

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the second quarter of 2017. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate continued to weaken against the US dollar during the second quarter. Meanwhile, as the US dollar weakened further against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices decreased by 2.0% and 1.9% respectively.*
- *Total loans and advances rose by an accelerated 5.4% during the second quarter, supported by improving economic performance and increased funding demand by multinational corporations. Loans for use in and outside Hong Kong went up by 5.2% and 5.9% respectively.*
- *The local stock market continued to rally in the second quarter, underpinned by further improvement in the global economic outlook and expectation of an only gradual pace of US interest rate normalisation. The Hang Seng Index closed the quarter at 25 765, 6.9% higher than a quarter earlier. Trading activities were generally active, while fund raising activities showed some pick-up.*

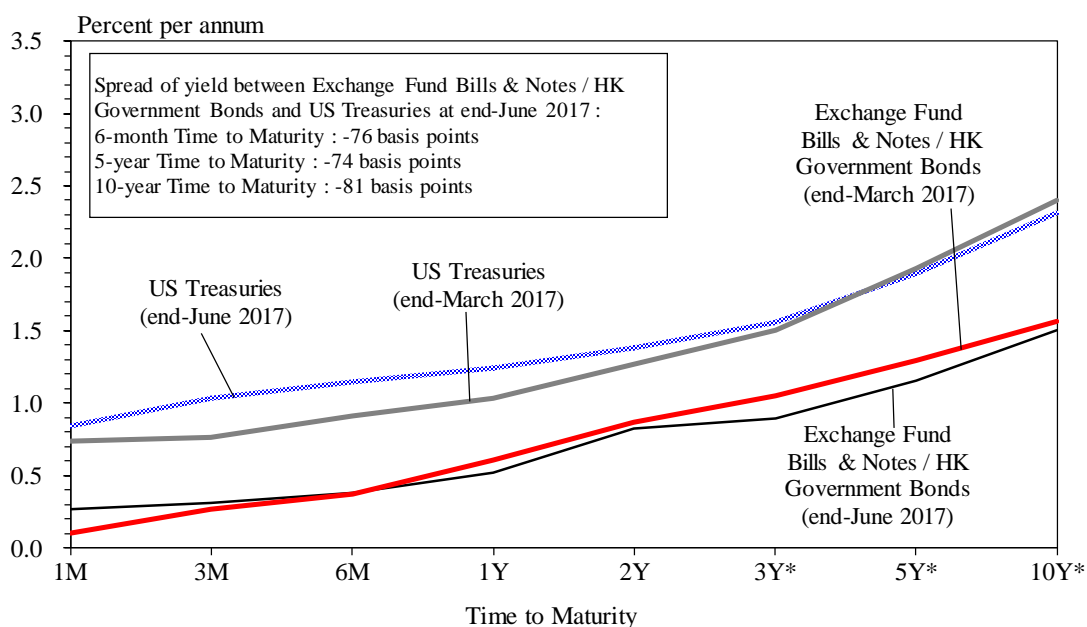
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the second quarter of 2017. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 0.75-1.00% to 1.00-1.25% in June. Consequently, the HKMA adjusted the *Base Rate* under the Discount Window upward from 1.25% to 1.50%⁽¹⁾. Yet the *Hong Kong dollar interbank interest rates* remained at low levels. While the overnight HIBOR edged up from 0.10% at end-March to 0.34% at end-June, the three-month HIBOR declined from 0.94% to 0.78%.

4.2 During the second quarter, both the *Hong Kong dollar yield curve* and the *US dollar yield curve* flattened, though by different degrees. Reflecting these movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 54 basis points at end-March to 76 basis points at end-June, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed marginally from 83 basis points to 81 basis points.

