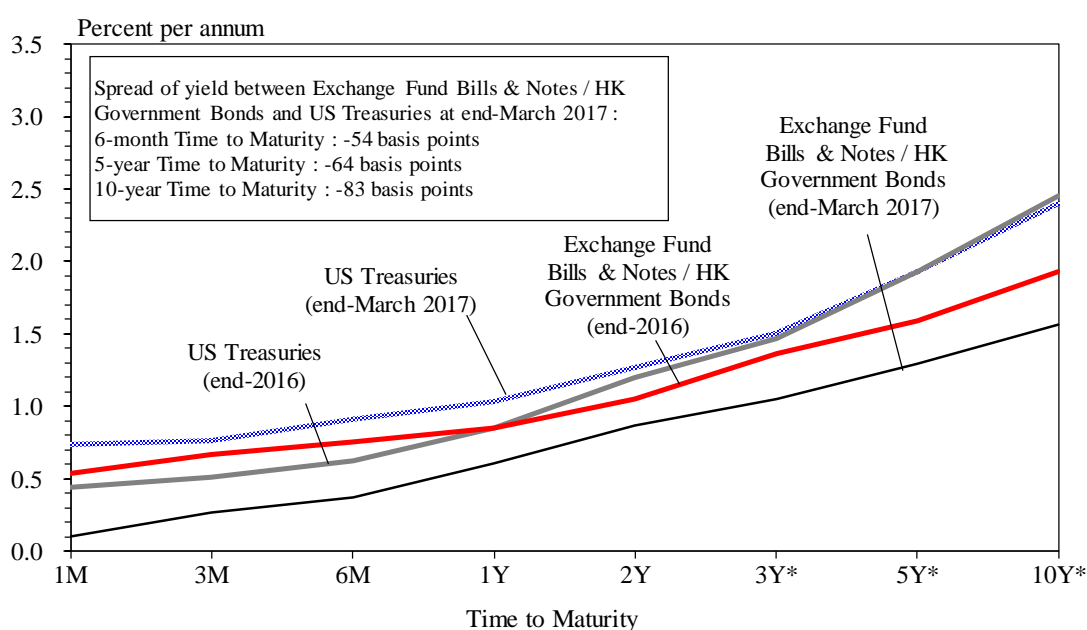
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 With the interest rate normalisation in the United States proceeding slowly so far, the low interest rate environment in Hong Kong continued in the first quarter of 2017. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 0.50-0.75% to 0.75-1.00% in March, whilst indicating that increases in interest rate are expected to be gradual and the policy rate is likely to remain below the long-term levels for some time. Consequentially the HKMA adjusted the *Base Rate* under the Discount Window upward from 1.00% to 1.25%⁽¹⁾. Yet the *Hong Kong dollar interbank interest rates* stayed low. The overnight HIBOR declined from 0.66% at end-2016 to 0.10% at end-March 2017, and the three-month HIBOR from 1.02% to 0.94%.

4.2 The *Hong Kong dollar yield curve* shifted downward during the first quarter, while the *US dollar yield curve* flattened. Reflecting these movements, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills turned from positive 13 basis points at end-2016 to negative 54 basis points at end-March 2017, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 52 basis points to 83 basis points.

Diagram 4.1 : The Hong Kong dollar yield curve shifted downward, while the US dollar yield curve flattened

