

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *While the monetary policy normalisation in the US proceeded further, the low interest rate environment in Hong Kong continued in the first quarter of 2018. Following the interest rate hike by the US Federal Open Market Committee, the Hong Kong Monetary Authority adjusted the Base Rate upward from 1.75% to 2.00%. The Hong Kong dollar interbank interest rates remained at low levels, despite some pick-up in March.*
- *The Hong Kong dollar spot exchange rate weakened against the US dollar during the first quarter in face of increased carry trade activities. It hovered close to the weak-side Convertibility Undertaking in late March and closed the quarter at 7.849. Meanwhile, as the US dollar depreciated against many other major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined further by 3.7% and 3.0% respectively.*
- *Total loans and advances expanded by an accelerated 3.6% during the first quarter, within which loans for use in and outside Hong Kong increased by 3.6% and 3.7% respectively.*
- *The local stock market exhibited substantial volatility in the first quarter of 2018. After surging to an all-time high in late January, the Hang Seng Index pared most of the gains thereafter amid concerns about a faster-than-expected rate hike in the US and increased trade tensions between the US and the Mainland. It closed the quarter at 30 093, only 0.6% above end-2017. Trading was active in the quarter while fund raising activities quietened down.*

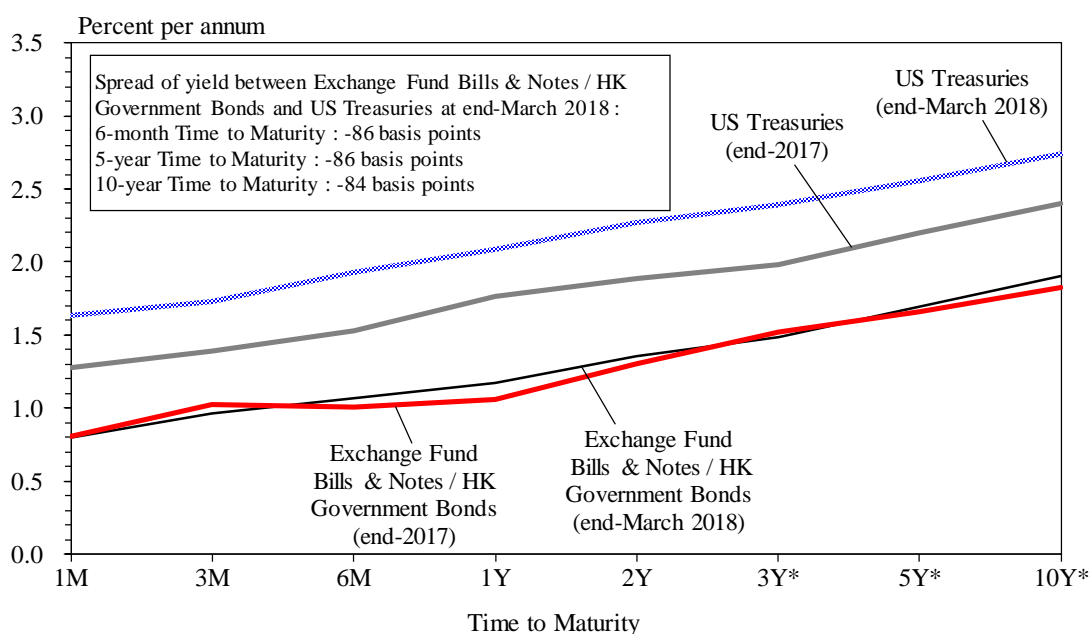
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Office of the Government Economist.*

Interest rates and exchange rates

4.1 While the monetary policy normalisation in the US proceeded further, the low interest rate environment in Hong Kong continued in the first quarter of 2018. The US Federal Open Market Committee raised the target range for the Federal Funds Rate from 1.25-1.50% to 1.50-1.75% in March. Consequentially, the HKMA adjusted the *Base Rate* under the Discount Window upward from 1.75% to 2.00%⁽¹⁾. Meanwhile, after an up-tick in late 2017, the *Hong Kong dollar interbank interest rates* (HIBORs) reverted to low levels in most of the first quarter before showing some pick-up again in March due to expectation of a faster pace of US interest rate hike. The overnight HIBOR declined from 1.34% at end-2017 to 0.59% at end-March 2018, and the three-month HIBOR from 1.31% to 1.21%.

