CHAPTER 5 : THE FINANCIAL SECTOR#

*Summary*

* *The interest rate environment in Hong Kong has tightened since the second quarter of 2022 alongside the sharp monetary policy tightening in the US. Following the successive rate hikes by the US Federal Open Market Committee (FOMC) in 2022, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate upward multiple times by a total of 425 basis points, from 0.50% at end‑2021 to 4.75% at end‑2022. Hong Kong dollar interbank interest rates rose visibly across all tenors, particularly in the second half of the year. Many banks raised their Best Lending Rates three times by a cumulative 62.5 basis points in the latter part of the year.*
* *The Hong Kong dollar spot exchange rate against the US dollar softened in early 2022 and stayed weak from May to early November, before strengthening towards the end of the year amid stronger local equity market activities. The weak-side Convertibility Undertaking (CU) was triggered 41 times during the year.  As the US dollar strengthened sharply against all major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose visibly by 8.1% and 6.3% respectively during 2022.*
* *Total loans and advances decreased by 3.0% during 2022. Within the total, loans for use in Hong Kong remained virtually unchanged while loans for use outside Hong Kong fell by 10.2%.*
* *The local stock market exhibited substantial volatility in 2022. Since the early part of the year, market sentiment has been dampened by a series of adverse developments including tensions in Ukraine, occasional increases in COVID-19 cases in the Mainland, the stepping up of monetary policy tightening by the US Federal Reserve (Fed) and slackening global growth momentum. The Hang Seng Index (HSI) trended down to reach a low of 14 687 on 31 October, the lowest level since April 2009. It then rebounded strongly to close the year at 19 781 amid the expectation of slower US interest rate hikes and the optimisation of anti-epidemic measures in the Mainland. For the year as a whole, the HSI went down by 15.5%. Trading activities moderated from the hectic level in the preceding year, while fund raising activities were extremely quiet amid* *the sluggish investment sentiment globally and the volatile local stock market.*

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

Interest rates and exchange rates

* 1. The interest rate environment in Hong Kong has tightened since the second quarter of 2022 alongside the sharp monetary policy tightening in the US. The US FOMC raised the target range for the federal funds rate by a total of 425 basis points during the year, from the record low level of 0.00-0.25% to 4.25‑4.50%. Consequently, the HKMA adjusted the *Base Rate*(1) under the Discount Window upward multiple times, from 0.50% at end‑2021 to 4.75% at end-2022. *Hong Kong* *dollar interbank interest rates* (HIBORs) rose visibly across all tenors, particularly in the second half of the year. The overnight HIBOR surged from 0.06% at end-2021 to 3.23% at end-2022 and the 3‑month HIBOR from 0.26% to 4.99%.
  2. Both *Hong Kong dollar* and *US dollar* *yield* *curves* shifted upward notably in 2022, with the latter by a larger extent particularly at the shorter tenors. Reflecting the relative movements, the yield spread between 6‑month Exchange Fund Bills and 6-month US Treasury Bills moved from zero at end-2021 to negative 86 basis points at end‑2022, and the negative yield spread between the 10‑year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 2 basis points to 25 basis points.



* 1. On the retail front, many banks raised their *Best Lending Rates* three times by a cumulative 62.5 basis points in the latter part of the year. At end‑2022, the Best Lending Rates among banks ranged from 5.625% to 6.125%, up from 5.00% to 5.50% at end-2021. The *average savings deposit rate* for deposits of less than $100,000 quoted by major banks increased from 0.001% at end-2021 to 0.55% at end-2022, and the 1-year *time deposit rate* from 0.08% to 0.38%. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, rose from 0.21% to 2.11%.