Diagram 4.1 : Both the Hong Kong dollar and US dollar yield curves flattened

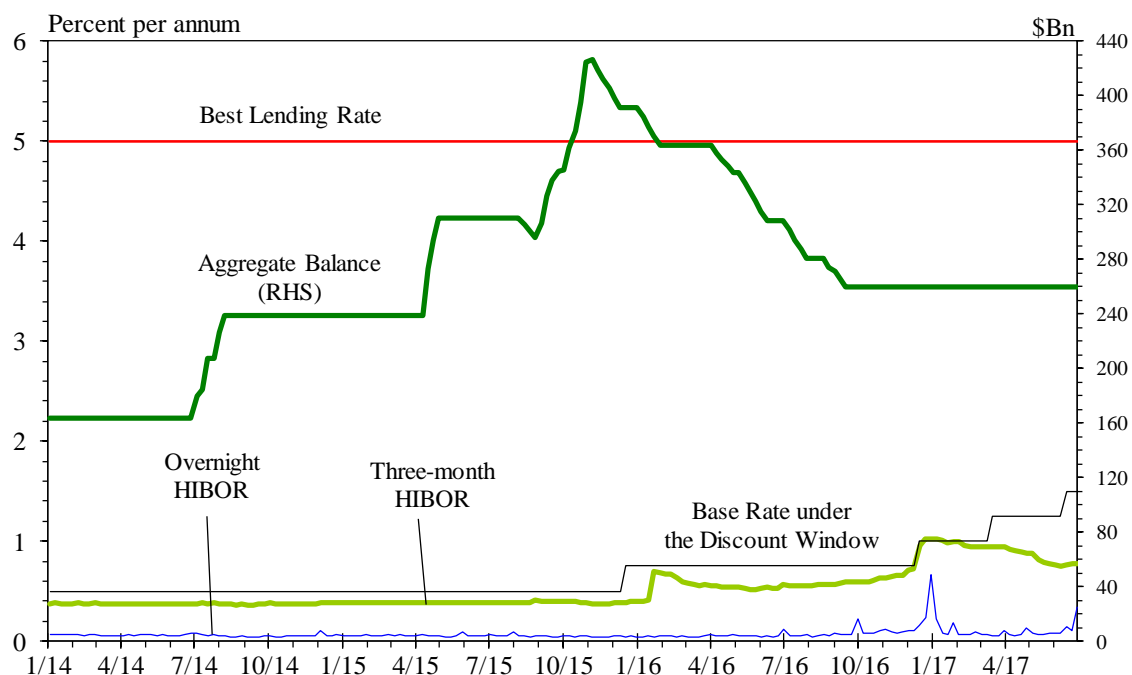


Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

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% during the second 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 unchanged at 0.01% and 0.15% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, edged down from 0.32% at end-March to 0.31% at end-June.

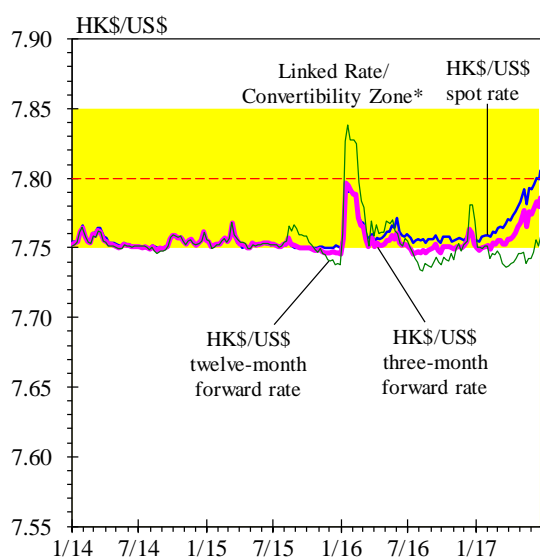
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* weakened further against the US dollar during the second quarter, mainly due to increased carry trade activities amid the widening negative spreads between Hong Kong dollar and US dollar interest rates. The Hong Kong dollar spot exchange rate closed at 7.807 per US dollar at end-June, compared with 7.770 at end-March. The *Hong Kong dollar forward rates* registered larger discounts to the spot rate, with the discount of 3-month forward rate widening from 146 pips (each pip is equivalent to HK\$0.0001) at end-March to 195 pips at end-June, and that of the 12-month forward rate from 335 pips to 460 pips.