4.2 The *US dollar yield curve* shifted upward during the first quarter, while the *Hong Kong dollar yields* were little changed. Reflecting these relative movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened noticeably from 52 basis points at end-2017 to 86 basis points at end-March 2018, and the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 57 basis points to 84 basis points.

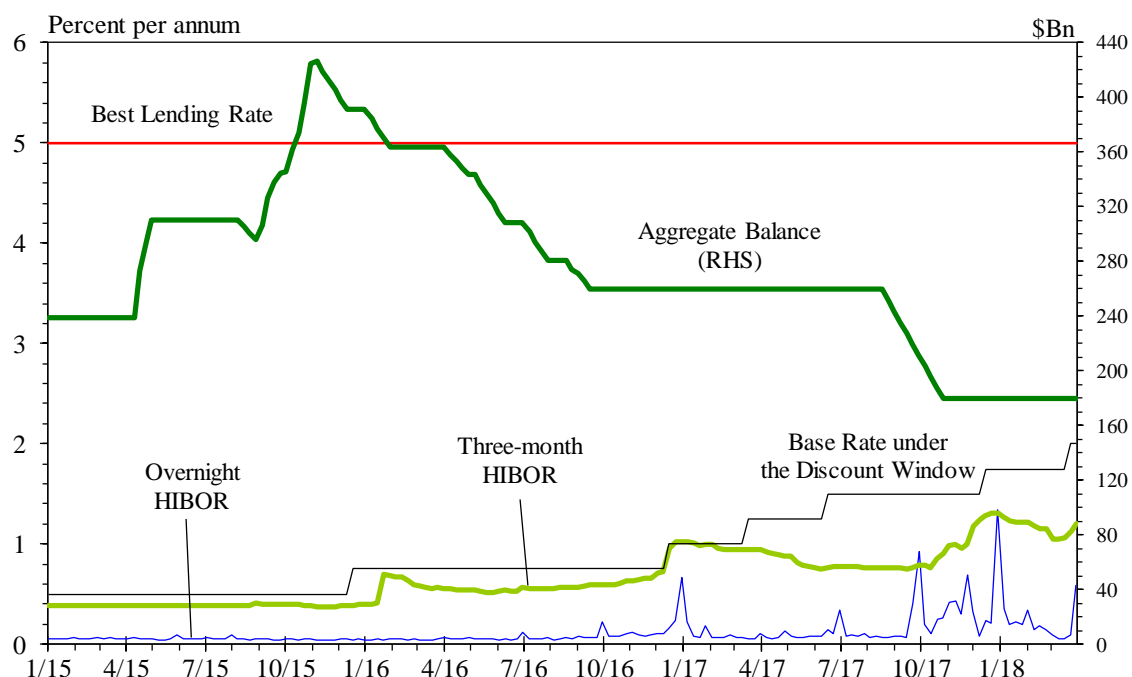
Diagram 4.1 : The US dollar yield curve shifted upward, while the Hong Kong dollar yields were little changed



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 at 0.01% and 0.15% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, remained unchanged at 0.38% at end-March 2018.