* 1. Against the interest rate hikes by the US Fed and the correction of the local stock market, the *Hong Kong dollar spot exchange rate* *against the US dollar* softened in early 2022 and stayed weak from May to early November. The Hong Kong dollar then regained strength towards the end of the year amid stronger local equity market activities, and closed at 7.797 against the US dollar at end‑2022, the same as a year earlier. The weak-side CU was triggered 41 times during the year, and the HKMA purchased a total of $242.1 billion worth of Hong Kong dollars. Together with the additional issuance of Exchange Fund papers in early 2022, the Aggregate Balance declined from $377.5 billion at end-2021 to $96.3 billion at end-2022(3). The discount of 3‑month *Hong Kong dollar forward rate* widened from 12 pips (each pip is equivalent to HK$0.0001) at end-2021 to 125 pips at end-2022, and that of 12‑month forward rate from 48 pips to 215 pips.
  2. 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 strengthened sharply against all major currencies (including the pound sterling, euro, Japanese yen and renminbi (RMB)), the *trade-weighted Hong Kong dollar Nominal* and *Real* *Effective Exchange Rate Indices*(4) rose visibly by 8.1% and 6.3% respectively during 2022.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) edged up by 0.6% over a year earlier to $8,108 billion at end-2022, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) fell by 17.8% to $1,720 billion(5) amid a notable shift of funds from demand deposits to time deposits in the latter part of the year. Meanwhile, *total deposits* with authorized institutions (AIs)(6) rose moderately by 1.7% to $15,439 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 0.7% and 2.6% respectively.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$# | Total | HK$# | Total |
|  |  |  |  |  |  |  |
| 2021 Q1 | 2.3 | 4.8 | 2.6 | 1.0 | 2.6 | 1.0 |
| Q2 | 6.7 | 14.2 | 4.1 | 3.0 | 4.1 | 3.0 |
| Q3 | -3.2 | -7.4 | -4.5 | -1.0 | -4.5 | -1.0 |
| Q4 | -0.4 | -2.5 | -0.5 | 1.3 | -0.5 | 1.3 |
|  |  |  |  |  |  |  |
| 2022 Q1 | 3.8 | 2.3 | 2.1 | 0.7 | 2.1 | 0.7 |
| Q2 | -3.6 | -7.1 | 0.2 | -0.6 | 0.2 | -0.5 |
| Q3 | -10.8 | -8.5 | -2.5 | 0.2 | -2.5 | 0.2 |
| Q4 | -7.9 | -8.8 | 0.9 | 1.2 | 0.9 | 1.2 |
|  |  |  |  |  |  |  |
| Total amount at  end-2022 ($Bn) | 1,720 | 2,769 | 8,096 | 16,536 | 8,108 | 16,569 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | -17.8 | -20.7 | 0.6 | 1.6 | 0.6 | 1.6 |

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

* 1. *Total loans and advances* decreased by 3.0% from a year earlier to $10,571 billion at end‑2022. Within the total, Hong Kong dollar loans rose by 2.7%, while foreign currency loans went down by 11.2%. Reflecting the relative movements in loans and deposits, the loan‑to-deposit ratio for Hong Kong dollar rose from 86.7% a year earlier to 88.4% at end-2022, while that for foreign currencies fell from 57.5% to 49.8%.
  2. Comparing the end-2022 positions with those of end-2021, loans for use in Hong Kong (including trade finance) remained virtually unchanged at $7,710 billion, while loans for use outside Hong Kong declined by 10.2% to $2,860 billion. Within the former, loans to various economic segments showed mixed performance during the year. Affected by the weak external trade performance, trade finance went down by 13.5% while loans to manufacturing turned to a marginal decline of 0.1%. Loans to wholesale and retail trade and loans to stockbrokers shrank further by 4.1% and 5.2% respectively. Meanwhile, loans to financial concerns increased by 1.6%. As for property‑related lending, loans to building, construction, property development and investment edged up by 0.1% and loans for purchase of residential property increased by 4.0%.