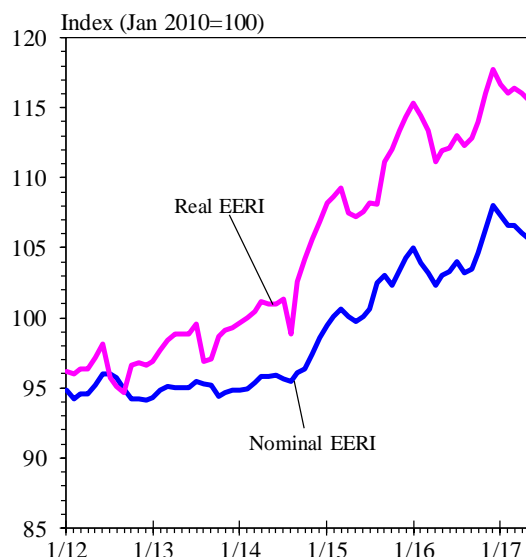
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened further against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ decreased by 2.0% and 1.9% respectively during the second quarter.

Diagram 4.3 : Hong Kong dollar weakened further against the US dollar during the second 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 continued to decline (average for the month)



Money supply and banking sector

4.6 The monetary aggregates continued to expand during the second quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) increased by 0.8% over end-March to \$1,507 billion⁽⁴⁾ at end-June, and the Hong Kong dollar broad money supply (HK\$M3) by 3.6% to \$6,850 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ grew by 2.4% to \$12,379 billion, with Hong Kong dollar and foreign currency deposits increasing by 4.0% and 0.9% respectively.

Diagram 4.5 : The monetary aggregates continued to expand during the second quarter