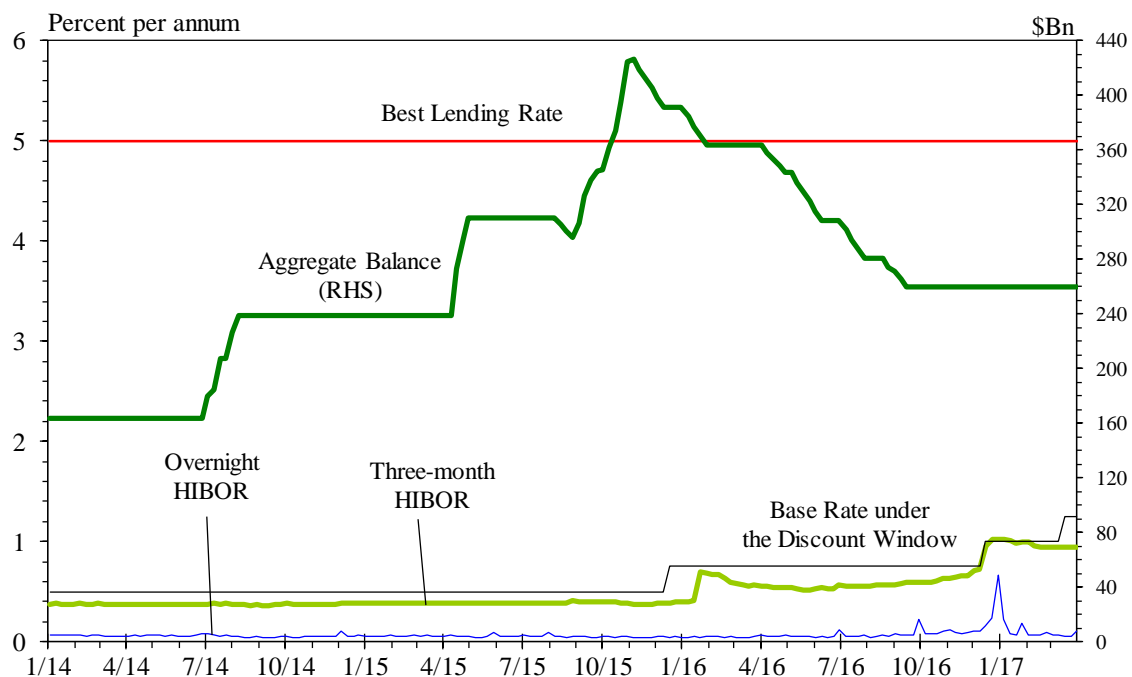


Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front also stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% in the first quarter. The *average savings deposit rate* and *one-year time deposit rate* quoted by the

major banks for deposits of less than \$100,000 also stayed flat at 0.01% and 0.15%. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, stayed low at 0.32% at end-March 2017, only marginally higher than the 0.31% at end-2016.

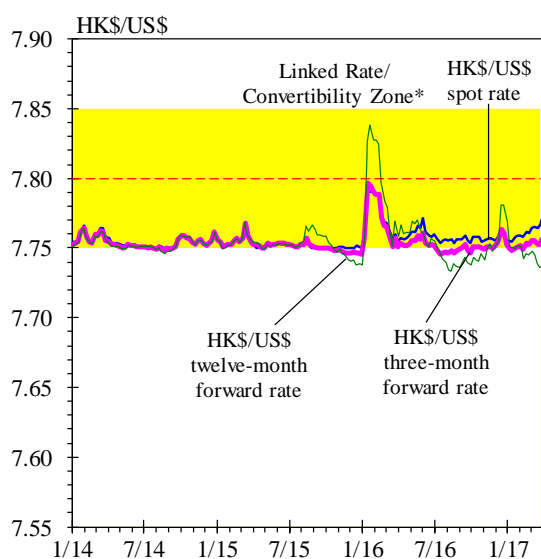
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* weakened slightly against the US dollar during the first quarter, reflecting in part the widened negative spread between Hong Kong dollar and US dollar interest rates. It closed at 7.770 at end-March 2017, compared with 7.754 at end-2016. The *Hong Kong dollar forward rates* also registered larger discounts. The 3-month forward rate discount widened from 25 pips (each pip is equivalent to HK\$0.0001) at end-2016 to 146 pips at end-March 2017, while the 12-month forward rate reverted from a premium of 145 pips to a discount of 335 pips.

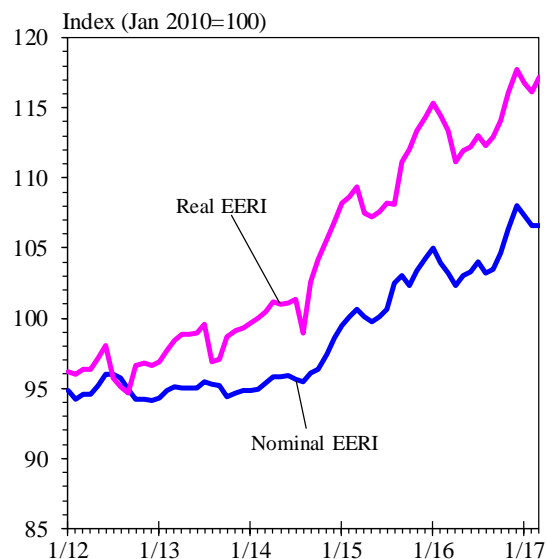
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ decreased by 1.3% and 0.5% respectively during the first quarter.