Table 5.2 : Loans and advances

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | All loans and advances for use in Hong Kong | | | | | | | |  |  |
|  | Loans to : | |  |  |  |  |  |  |  |  |
|  |  |  |  | Building, |  |  |  |  |  |  |
|  |  |  | Whole- | construction, |  |  |  |  | All loans |  |
|  |  |  | sale | property | Purchase |  |  |  | and advances | Total |
| % change |  |  | and | development | of |  |  |  | for use | loans |
| during | Trade | Manu- | retail | and | residential | Financial | Stock- |  | outside | and |
| the quarter | finance | facturing | trade | investment | property(a) | concerns | brokers | Total(b) | Hong Kong(c) | advances |
|  |  |  |  |  |  |  |  |  |  |  |
| 2021 Q1 | 8.5 | 4.2 | 0.1 | 3.4 | 1.4 | 2.3 | 50.8 | 3.5 | 1.0 | 2.8 |
| Q2 | 17.8 | -1.7 | -1.9 | 0.4 | 2.6 | 0.5 | 152.0 | 5.9 | 0.3 | 4.3 |
| Q3 | 5.5 | 2.7 | -2.5 | -1.1 | 3.1 | -3.2 | -77.6 | -3.6 | 2.2 | -2.0 |
| Q4 | -15.4 | -3.0 | -2.6 | 2.9 | 2.6 | -0.6 | -10.2 | -0.8 | -2.1 | -1.2 |
|  |  |  |  |  |  |  |  |  |  |  |
| 2022 Q1 | 9.6 | 5.9 | 8.1 | 1.9 | 1.3 | 2.1 | -8.8 | 2.0 | -0.6 | 1.2 |
| Q2 | -1.3 | -0.9 | 1.4 | -1.1 | 0.7 | -1.3 | 6.2 | 0.1 | -1.7 | -0.4 |
| Q3 | -7.0 | 4.6 | -3.8 | -1.5 | 1.2 | -0.4 | -12.0 | -0.8 | -3.0 | -1.5 |
| Q4 | -14.0 | -9.0 | -9.1 | 0.8 | 0.7 | 1.2 | 11.1 | -1.3 | -5.2 | -2.4 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-2022 ($Bn) | 420 | 312 | 312 | 1,712 | 1,915 | 923 | 54 | 7,710 | 2,860 | 10,571 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -13.5 | -0.1 | -4.1 | 0.1 | 4.0 | 1.6 | -5.2 | \* | -10.2 | -3.0 |

Notes : (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.

1. Also include loans where the place of use is not known.

(\*) Change of less than ±0.05%.

* 1. The Hong Kong banking sector stayed resilient despite the challenging macro-environment and heightened volatilities in the financial markets. Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 19.9% at end-September 2022. The local banking sector’s overall asset quality deteriorated but remained at a healthy level. The ratio of classified loans to total loans for all AIs rose from 0.88% at end-2021 to 1.19% at end‑September 2022 and the delinquency ratio for credit card lending edged up from 0.20% to 0.24%. The delinquency ratio for residential mortgage loans edged up from 0.04% at end-2021 to 0.06% at end‑2022.

**Table 5.3 : Asset quality of all AIs**\*^

(as % of total loans)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| At end of period | | Pass loans | Special mention loans | Classified loans  (gross) |
|  | | | | |
| 2021 | Q1 | 97.50 | 1.60 | 0.89 |
|  | Q2 | 97.66 | 1.48 | 0.86 |
|  | Q3 | 97.69 | 1.50 | 0.81 |
|  | Q4 | 97.57 | 1.55 | 0.88 |
|  |  |  |  |  |
| 2022 | Q1 | 97.37 | 1.66 | 0.98 |
|  | Q2 | 97.11 | 1.79 | 1.10 |
|  | Q3 | 97.08 | 1.73 | 1.19 |

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

(\*) Period-end figures cover 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”.

(^) This table presents the asset quality of all AIs. For retail banks, the pass loans, special mention loans and classified loans (gross) as percentages of total loans were 97.03%, 1.80% and 1.17% respectively at end-September 2022.

* 1. *Offshore RMB business* witnessed broad-based growth in 2022. RMB trade settlement transactions handled by banks in Hong Kong rose by 31.9% to RMB9,342.1 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased by 3.9% over a year earlier to RMB981.7 billion at end‑2022. As to financing activities, RMB bond issuance totalled RMB143.4 billion in 2022, 30.8% higher than in 2021, and outstanding RMB bank loans rose by 17.2% over a year earlier to RMB191.7 billion at end‑2022.