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



4.4 The *Hong Kong dollar spot exchange rate* weakened visibly against the US dollar during the first quarter, mainly driven by an increase in carry trade activities amid widening spreads between Hong Kong dollar and US dollar interest rates. It hovered close to the weak-side Convertibility Undertaking in late March before closing at 7.849 at end-March 2018, compared with 7.814 at end-2017. The *Hong Kong dollar forward rates* also registered larger discounts. The 3-month forward rate discount widened from 141 pips (each pip is equivalent to HK\$0.0001) at end-2017 to 236 pips at end-March 2018, and the discount of 12-month forward rate from 445 pips to 530 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 continued to weaken against many other major currencies, the *trade-weighted Hong Kong dollar Nominal* and *Real Effective*

Exchange Rate Indices⁽³⁾ declined further by 3.7% and 3.0% respectively during the first quarter.

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

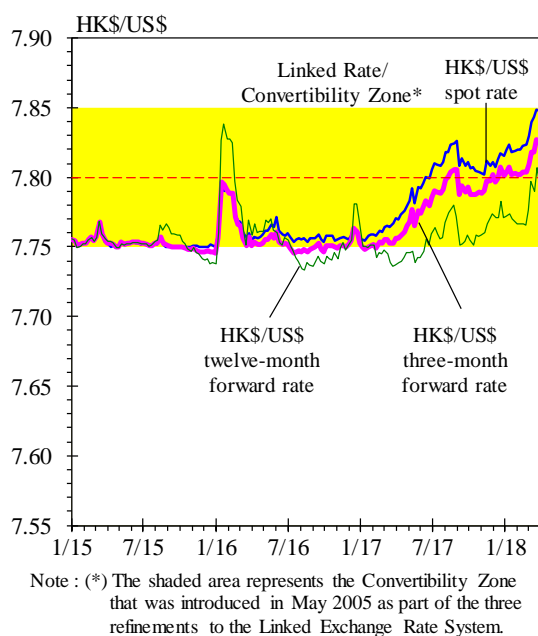
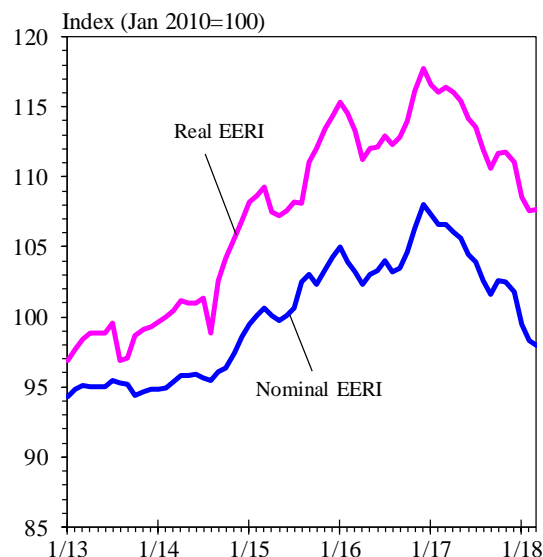


Diagram 4.4 : The trade-weighted nominal and real EERIs declined further (average for the month)



Money supply and banking sector

4.6 The monetary aggregates recorded solid growth in the first quarter. The Hong Kong dollar broad *money supply* (HK\$M3) expanded by 3.2% over end-2017 to \$7,246 billion⁽⁴⁾ at end-March 2018, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 4.2% to \$1,676 billion. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ increased by 1.2% to \$12,911 billion. Within the total, the Hong Kong dollar deposits went up by 3.0%, while foreign currency deposits edged down by 0.6%.