Diagram 4.3 : Hong Kong dollar weakened slightly against the US dollar during the first quarter (end for the week)



Note : (*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

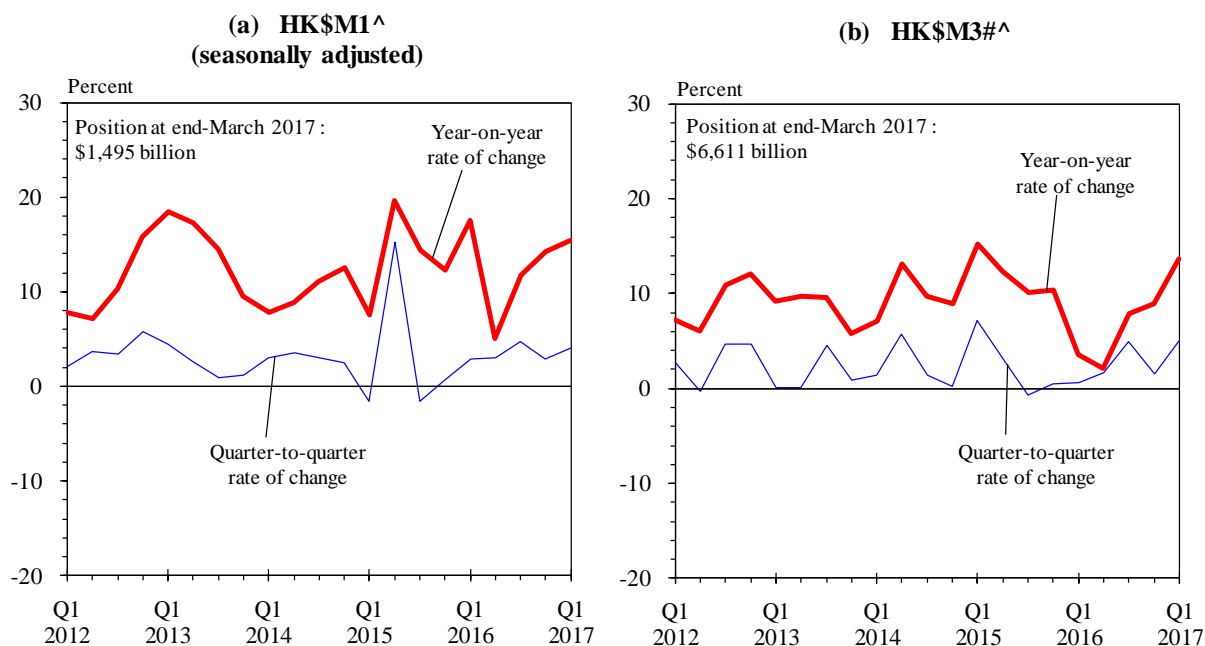
Diagram 4.4 : The trade-weighted nominal and real EERIs declined (average for the month)



Money supply and banking sector

4.6 The monetary aggregates continued to register solid growth in the first quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) expanded by 4.0% over end-2016 to \$1,495 billion⁽⁴⁾ at end-March 2017, and the Hong Kong dollar broad money supply (HK\$M3) by 5.1% to \$6,611 billion. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁵⁾ rose by 3.0% to \$12,084 billion, with Hong Kong dollar and foreign currency deposits growing by 5.1% and 1.0% respectively.

Diagram 4.5 : The monetary aggregates continued to register solid growth in the first quarter



Notes : (^) Figures refer to the positions at end of period.
 (#) Adjusted to include foreign currency swap deposits.

Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
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
2017	Q1	4.0	0.7	5.1	3.4	5.1	3.4
Total amount at end-March 2017 (\$Bn)		1,495	2,229	6,599	12,929	6,611	12,978
<u>% change over a year earlier</u>		15.4	7.3	13.7	10.1	13.7	10.1

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Amid a further pick-up in economic activity and increased funding demand by multinational corporations, *total loans and advances* expanded by an accelerated 4.6% over end-2016 to \$8,395 billion at end-March 2017. Within the total, Hong Kong dollar loans rose by 3.2% and foreign currency loans by a faster 6.4%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar declined from 77.1% at end-2016 to 75.7% at end-March 2017, while that for foreign currencies increased from 59.9% to 63.1%.