Table 5.4 : Renminbi customer deposits and

cross-border renminbi trade settlement in Hong Kong

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | |  | |  |  |  | |  |  |
|  | |  | | | | | Interest rates on(a) | | | Number of AIs engaged in RMB business | Amount of cross-border RMB  trade settlement(c) |
| At end of period | | Demand  and savings deposits | Time  deposits | | Customer deposits | | Savings  deposits(b) | | Three-month  time deposits(b) |
|  |  | (RMB Mn) | (RMB Mn) | | (RMB Mn) | | (%) | | (%) |  | (RMB Mn) |
|  |  |  |  | |  | |  | |  |  |  |
| 2021 | Q1 | 265,396 | 507,084 | | 772,481 | | 0.16 | | 0.31 | 143 | 1,698,745 |
|  | Q2 | 286,607 | 534,585 | | 821,192 | | 0.16 | | 0.31 | 142 | 1,694,123 |
|  | Q3 | 281,073 | 574,858 | | 855,931 | | 0.16 | | 0.31 | 144 | 1,876,862 |
|  | Q4 | 286,728 | 640,070 | | 926,797 | | 0.16 | | 0.31 | 146 | 1,813,844 |
|  |  |  |  | |  | |  | |  |  |  |
| 2022 | Q1 | 272,981 | 518,361 | | 791,342 | | 0.16 | | 0.31 | 146 | 2,001,669 |
|  | Q2 | 300,012 | 515,017 | | 815,029 | | 0.16 | | 0.31 | 142 | 2,355,747 |
|  | Q3 | 331,577 | 526,128 | | 857,706 | | 0.16 | | 0.31 | 143 | 2,413,273 |
|  | Q4 | 342,034 | 493,869 | | 835,903 | | 0.16 | | 0.31 | 142 | 2,571,442 |
|  |  |  |  | |  | |  | |  |  |  |
| % change over a year earlier | | 19.3 | -22.8 | | -9.8 | | N.A. | | N.A. | N.A. | 41.8 |

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 applicable.

###### The debt market

* 1. As to the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities increased by 8.9% to $4,720.4 billion in 2022, with the increase of 12.5% in public sector issuance more than offsetting the decrease of 7.3% in private sector issuance(7). The total outstanding amount of Hong Kong dollar debt securities rose by 7.4% over a year earlier to $2,531.9 billion at end-2022, equivalent to 31.2% of HK$M3 or 25.0% of Hong Kong dollar‑denominated assets of the banking sector(8).
  2. As to the Hong Kong dollar bonds issued by the Government, a total of $21.8 billion institutional Government Bonds (GBs) were issued through tenders in 2022, and $45.0 billion Silver Bond was issued under the retail part of the GB Programme in September. Besides, the inaugural retail green bond with an issuance size of $20.0 billion was issued in May under the Government Green Bond (GGB) Programme. At end‑2022, the total outstanding amount of Hong Kong dollar bonds under the GB and GGB Programmes was $238.6 billion, comprising 17 GB institutional issues totalling $95.3 billion, five GB retail issues (two iBonds and three Silver Bonds) totalling $123.3 billion, and the inaugural retail GGB of $20.0 billion. As for GBs denominated in foreign currencies, there was one US dollar sukuk with an issuance size of US$1.0 billion outstanding under the GB Programme, as well as over US$7.0 billion equivalent institutional green bonds outstanding under the GGB Programme.