Diagram 4.5 : The monetary aggregates recorded solid growth in the first quarter

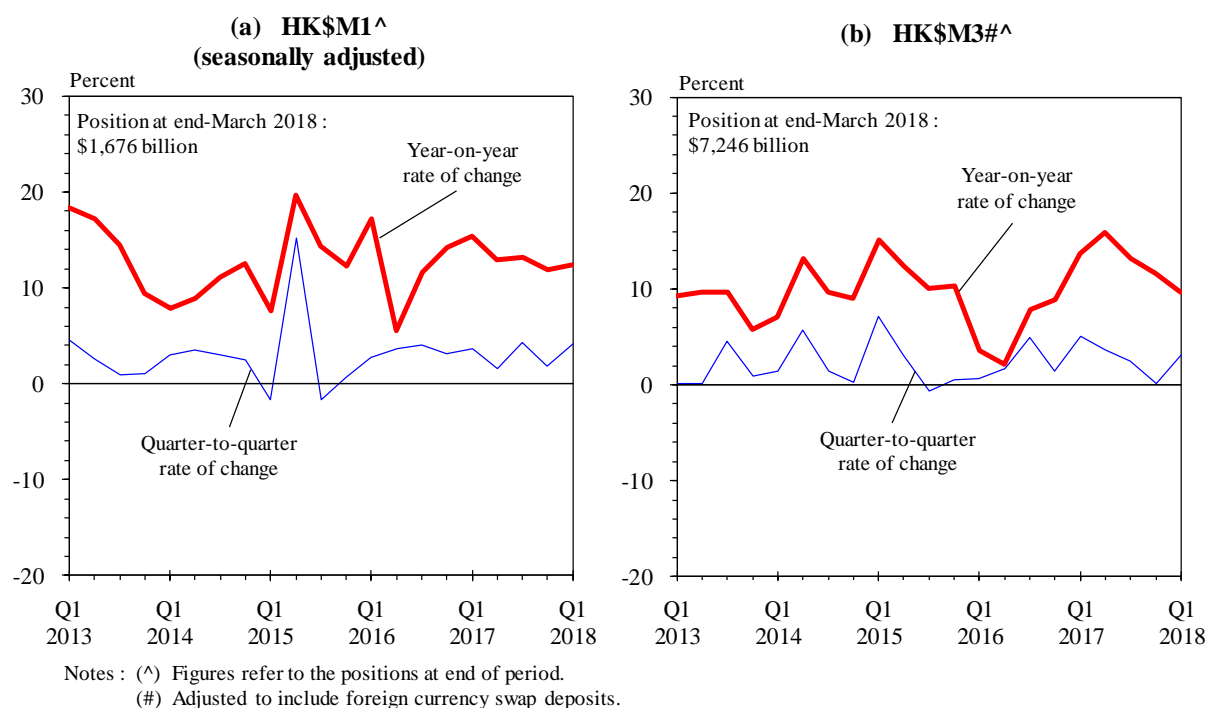


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2017	Q1	3.7	0.7	5.1	3.4	5.1	3.4
	Q2	1.6	3.2	3.6	3.0	3.6	3.0
	Q3	4.3	4.1	2.4	1.3	2.5	1.3
	Q4	1.9	1.6	0.1	2.0	0.1	2.0
2018	Q1	4.2	1.7	3.1	1.3	3.2	1.3
Total amount at end-March 2018 (\$Bn)		1,676	2,473	7,230	13,936	7,246	13,988
% change over a year earlier		12.4	11.0	9.6	7.8	9.6	7.8

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew by an accelerated 3.6% over end-2017 to \$9,652 billion at end-March 2018. Within the total, Hong Kong dollar loans and foreign currency loans expanded by 3.7% and 3.6% respectively. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar went up from 82.7% at end-2017 to 83.2% at end-March 2018, and that for foreign currencies from 63.1% to 65.7%.

4.8 Loans for use in Hong Kong (including trade finance) rose by 3.6% over end-2017 to \$6,748 billion at end-March 2018, and loans for use outside Hong Kong by 3.7% to \$2,904 billion. Within the former, loans to most economic sectors registered further increases, underpinned by the improved domestic economic performance. Specifically, loans to manufacturing went up by 3.3%. Trade finance and loans to wholesale and retail trade also rebounded by 5.7% and 4.9% respectively. Yet loans to financial concerns and stockbrokers increased less rapidly, by 6.1% and 3.7% respectively amid a volatile stock market. As for property-related lending, loans to building, construction, property development and investment, and loans for purchase of residential property recorded further increases of 2.8% and 1.9% respectively amid a buoyant property market.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
% change during the quarter		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
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	5.3	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
	Q3	4.1	4.7	-3.0	3.4	2.3	5.9	13.1	2.7	1.4	2.3
	Q4	-2.6	3.0	-2.1	2.5	1.5	13.5	16.7	2.8	3.2	2.9
2018	Q1	5.7	3.3	4.9	2.8	1.9	6.1	3.7	3.6	3.7	3.6
Total amount at end-March 2018 (\$Bn)		522	303	430	1,512	1,283	871	91	6,748	2,904	9,652
% change over a year earlier		11.9	17.3	2.4	14.3	8.3	42.4	26.5	15.1	14.9	15.0