4.8 Loans for use in Hong Kong (including trade finance) increased by

4.0% over end-2016 to \$5,865 billion at end-March 2017 and loans for use outside Hong Kong by 6.2% to \$2,531 billion. Within the former, loans to most major economic sectors registered increases. Trade finance reverted to an increase of 2.6%, partly underpinned by the improvement in external trade. On the back of the stock market rally, loans to financial concerns and loans to stockbrokers surged by 12.1% and 9.7% respectively. Loans to manufacturing rose by 4.6%, and loans to wholesale and retail trade by 1.6%. As for property-related lending, loans to building, construction, property development and investment continued to rise, by 4.9%, while loans for purchase of residential property grew at a slightly slower pace of 1.6% amid a moderation in trading activities after the introduction of further demand-side management measure in November 2016.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		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)		
% change during the quarter											
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	-2.5	4.7	2.1	5.1	9.9	2.5	2.7	2.5
2017	Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.2	4.6
Total amount at end-March 2017 (\$Bn)		467	258	419	1,322	1,184	612	72	5,865	2,531	8,395
% change over a year earlier		4.3	9.0	0.7	13.1	5.3	40.2	19.9	11.5	11.8	11.6

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.

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 19.2% at end-2016. Asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans edged down from 0.81% at end-September to 0.72% at end-2016, and the delinquency ratio

for credit card lending from 0.25% to 0.24%. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.04% at end-March 2017, comparable to the 0.03% at end-2016.

Table 4.3 : 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
	Q4	97.75	1.53	0.72

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.

4.10 The *offshore renminbi (RMB) business* stayed soft, as investors remained cautious on the outlook of RMB exchange rate. Total RMB deposits (including customer deposits and outstanding certificates of deposit) contracted further by 6.7% from end-2016 to RMB583.1 billion at end-March 2017. RMB trade settlement transactions handled by banks in Hong Kong plunged by 27.4% from a year earlier to RMB821.4 billion in the first quarter. RMB financing activities continued to slow down. RMB bond issuance plummeted from RMB19.2 billion in the preceding quarter to RMB0.8 billion in the first quarter, while outstanding RMB bank loans declined by 12.4% from end-2016 to RMB258.3 billion at end-March 2017.

Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

As at end of period		Interest rates on ^(a)					Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
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
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	821,390
% change in 2017 Q1 over 2016 Q1		-29.9%	-34.3%	-33.2%	N.A.	N.A.	N.A.	-27.4%
% change in 2017 Q1 over 2016 Q4		-3.3%	-8.5%	-7.2%	N.A.	N.A.	N.A.	-16.8%

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

4.11 The Hong Kong dollar *debt market* continued to expand in the first quarter. Total gross issuance of Hong Kong dollar debt securities edged up by 0.2% over the preceding quarter to \$799.3 billion, of which 88.8% was attributed to Exchange Fund papers issuance⁽⁶⁾. With more debt issued than maturing, the total outstanding balance of Hong Kong dollar debt securities grew by 1.1% over end-2016 to \$1,748.8 billion at end-March 2017. This was equivalent to 26.5% of HK\$M3 or 23.0% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.12 As to the Government Bond (GB) programme, a total of \$1.8 billion institutional GBs were issued through tenders in the first quarter. The total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$103.1 billion at end-March, comprising 13 institutional issues totaling \$70.1 billion and four retail issues (three iBonds and one Silver Bond) totaling \$33.0 billion. In addition, three US dollar sukuks, each with the issuance size of US\$1.0 billion, were outstanding under the Programme.

4.13 In February the Financial Secretary announced that the Government

would issue the second batch of Silver Bond as scheduled in the 2017-18 financial year. Appropriate issuance terms, including issuance size and tenure, will be formulated in light of market environment. This would help meet the demand for financial products with steady return from senior residents and further promote the development of the local bond market.