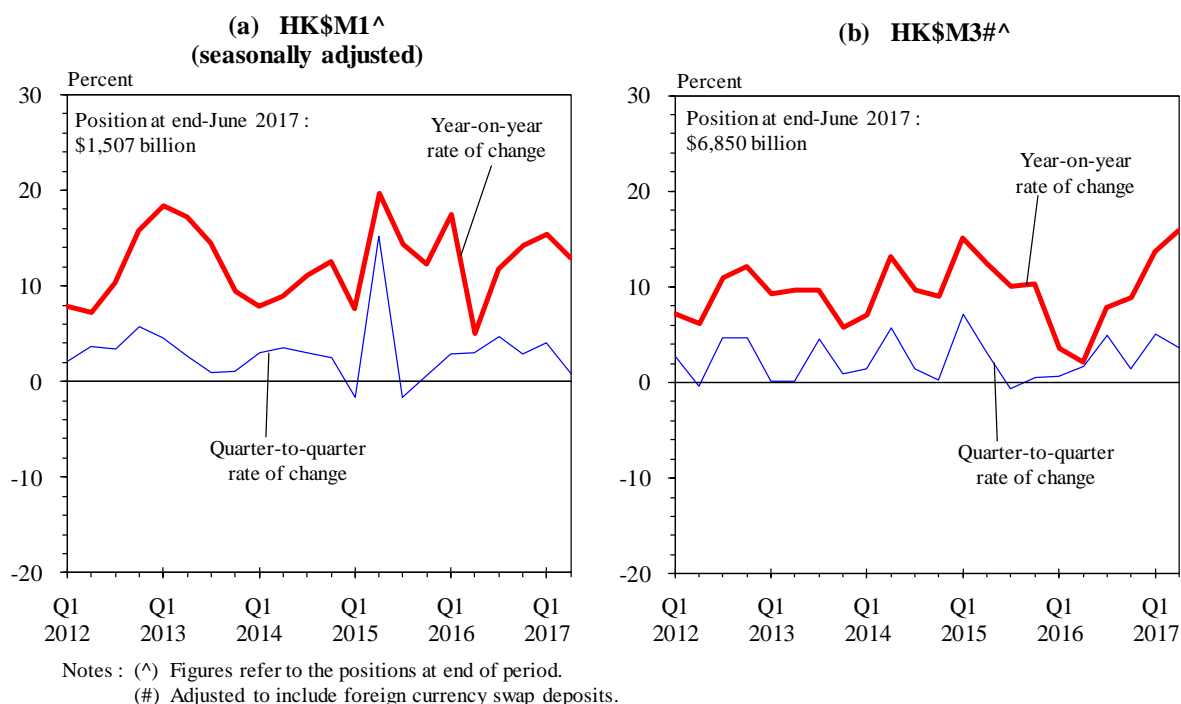


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$[^]</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
	Q2	0.8	3.2	3.6	3.0	3.6	3.0
Total amount at end-June 2017 (\$Bn)		1,507	2,299	6,837	13,315	6,850	13,362
% change over a year earlier		12.9	10.0	15.9	12.9	15.9	13.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Supported by improving economic performance and increased funding demand by multinational corporations, *total loans and advances* rose by an accelerated 5.4% over end-March to \$8,844 billion at end-June. Within the total, Hong Kong dollar and foreign currency loans rose by 5.9% and 4.8% respectively. With loans increasing at a faster pace than deposits, the loan-to-deposit ratio for Hong Kong dollar went up from 75.7% at end-March to 77.1% at end-June, and that for foreign currencies from 63.1% to 65.5%.

4.8 Loans for use in Hong Kong (including trade finance) rose by 5.2% over end-March to \$6,167 billion at end-June and loans for use outside Hong Kong by 5.9% to \$2,677 billion. Within the former, loans to most major economic sectors recorded further increases. Trade finance expanded further by 4.5% along with the improved external trade. Loans to manufacturing and loans to wholesale and retail trade also recorded faster increases of 5.2% and 2.8% respectively. Loans to financial concerns went up by another 11.7%, while loans to stockbrokers dropped by 7.6%. As for property-related lending, loans to building, construction, property development and investment rose by a solid 4.9%, while loans for purchase of residential property recorded a faster increase of 2.4% amid a pick-up in property market transactions. To strengthen the credit risk management of AIs with respect to lending to property developers, in May the HKMA announced measures to tighten up related lending⁽⁶⁾.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
		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)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
% change during the quarter											
2016	Q1	-1.5	-3.0	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.7	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	4.6	-6.9	1.5	1.9	1.6
	Q4	-2.8	0.2	-2.4	4.7	2.1	5.2	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	6.0	4.6
	Q2	4.5	5.2	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
Total amount at end-June 2017 (\$Bn)		487	271	431	1,388	1,213	683	66	6,167	2,677	8,844
% change over a year earlier		3.0	5.4	2.9	17.0	7.3	37.8	3.7	13.8	17.4	14.9

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 18.8% at end-March 2017. Asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans edged down from 0.72% at end-2016 to 0.70% at end-March 2017, while the delinquency ratio for credit card lending edged up from 0.24% to 0.27%. Meanwhile, the delinquency ratio for residential mortgage loans edged down from 0.04% at end-March to 0.03% at end-June.

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)
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
2017	Q1	97.94	1.35	0.70

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”.

4.10 The *offshore renminbi (RMB) business* stayed generally lacklustre in the second quarter. RMB trade settlement transactions handled by banks in Hong Kong plunged by 24.8% from a year earlier to RMB927.9 billion in the second quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) edged up by 1.0% over end-March to RMB588.7 billion at end-June. As to financing activities, outstanding RMB bank loans dropped by 20.1% to RMB206.3 billion. While RMB bond issuance rose from RMB0.8 billion in the preceding quarter to RMB2.2 billion (excluding the issuance of RMB7.0 billion by the Ministry of Finance) in the second quarter, this was still a relatively low level.

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

<u>As at end of period</u>		<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>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> (%)		
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
	Q2	142,517	383,560	526,077	0.25	0.53	140	927,925
% change in 2017 Q2 over 2016 Q2		-30.2%	-24.4%	-26.1%	N.A.	N.A.	N.A.	-24.8%
% change in 2017 Q2 over 2017 Q1		8.7%	2.0%	3.7%	N.A.	N.A.	N.A.	13.0%

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 grow during the second quarter. Total gross issuance of Hong Kong dollar debt securities rose by 2.8% over the preceding quarter to \$822.0 billion, underpinned by the respective increases of 2.2% and 8.8% in public and private sector debt issuance⁽⁷⁾. As a result, the total outstanding balance of Hong Kong dollar debt securities edged up by another 0.2% over end-March to \$1,751.6 billion at end-June. This was equivalent to 25.6% of HK\$M3 or 22.1% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁸⁾.