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 19.1% at end-2017. Meanwhile, asset quality of the local banking sector also stayed healthy. The ratio of classified loans to total loans for retail banks declined further from 0.62% at end-September to 0.54% at

end-2017, and the delinquency ratio for credit card lending from 0.23% to 0.22%. The delinquency ratio for residential mortgage loans edged down from 0.03% at end-2017 to 0.02% at end-March 2018.

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
	Q2	98.22	1.10	0.68
	Q3	98.35	1.02	0.62
	Q4	98.43	1.03	0.54

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

(*) Period-end figures relate to Hong Kong offices, overseas branches and major overseas subsidiaries. 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 Different segments of the *offshore renminbi (RMB) business* showed diverse performance in the first quarter. RMB trade settlement transactions handled by banks in Hong Kong rose by 23.9% over a year earlier to RMB1,007.9 billion in the first quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) fell modestly by 2.4% from end-2017 to RMB603.7 billion at end-March 2018. RMB financing activities stayed generally soft. RMB bond issuance declined from RMB10.0 billion in the preceding quarter to RMB9.5 billion in the first quarter, though sharply above the RMB1.0 billion issuance a year earlier. Outstanding RMB bank loans also decreased by 4.1% from end-2017 to RMB138.5 billion at end-March 2018.

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) (%)		
2017	Q1	131,103	376,169	507,272	0.25	0.53	141	813,750
	Q2	142,517	383,560	526,077	0.25	0.53	140	920,424
	Q3	153,368	382,099	535,468	0.25	0.53	137	997,068
	Q4	159,698	399,439	559,137	0.25	0.53	137	1,182,650
2018	Q1	159,509	394,808	554,317	0.25	0.53	136	1,007,895
% change in 2018 Q1 over 2017 Q1		21.7	5.0	9.3	N.A.	N.A.	N.A.	23.9
% change in 2018 Q1 over 2017 Q4		-0.1	-1.2	-0.9	N.A.	N.A.	N.A.	-14.8

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 As to the *debt market*, total gross issuance of Hong Kong dollar debt securities rose by 2.6% over the preceding quarter to \$900.4 billion in the first quarter of 2018, with the jump of 53.9% in private sector debt issuance⁽⁶⁾ more than offsetting the decline of 1.6% in public sector debt issuance. Yet with more debt maturing than debt issued during the quarter, the total outstanding balance of Hong Kong dollar debt securities edged down by 0.6% from end-2017 to \$1,791.9 billion at end-March 2018. This was equivalent to 24.7% of HK\$M3 or 20.5% 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 worth of institutional GBs were issued through tenders in the first quarter. The total outstanding amount of Hong Kong dollar bonds under the GB programme was \$98.2 billion at end-March, comprising 12 institutional issues totaling \$72.3 billion and four retail issues (two iBonds and two Silver Bonds) totaling \$25.9 billion. In addition, three US dollar sukuks, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

4.13 In the 2018-19 Budget, the Financial Secretary announced an array of measures to enhance the attractiveness of the bond market in Hong Kong. These include the launch of a three-year Pilot Bond Grant Scheme, the extension of the scope of tax exemption for qualified instruments under the qualifying debt instrument scheme, and the launch of a green bond issuance programme with a borrowing ceiling of \$100 billion. Also, the issuance of Silver Bonds would continue in 2018 and 2019, targeting Hong Kong residents aged 65 or above. These measures would help attract corporate bond issuance in Hong Kong and broaden the investment platform of the debt market.