Table 5.5 : New issuance and outstanding value of

**Hong Kong dollar debt securities ($Bn)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | Exchange Fund paper | Statutory bodies/  government-  owned corporations | Govern-ment | Public  sector  total | AIs(a) | Local corporations | Non-MDBs overseas borrowers(b) | Private sector total | MDBs(b) | Total |
| **New Issuance** | | | | | | | | | | | |
|  | | | | | | | | | | | |
| 2021 | Annual | 3,403.9 | 64.4 | 69.4 | 3,537.7 | 376.5 | 59.1 | 343.6 | 779.3 | 17.1 | 4,334.0 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Q1 | 815.2 | 25.6 | 2.7 | 843.5 | 118.4 | 20.0 | 121.7 | 260.1 | 6.5 | 1,110.0 |
|  | Q2 | 826.9 | 15.0 | 28.2 | 870.1 | 97.1 | 10.0 | 81.7 | 188.8 | 1.6 | 1,060.5 |
|  | Q3 | 851.6 | 11.8 | 31.0 | 894.3 | 71.9 | 11.4 | 64.1 | 147.4 | 6.6 | 1,048.3 |
|  | Q4 | 910.2 | 12.0 | 7.5 | 929.7 | 89.1 | 17.7 | 76.1 | 183.0 | 2.5 | 1,115.1 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 2022 | Annual | 3,818.7 | 75.3 | 86.8 | 3,980.8 | 379.8 | 46.0 | 296.9 | 722.7 | 16.9 | 4,720.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Q1 | 937.7 | 14.6 | 3.3 | 955.6 | 106.3 | 18.5 | 69.7 | 194.4 | 3.8 | 1,153.8 |
|  | Q2 | 948.9 | 22.3 | 28.5 | 999.7 | 111.4 | 6.8 | 79.1 | 197.2 | 1.9 | 1,198.8 |
|  | Q3 | 962.2 | 13.2 | 49.0 | 1,024.4 | 89.0 | 5.9 | 73.7 | 168.6 | 10.8 | 1,203.8 |
|  | Q4 | 969.9 | 25.2 | 6.0 | 1,001.1 | 73.1 | 14.8 | 74.5 | 162.4 | 0.5 | 1,164.0 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2022 over 2021 | | 12.2 | 16.9 | 25.1 | 12.5 | 0.9 | -22.3 | -13.6 | -7.3 | -0.7 | 8.9 |
|  | | | | | | | | | | | |
| **Outstanding (at end of period)** | | | | | | | | | | | |
|  | | | | | | | | | | | |
| 2021 | Q1 | 1,068.3 | 89.9 | 119.2 | 1,277.4 | 353.5 | 135.2 | 532.9 | 1,021.6 | 27.5 | 2,326.5 |
|  | Q2 | 1,068.4 | 92.3 | 147.3 | 1,308.0 | 309.9 | 132.0 | 504.8 | 946.7 | 24.9 | 2,279.6 |
|  | Q3 | 1,088.5 | 95.8 | 163.7 | 1,347.9 | 278.4 | 136.6 | 474.2 | 889.1 | 27.8 | 2,264.9 |
|  | Q4 | 1,148.6 | 98.0 | 168.2 | 1,414.8 | 274.6 | 144.7 | 493.4 | 912.7 | 29.3 | 2,356.8 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 2022 | Q1 | 1,189.2 | 106.3 | 171.4 | 1,466.9 | 262.5 | 146.0 | 469.0 | 877.5 | 30.4 | 2,374.8 |
|  | Q2 | 1,190.4 | 116.8 | 190.7 | 1,497.9 | 296.3 | 135.9 | 468.6 | 900.8 | 29.9 | 2,428.6 |
|  | Q3 | 1,196.3 | 118.3 | 236.5 | 1,551.1 | 313.7 | 129.8 | 479.2 | 922.6 | 38.0 | 2,511.8 |
|  | Q4 | 1,207.5 | 130.6 | 238.6 | 1,576.7 | 303.5 | 134.8 | 480.2 | 918.5 | 36.7 | 2,531.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change at  end-2022 over  end-2021 | | 5.1 | 33.3 | 41.9 | 11.4 | 10.5 | -6.8 | -2.7 | 0.6 | 25.3 | 7.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |

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

* 1. The *local stock market* exhibited substantial volatility in 2022. Since the early part of the year, market sentiment has been dampened by a series of adverse developments including tensions in Ukraine, occasional increases in COVID-19 cases in the Mainland, the stepping up of monetary policy tightening by the US Fed and slackening global growth momentum. The HSI trended down to reach a low of 14 687 on 31 October, the lowest level since April 2009. It then rebounded strongly to close the year at 19 781 amid the expectation of slower US interest rate hikes and the optimisation of anti-epidemic measures in the Mainland. For the year as a whole, the HSI went down by 15.5%. *Market capitalisation* shrank by 15.8% from a year earlier to $35.7 trillion at end-2022. The local stock market ranked the seventh largest in the world and the fourth largest in Asia(9).
  2. Trading activities in the local stock market moderated from the hectic level in the preceding year. For the year as a whole, *average daily turnover* in the securities market contracted by 25.1% from the record high in 2021 to $124.9 billion. Within the total, the average daily trading value of equities, derivative warrants, and callable bull/bear contracts fell by 30.4%, 28.3% and 11.0% respectively, while that of unit trusts (including Exchange-Traded Funds (ETFs))(10) surged by 51.6%. As to futures and options(11), the average daily trading volume expanded by 10.9%. Within the total, trading of Hang Seng China Enterprises Index futures and HSI futures rose by 43.4% and 10.0% respectively, while that of stock options and HSI options fell by 7.8% and 2.4% respectively.