4.12 As to the Government Bond (“GB”) Programme, a total of \$7.7 billion institutional GBs were issued through tenders in the second quarter. Also, the second batch of Silver Bond was issued in June, with an issue size of \$3.0 billion. It was greeted with positive market responses, receiving 44 842 valid applications for a total of over \$4.1 billion in principal amount of bonds. The total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$110.8 billion at end-June, comprising 14 institutional issues totaling \$74.8 billion and five retail issues (three iBonds and two Silver Bond)

totaling \$36.0 billion. In addition, three US dollar sukuk, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

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
Q2	718.1	8.6	10.7	737.4	41.6	4.5	37.0	83.1	1.6	822.0
% change in 2017 Q2 over 2016 Q2	6.0	-38.9	-35.2	4.2	-25.9	36.6	19.9	-8.0	-45.5	2.6
% change in 2017 Q2 over 2017 Q1	1.2	-11.9	494.4	2.2	-24.2	10.5	112.3	8.8	-7.7	2.8
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
Q2	965.6	52.0	112.3	1,129.9	269.2	154.7	186.4	610.3	11.4	1,751.6
% change in 2017 Q2 over 2016 Q2	5.8	-7.6	10.1	5.5	4.9	8.0	6.5	6.2	29.0	5.9
% change in 2017 Q2 over 2017 Q1	0.1	-4.5	7.4	0.6	-5.1	1.0	5.6	-0.5	-3.4	0.2

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

(a) AIs : Authorised institutions.

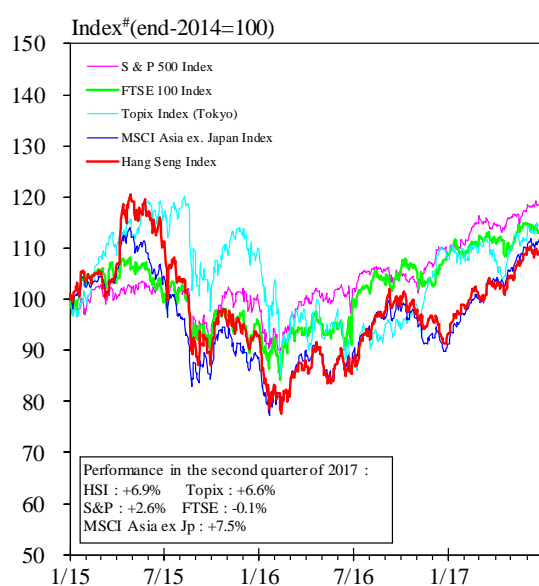
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.13 The *local stock market* continued to rally in the second quarter, underpinned by further improvement in the global economic outlook and expectation of an only gradual pace of US interest rate normalisation. The Hang Seng Index (HSI) reached 26 063 on 8 June, the highest closing since July 2015, and closed the quarter at 25 765 or 6.9% higher than a quarter earlier. During the first half of 2017, the HSI rose by a sharp 17.1%. In parallel, the *market capitalisation* expanded by 5.3% over end-March to \$28.7 trillion at end-June. The local stock market ranked the sixth largest in the world and the third largest in Asia⁽⁹⁾.