**Table 4.5 : New issuance and outstanding value of
Hong Kong dollar debt securities (\$Bn)**

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs^(a)</u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New Issuance											
2017	Annual	3,000.4	21.5	19.6	3,041.6	185.8	20.7	84.0	290.5	3.2	3,335.3
	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
	Q3	766.5	2.0	0.6	769.1	43.9	9.7	13.6	67.2	0.0	836.3
	Q4	806.1	1.2	6.5	813.8	45.4	2.4	16.0	63.8	0.0	877.6
2018	Q1	791.9	7.2	1.8	801.0	63.9	5.6	28.8	98.2	1.2	900.4
% change in 2018 Q1 over 2017 Q1		11.6	-25.6	*	11.0	16.4	35.8	65.2	28.6	-27.4	12.6
% change in 2018 Q1 over 2017 Q4		-1.8	504.1	-72.3	-1.6	40.6	135.1	79.4	53.9	N.A.	2.6
Outstanding (as at end of period)											
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
	Q3	1,014.6	52.8	102.8	1,170.3	262.7	158.7	182.7	604.2	10.8	1,785.2
	Q4	1,048.5	53.6	106.3	1,208.5	242.6	160.6	180.5	583.8	9.9	1,802.2
2018	Q1	1,050.6	55.9	99.7	1,206.2	221.9	159.5	193.1	574.6	11.1	1,791.9
% change in 2018 Q1 over 2017 Q1		8.9	2.8	-4.7	7.4	-21.8	4.1	9.4	-6.3	-5.8	2.5
% change in 2018 Q1 over 2017 Q4		0.2	4.2	-6.2	-0.2	-8.5	-0.7	7.0	-1.6	12.4	-0.6

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.

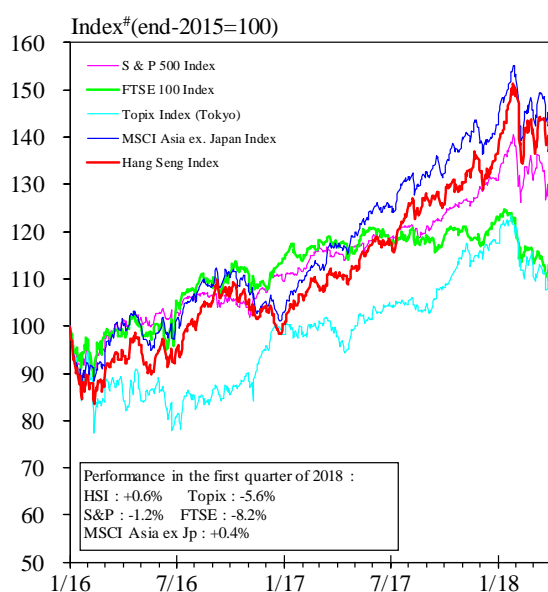
(*) Change of less than $\pm 0.05\%$.

The stock and derivatives markets

4.14 The *local stock market* exhibited substantial volatility in the first quarter of 2018, mirroring the fluctuations in the major overseas markets. Continuing the rally in 2017, the Hang Seng Index (HSI) surged to an all-time high of 33 154 on 26 January 2018, but pared most of the gains thereafter amid concerns about a faster-than-expected rate hike in the US and increased trade tensions between the US and the Mainland. The HSI closed the quarter at 30 093, a meagre 0.6% above end-2017. Meanwhile, the *market capitalisation* expanded by 1.2% to \$34.4 trillion. The local stock market ranked the sixth largest in the world and the third largest in Asia⁽⁸⁾.