Table 5.6 : Average daily turnover of futures and options

**of the Hong Kong market**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Hang Seng Index futures | Hang Seng Index options | Hang Seng China Enterprises  Index futures | Stock  options | Total  futures and  options traded\* |
|  |  |  |  |  |  |
| 2021 Annual | 138 582 | 26 456 | 127 649 | 637 246 | 1 174 889 |
|  |  |  |  |  |  |
| Q1 | 164 096 | 33 963 | 133 426 | 826 689 | 1 410 544 |
| Q2 | 123 166 | 22 138 | 107 831 | 545 936 | 997 372 |
| Q3 | 138 989 | 26 926 | 139 745 | 667 391 | 1 225 576 |
| Q4 | 128 147 | 22 823 | 128 641 | 510 155 | 1 016 537 |
|  |  |  |  |  |  |
| 2022 Annual | 152 374 | 25 832 | 183 068 | 587 749 | 1 302 889 |
|  |  |  |  |  |  |
| Q1 | 159 738 | 29 387 | 178 800 | 637 181 | 1 342 258 |
| Q2 | 150 505 | 23 286 | 179 989 | 569 933 | 1 274 278 |
| Q3 | 135 534 | 20 944 | 154 286 | 505 258 | 1 115 403 |
| Q4 | 164 291 | 29 803 | 219 906 | 641 220 | 1 483 708 |
|  |  |  |  |  |  |
| % change in  2022 Q4 over  2021 Q4 | 28.2 | 30.6 | 70.9 | 25.7 | 46.0 |
|  |  |  |  |  |  |
| % change in  2022 over  2021 | 10.0 | -2.4 | 43.4 | -7.8 | 10.9 |

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. The Hong Kong Exchanges and Clearing Limited (HKEX) has revised the methodology for compiling the average daily turnover of total futures and options traded in the fourth quarter of 2021. The figures for earlier quarters have been revised accordingly.

* 1. Fund raising activities in Hong Kong were extremely quiet in 2022, dampened by the sluggish investment sentiment globally amid sharp monetary policy tightening by many major central banks and the volatile local stock market. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM(12), plunged by 67.2% to $253.3 billion, the lowest level since 2003. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) shrank by 68.4% to $104.6 billion. Hong Kong ranked fourth among stock exchange markets globally in terms of the amount of funds raised through IPOs in 2022(13).
  2. Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-2022 a total of 1 409 Mainland enterprises (including 316 H-share companies, 174 “Red Chip” companies and 919 private enterprises) were listed on the Main Board and GEM, accounting for 54% of the total number of listed companies and 77% of total market capitalisation. Mainland-related stocks accounted for 87% of equity turnover and 89% of total equity fund raised in the Hong Kong stock exchange in 2022.
  3. The Securities and Futures Commission and the China Securities Regulatory Commission jointly announced the in‑principle agreement for the further expansion of the scope of stocks eligible for trading under Stock Connect in December 2022. After the expansion, Stock Connect is expected to include stocks that account for more than 80% of the equity trading in each market. This will provide Mainland investors with more opportunities to invest in offshore markets and enable international investors to enjoy wider access to the Mainland market, thereby significantly enhancing the attractiveness of Hong Kong as a world‑leading listing venue and fostering the healthy development of the two financial markets. Preparatory works would take about three months and the official launch date would be announced in due course.

Fund management and investment funds

* 1. Performance of fund management business(14) was rather weak in 2022, in tandem with the local stock market correction during most of the year. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(15) fell by 11.1% from a year earlier to $1,051.1 billion at end-2022. The gross retail sales of *mutual funds* fell by 51.8% from a year earlier to US$46.9 billion in 2022(16).

Insurance sector

* 1. The *insurance sector*(17) showed subdued performance in the third quarter of 2022. New office premium of long-term business fell by 27.8% from a year earlier, within which premium from non-investment linked plans (which accounted for 89% of total premium for this segment) and investment linked plans fell by 19.3% and 60.9% respectively. As to general business, gross and net premiums increased by 4.9% and 5.1% respectively.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | General business | | |  |  | New office premium for long-term business^ | | | | |  | |
|  | Gross premium | | Net premium | Underwriting profit | | Individual  life and annuity (non-investment  linked) | | Individual  life and annuity (investment  linked) | Other individual business | Non-retirement scheme group business | All  long-term business | | Gross premium from long-term business  and general business |
|  |  | |  |  | |  | |  |  |  |  | |  |
| 2021 Annual | 61,835 | | 41,490 | 1,958 | | 135,605 | | 30,796 | 30 | 369 | 166,800 | | 228,635 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| Q1 | 18,267 | | 11,950 | 512 | | 34,291 | | 6,283 | 6 | 140 | 40,720 | | 58,987 |
| Q2 | 15,114 | | 10,158 | 282 | | 32,674 | | 7,072 | 9 | 72 | 39,827 | | 54,941 |
| Q3 | 15,427 | | 10,685 | 429 | | 33,272 | | 8,548 | 7 | 92 | 41,919 | | 57,346 |
| Q4 | 13,027 | | 8,697 | 735 | | 35,368 | | 8,893 | 8 | 65 | 44,334 | | 57,361 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| 2022 Q1 | 19,327 | | 11,966 | 1,063 | | 37,744 | | 4,573 | 12 | 114 | 42,443 | | 61,770 |
| Q2 | 15,875 | | 10,528 | 1,482 | | 35,287 | | 3,941 | 9 | 209 | 39,446 | | 55,321 |
| Q3 | 16,183 | | 11,230 | 852 | | 26,855 | | 3,345 | 11 | 72 | 30,283 | | 46,466 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| % change in 2022 Q3 over 2021 Q3 | 4.9 | | 5.1 | 98.6 | | -19.3 | | -60.9 | 57.1 | -21.7 | -27.8 | | -19.0 |
|  |  | |  |  | |  | |  |  |  |  | |  |