**Table 4.5 : 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										
2016 Annual	2,689.6	20.9	29.4	2,739.9	181.2	25.2	100.7	307.1	5.5	3,052.6
Q1	622.4	4.4	1.6	628.4	53.8	5.2	20.9	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
2017 Q1	709.7	9.7	1.8	721.3	54.9	4.1	17.4	76.4	1.7	799.3
% change in 2017 Q1 over 2016 Q1	14.0	121.8	12.5	14.8	2.0	-21.6	-16.8	-4.4	112.3	12.7
% change in 2017 Q1 over 2016 Q4	-0.4	353.3	-72.3	*	29.5	-43.9	-36.0	-0.6	N.A.	0.2
Outstanding (as at end of period)										
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
2017 Q1	964.6	54.4	104.6	1,123.7	283.7	153.2	176.5	613.4	11.8	1,748.8
% change in 2017 Q1 over 2016 Q1	12.6	16.8	2.5	11.8	25.5	7.5	6.9	14.9	97.2	13.2
% change in 2017 Q1 over 2016 Q4	0.2	8.8	1.8	0.7	3.9	-0.1	-0.6	1.5	11.5	1.1

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

N.A. Not available.

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

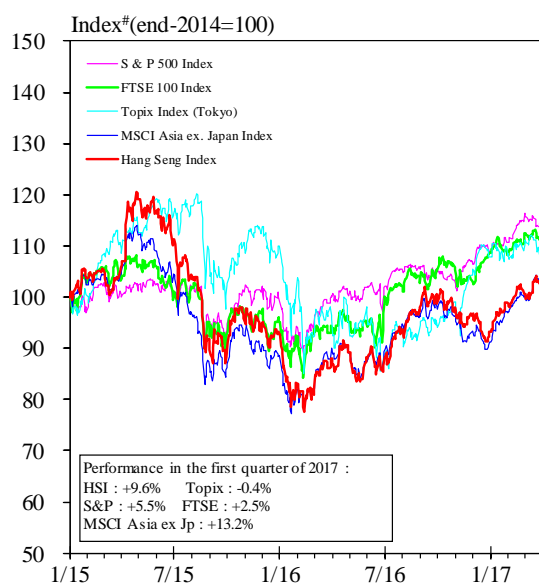
(*) Change of less than $\pm 0.05\%$.

The stock and derivatives markets

4.14 The *local stock market* staged a strong rally in the first quarter of 2017. Market sentiment was first boosted by improved global economic outlook and then easing concerns about a faster-than-expected rate hike in the US. In tandem with the rise in the major global stock markets, the Hang Seng Index (HSI) soared to 24 593 on 21 March, the highest closing since late July 2015, before ending the quarter at 24 112 or 9.6% higher than at end-2016. The *market capitalisation* also expanded by 10.0% to \$27.2 trillion. The local stock market was the sixth largest in the world and the third largest in Asia⁽⁸⁾.

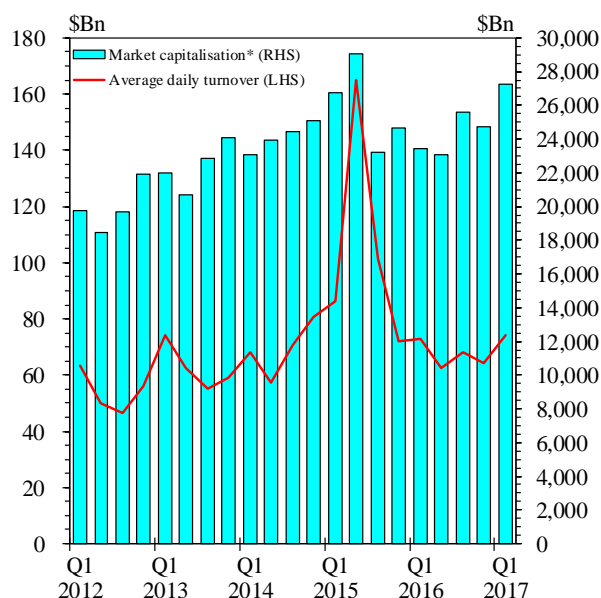
4.15 Trading activities also picked up. *Average daily turnover* in the securities market rose by 15.6% over the preceding quarter or 2.3% over a year earlier to \$74.3 billion in the first quarter. Within the total, the average daily trading value of derivative warrants, unit trusts (including Exchange-Traded Funds) and equities surged by 38.5%, 31.7% and 12.1% respectively over the preceding quarter, while that of callable bull/bear contracts⁽⁹⁾ declined by 3.8%. As to futures and options⁽¹⁰⁾, the average daily trading volume rose by 3.1% over the preceding quarter. Within the total, trading of stock options rose by 12.7% and that of HSI options showed virtually no change, while that of HSI futures and H-shares Index futures dropped by 9.8% and 3.4% respectively.