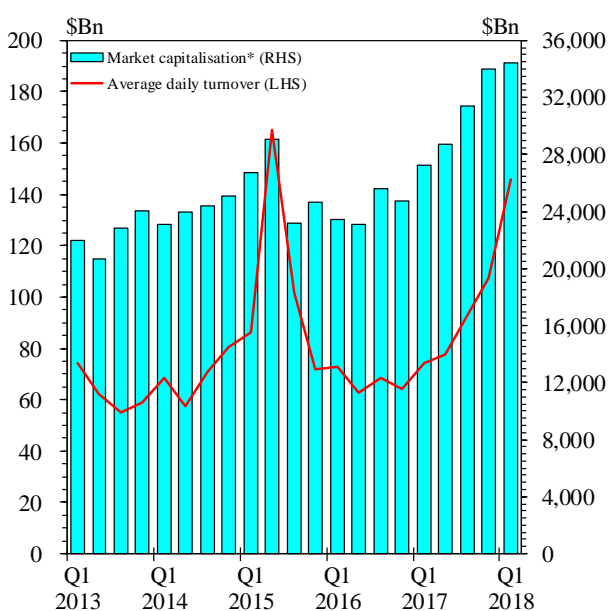
4.15 Trading was active in the first quarter. *Average daily turnover* in the securities market surged by 36.1% over the preceding quarter or 96.5% over a year earlier to \$146.1 billion. Within the total, the average daily trading value of callable bull/bear contracts, derivative warrants, unit trusts (including Exchange-Traded Funds) and equities⁽⁹⁾ leapt by 51.7%, 49.1%, 44.9% and 32.0% respectively over the preceding quarter. As to futures and options⁽¹⁰⁾, the average daily trading volume rose sharply by 32.7%. Within the total, trading of HSI futures, Hang Seng China Enterprises Index futures, stock options and HSI options jumped by 33.6%, 31.4%, 26.5% and 26.3% respectively.

Diagram 4.6 : The local stock market exhibited substantial volatility in the first quarter of 2018



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation expanded amid active trading



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>	Hang Seng China Enterprises <u>Index futures</u>	Stock <u>options</u>	Total futures and <u>options traded*</u>
2017	Annual	127 478	41 009	116 812	428 499	869 819
	Q1	107 376	37 294	117 732	338 771	759 988
	Q2	122 209	36 565	122 975	371 991	800 034
	Q3	126 987	43 317	111 466	473 785	905 293
	Q4	153 527	46 626	115 614	526 096	1 011 148
2018	Q1	205 103	58 873	151 890	665 446	1 342 268
% change in 2018 Q1 over 2017 Q1		91.0	57.9	29.0	96.4	76.6
% change in 2018 Q1 over 2017 Q4		33.6	26.3	31.4	26.5	32.7

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 Given the nature of business, fund raising activities often show significant fluctuations from quarter to quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹¹⁾, plunged by 57.6% from the high base in the preceding quarter to \$112.2 billion in the first quarter, but was 78.2% higher than a year earlier. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) plummeted by 40.5% from the preceding quarter to \$24.4 billion. Hong Kong ranked the fifth globally in terms of the amount of funds raised through IPOs in the period.

4.17 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March, a total of 1 070 Mainland enterprises (including 254 H-share companies, 164 “Red Chip” companies and 652 private enterprises) were listed on the Main Board and GEM, accounting for 49% of the total number of listed companies and 67% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 79% of equity turnover and 87% of total equity fund raised in the Hong Kong stock exchange.

4.18 In February 2018 the Hong Kong Exchanges and Clearing Limited (HKEX) published a consultation paper on the proposed new rules to expand Hong Kong’s listing regime. The consultation paper set out the detailed proposals to facilitate the listings of Biotech companies that do not meet any of

the Financial Eligibility Tests; high growth and innovative companies that have weighted voting rights structures; and Qualifying Issuers seeking a secondary listing on the HKEX through a new concessionary route. These proposals aimed at attracting good quality and high growth companies to list in Hong Kong whilst maintaining a high standard of investor protection.