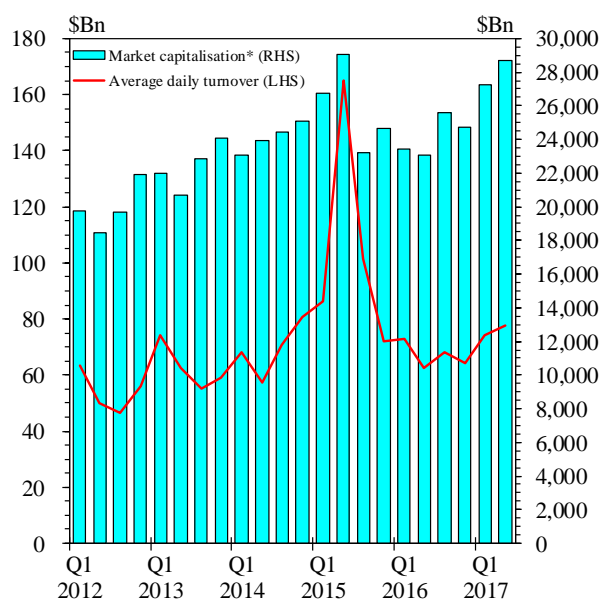
4.14 Trading activities were generally active. *Average daily turnover* in the securities market rose by 4.7% over the preceding quarter or 24.3% over a year earlier to \$77.8 billion in the second quarter. Within the total, the average daily trading value of unit trusts (including Exchange-Traded Funds) and equities leapt by 21.6% and 10.6% respectively over the preceding quarter, while that of derivative warrants and callable bull/bear contracts⁽¹⁰⁾ fell by 22.6% and 17.8% respectively. As to futures and options⁽¹¹⁾, the average daily trading volume grew by 5.3% over the preceding quarter. Within the total, trading of HSI futures, stock options and H-shares Index futures increased by 13.8%, 9.8% and 4.5% respectively, while that of HSI options edged down by 2.0%.

Diagram 4.6 : The local stock market continued to rally in the second quarter of 2017



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation expanded, while trading activities were generally active



Note : (*) Position at end of quarter.

Table 4.6 : Average daily turnover of futures and options of the Hong Kong market

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares <u>Index futures</u>	Stock <u>options</u>	Total futures and <u>options traded*</u>
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
	Q2	122 209	36 565	122 975	371 991	800 034
% change in 2017 Q2 over 2016 Q2		-9.9	-5.8	-11.0	27.1	5.4
% change in 2017 Q2 over 2017 Q1		13.8	-2.0	4.5	9.8	5.3

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.

4.15 After a weak start in the early part of the year, fund raising activities showed some pick-up in the second quarter. For the first half 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)⁽¹²⁾, increased by 16.3% over a year earlier to \$168.6 billion, though plunging by 51.1% from the high base in the second half of 2016. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) rose by 23.1% over a year earlier to \$53.6 billion. Hong Kong ranked the fifth globally in terms of the amount of funds raised through IPOs in the first half of the year.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-June, a total of 1 021 Mainland enterprises (including 246 H-share companies, 158 “Red Chip” companies and 617 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. In the second quarter, Mainland-related stocks accounted for 75% of equity turnover and 84% of total equity fund raised in the Hong Kong stock exchange.

4.17 In May the Hong Kong Exchanges and Clearing Limited (HKEX) announced its plan to implement Phase 2 of the securities market’s Closing Auction Session (CAS) in the third quarter of 2017. The CAS is to meet the needs of investors by enabling trade execution at the securities’ closing prices,

which is a key investment mandate of certain funds and commonly adopted in developed securities markets. The Reference Price for the CAS is determined in the last minute of the continuous trading session from 15:59 to 16:00, with an allowable price limit of +/-5%. Phase 1 of the CAS has been launched in July 2016 and covers all constituents of the Hang Seng Composite LargeCap and MidCap indices, H shares with corresponding A shares listed on a Mainland exchange, and all Exchange-Traded Funds. Phase 2 will expand the coverage to include constituents of the Hang Seng Composite SmallCap Index and allow regulated short-selling orders to be placed during the CAS at a price not lower than the CAS Reference Price. This would help reduce tracking errors of index funds, thereby protecting the interests of fund investors.

4.18 To broaden capital markets access in Hong Kong and cope with latest developments in the global financial markets, in June the HKEX launched a two-month public consultation on a proposed New Board and a review of the GEM. The New Board is to enhance Hong Kong's ability to attract companies from "New Economy sectors" with characteristics that currently prohibit them from listing in Hong Kong, including pre-profit companies, companies with non-standard governance features, and Mainland companies that wish to list on the Exchange as a secondary listing venue. It is proposed that the New Board would be divided into two segments to enable the calibration of shareholder protection standards based on the level of perceived risk, *viz.* New Board PREMIUM that would be open to retail investors and New Board PRO that would be open to professional investors only. Meanwhile, the review of the GEM seeks to address market and regulatory concerns regarding the quality and performance of its applicants and listed issuers, and covers four key areas including its position as a stepping stone to the Main Board, its admission requirements and delisting mechanism, open market requirement for the GEM companies, and eligibility requirements for the Main Board. The HKEX would consider the public views collected during the consultation and refine the proposals if needed.