Diagram 4.6 : The local stock market staged a strong rally in the first quarter of 2017



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation expanded, while trading activities picked up



Note : (*) Position at end of quarter.

Table 4.6 : 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*
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
2017	Q1	107 376	37 294	117 732	338 771	759 988
	% change in 2017 Q1 over 2016 Q1	-24.1	-2.5	-23.6	15.6	-5.6
	% change in 2017 Q1 over 2016 Q4	-9.8	0.0	-3.4	12.7	3.1

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.

4.16 Fund raising activities, which are inherently volatile due to the nature of business, were subdued in the first quarter. *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 67.5% from the preceding quarter or 37.8% from a year earlier to \$56.7 billion. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) plummeted by 77.6% from the preceding quarter to \$13.3 billion. Hong Kong ranked the seventh globally in terms of the amount of funds raised through IPOs in the first quarter.

4.17 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March 2017, a total of 1 013 Mainland enterprises (including 243 H-share companies, 158 “Red Chip” companies and 612 private enterprises) were listed on the Main Board and the GEM, accounting for 50% of the total number of listed companies and 64% of total market capitalisation. Mainland-related stocks accounted for 73% of equity turnover and 39% of total equity fund raised in the Hong Kong stock exchange in the first quarter.

Fund management and investment funds

4.18 On the back of the rally in the stock market, the fund management business generally showed solid performance in the first quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹²⁾ went up by 8.5% over end-2016 to \$701.2 billion at end-March 2017. The monthly average gross retail sales of *mutual funds* surged by 66.6% over a year earlier or 37.5% over the preceding quarter to US\$7.1 billion in January – February⁽¹³⁾. Yet the amount of net assets managed by *retail hedge funds* shrank further⁽¹⁴⁾.

Insurance sector

4.19 Different segments of the *insurance sector*⁽¹⁵⁾ showed diverse performance in 2016. Gross premium income from long-term business leapt by 41.3%, underpinned by the sharp growth in premium income from non-investment linked plans. Meanwhile, gross premium and net premium of general business edged down by 0.7% and 2.0% respectively.

Table 4.7 : 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 Annual	45,643	31,457	1,606	179,147	5,744	255	343	185,489	231,132
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
Q4	9,901	6,736	316	50,583	2,230	67	57	52,937	62,838
% change in 2016 Q4 over 2015 Q4	-5.6	-7.0	65.4	57.5	53.2	63.4	-19.7	57.2	42.3
% change in 2016 over 2015	-0.7	-2.0	-5.4	48.7	-43.9	43.3	-17.7	41.3	30.4

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

4.20 In March, the Asian Infrastructure Investment Bank (AIIB) approved Hong Kong's application for accession to membership. The AIIB is a Multilateral Development Bank established in 2016 to provide financial support for infrastructure development and regional connectivity in Asia. Given the depth and breadth of Hong Kong's financial markets and availability of financial sector professionals, the professional services and financial services of Hong Kong will stand to benefit from AIIB's operations. Upon payment of the first instalment of capital subscription, Hong Kong will formally become a new member of the AIIB.

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-March 2017, there were 156 licensed banks, 21 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 194 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 Authorised Institutions 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-March 2017, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-March 2017, there were 1 732 and 277 companies listed on the Main Board and GEM respectively.
- (12) At end-March 2017, there were 18 approved trustees. On MPF products, 33 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 485 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 278 000 employers, 2.57 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-February 2017, the survey covered a total of 1 344 active authorised funds.
- (14) At end-March 2017, there were two SFC-authorised retail hedge funds with combined net asset size of US\$28 million. The amount of net assets under management represented a 3.4% decrease from end-2016, and a 82.5% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-March 2017, 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 23 countries and territories (including Hong Kong).