4.19 As the second phase of the After-Hours Trading (AHT) enhancement plan, the HKEX proposed to include four most actively traded equity index options (i.e. Hang Seng Index Options, Hang Seng China Enterprises Index Options, Mini-Hang Seng Index Options and Mini-Hang Seng China Enterprises Index Options) in the AHT of the derivative market in the second quarter, subject to regulatory approval and market readiness. These enhancements would help provide more comprehensive trading and risk management tools to market participants.

4.20 In March, the HKMA and Securities and Future Commission issued a joint consultation paper on further enhancements to the over-the-counter derivatives regulatory regime. A mandatory use of the Legal Entity Identifier for trade reporting, an expansion of the clearing obligation and the adoption of a trading determination process for introducing a platform trading obligation were proposed. These proposals would help align the regulatory regime with international standards and enhance its robustness for the benefit of financial system stability.

Fund management and investment funds

4.21 The fund management business recorded a solid performance in general in the first quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹²⁾ expanded further by 1.6% over end-2017 to \$856.7 billion at end-March 2018. The gross retail sales of *mutual funds* leapt by 49.1% over a year earlier or 67.5% over the preceding quarter to US\$32.8 billion in the first quarter⁽¹³⁾. Yet the amount of net assets managed by *retail hedge fund* declined further⁽¹⁴⁾.

Insurance sector

4.22 Different segments of the *insurance sector*⁽¹⁵⁾ showed mixed performance in 2017. Gross premium income from long-term business

decreased by 15.7%, within which premium income from non-investment linked plans (which accounted for 91% of total premium for this segment) fell 20.2% while that from investment linked plans surged by 121.3%. As to general business, gross and net premium recorded modest growth of 5.5% and 5.1% 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	
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	Annual	48,137	33,068	-792	142,905	12,710	253	507	156,375	204,512
	Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
	Q2	11,516	8,144	-14	33,584	3,254	56	207	37,101	48,617
	Q3	12,358	8,349	-562	31,819	3,727	63	79	35,688	48,046
	Q4	10,316	7,093	-599	36,066	3,568	77	53	39,764	50,080
% change in 2017 Q4 over 2016 Q4		4.2	5.3	N.A.	-28.7	60.0	14.9	-7.0	-24.9	-20.3
% change in 2017 over 2016		5.5	5.1	N.A.	-20.2	121.3	-0.8	47.8	-15.7	-11.5

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

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

N.A. Not available.

Highlights of policy and market developments

4.23 As part of the smart banking initiatives for banking sector in Hong Kong as announced in September 2017, the HKMA issued a consultation paper in January 2018 on the proposed framework of Open Application Programming Interfaces (API) to allow better system integration between banks and other industries. The proposed framework comprises a selection of Open API functions and deployment timeframe, technical standards, third-party service

provider governance, facilitation measures and maintenance models. The proposed framework would facilitate the development and wider adoption of Open API by the banking sector, thereby maintaining its competitiveness and improving financial services for better user experience.

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 2018, there were 154 licensed banks, 19 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 190 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-March 2018, there were 89 classes of stock options contracts and 77 classes of stock futures contracts.
- (11) With effect from 15 February 2018, “Growth Enterprise Market” has been renamed as “GEM”. At end-March 2018, there were 1 827 and 352 companies listed on the Main Board and GEM respectively.
- (12) At end-March 2018, there were 17 approved trustees. On MPF products, 29 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 469 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 281 000 employers, 2.59 million employees and 206 000 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-March 2018, the survey covered a total of 1 297 active authorised funds.
- (14) At end-March 2018, there was one SFC-authorised retail hedge fund with net asset size of US\$26 million. The amount of net assets under management represented a 0.8% decrease from end-2017, and a 83.8% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-March 2018, 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 come from 23 countries and territories (including Hong Kong).