Fund management and investment funds

4.19 In parallel to the strong performance of the stock market, the fund management business generally showed further expansion in the second quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ grew by another 6.4% over end-March to \$745.7 billion at end-June. For *mutual funds*, the monthly average gross retail sales surged by 32.5% over a year earlier to US\$7.2 billion in April – May, though 2.4% lower than in the preceding quarter⁽¹⁴⁾. Yet the amount of net assets managed by *retail hedge funds* declined further⁽¹⁵⁾.

4.20 In June the Securities and Futures Commission (SFC) launched a two-month consultation on the detailed legal and regulatory requirements of the newly-introduced open-ended fund company (OFC) structure. The consultation sets out the proposed rules and codes on OFCs relating to their formation, key operators, ongoing maintenance, and termination and winding-up. The introduction of the OFC regime would help enhance Hong Kong's attractiveness as a preferred fund domicile. Upon completion of the public consultation as well as the legislative process, the new OFC regime is expected to be implemented in 2018.

Insurance sector

4.21 The *insurance sector*⁽¹⁶⁾ recorded a solid performance in the first quarter. Gross premium income from long-term business grew further by 13.4% over a year earlier. Within the total, premium income from non-investment linked plans rose by 11.2% while that from investment linked plans surged by 74.4%. As to general business, gross and net premium rebounded by 6.6% and 7.0% respectively.

4.22 Since 26 June, the Insurance Authority (IA) has taken over the statutory functions of the Office of the Commissioner of Insurance to regulate insurance companies. The IA, established by the Insurance Companies (Amendment) Ordinance 2015, is an insurance regulator independent of the Government with an expanded scope of regulatory oversight. The IA would also take over the regulation of insurance intermediaries from the three existing Self-Regulatory Organisations and establish a statutory licensing regime in two years' time. This would put in place a more holistic and effective insurance regulatory system, thereby protecting the interests of policy holders in a more comprehensive manner.

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	
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	6,737	316	50,583	2,230	67	57	52,937	62,838
2017	Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
% change in 2017 Q1 over 2016 Q1		6.6	7.0	-33.3	11.2	74.4	14.0	82.6	13.4	11.7

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

4.23 The Bond Connect, a pilot scheme to connect the bond markets in the Mainland and Hong Kong through the two places' financial infrastructure institutions, was launched on 3 July. For the time being the connection is confined to Northbound Trading, while Southbound Trading will be added later. Through enhancing mutual capital market access between the Mainland and Hong Kong, the Bond Connect will further strengthen Hong Kong's position as an intermediary for capital flows between the Mainland and international markets.

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-June 2017, there were 155 licensed banks, 21 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 193 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) On 12 May 2017, the HKMA announced that from 1 June 2017, AIs are required to lower the financing caps for construction financing to 40% of the site value and 80%

of the construction cost (from the previous 50% and 100% respectively), with an overall cap of 50% of the expected value of the completed projects (from the previous 60%). Also, locally incorporated AIs are required to set aside an adequate amount of capital for exposures to property developers offering high loan-to-value mortgages.

- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) 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.
- (9) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (10) 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.
- (11) At end-June 2017, there were 87 classes of stock options contracts and 73 classes of stock futures contracts.
- (12) At end-June 2017, there were 1 746 and 288 companies listed on the Main Board and GEM respectively.
- (13) At end-June 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 279 000 employers, 2.58 million employees and 202 000 self-employed persons have participated in MPF schemes.
- (14) 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-May 2017, the survey covered a total of 1 332 active authorised funds.
- (15) At end-June 2017, there were two SFC-authorized retail hedge funds with combined net asset size of US\$27 million. The amount of net assets under management represented a 3.6% decrease from end-March, and a 83.1% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-June 2017, there were 159 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).