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

(^) Retirement scheme business is excluded.

Highlights of policy and market developments

* 1. To further promote the issuance and trading of RMB securities, HKEX announced in December the introduction of a new Hong Kong Dollar (HKD)-RMB Dual Counter Model and an inaugural Dual Counter Market Making Programme in its securities market. Under the proposed model, investors will be able to interchange securities listed in both HKD and RMB counters. Participation of market makers will promote the liquidity and price efficiency of RMB-denominated stocks, thereby enhancing the use of RMB in Hong Kong for investment purposes and contributing to the RMB internationalisation process. Subject to regulatory approval and market readiness, these initiatives were expected to be implemented in the first half of 2023.
  2. The Government issued a policy statement on the development of Virtual Assets (VA) in Hong Kong in late October, setting out the Government’s policy stance and approach towards developing a vibrant sector and ecosystem for VA in Hong Kong. The policy statement explains in detail the vision and approach, regulatory regimes, thoughts on investors’ exposures, and pilot projects to embrace the technological benefits and financial innovations brought by VA. This demonstrates Hong Kong’s commitment and determination to exploring financial innovations together with the global VA community.
  3. In October, the HKEX launched Core Climate, a new international carbon marketplace that seeks to connect capital with climate-related products and opportunities in Hong Kong, the Mainland, Asia and beyond. Through the Core Climate platform, participants will be able to source, hold, trade, settle and retire voluntary carbon credits from internationally-certified carbon projects from around the world, including carbon avoidance, reduction and removal projects. Through matching investment capital with new climate projects, technologies and business models, Core Climate will support the global transition to Net Zero and help secure a sustainable future for coming generations.

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 movements 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. Since June 2019, the composite interest rate has been calculated based on the new local “Interest rate risk in the banking book” framework. As such, the figures are not strictly comparable with those of previous months.

(3) To meet the ongoing demand for Exchange Fund paper by banks amid the abundance of liquidity in the banking system, the HKMA increased the issuance size of 91-day Exchange Fund Bills by $40 billion in January and February 2022, and the Aggregate Balance decreased by the same amount. The increase in the supply of Exchange Fund Bills is consistent with the Currency Board principles, since the additional issuance simply represents a change in the composition of the Monetary Base.

(4) 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 18 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 2019 and 2020.

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.

(5) 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 and 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. As monthly monetary statistics are subject to volatilities due to a wide range of transient factors, such as seasonal and IPO-related funding demand as well as business and investment-related activities, caution is required when interpreting the statistics.

(6) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-2022, there were 155 licensed banks, 15 restricted licence banks and 12 deposit‑taking companies in Hong Kong. Altogether, 182 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

(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, 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 market capitalisation figures of global stock exchange markets and compiled by the World Federation of Exchanges and the London Stock Exchange 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-2022, there were 123 classes of stock options contracts and 98 classes of stock futures contracts.

(12) At end-2022, there were 2 257 and 340 companies listed on the Main Board and GEM respectively.

(13) The ranking is based on the amount of funds raised through IPOs (including fundraising of special purpose acquisition companies) compiled by Dealogic.

(14) At end-2022, there was one SFC-authorised retail hedge fund with net asset size of US$127 million. The amount of net assets under management decreased by 12.4% from end-September 2022, and represented a 7.6% increase over a year earlier and a 20.6% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(15) At end-2022, there were 13 approved trustees. On MPF products, 24 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 413 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 344 000 employers, 2.72 million employees and 238 000 self-employed persons are estimated to have participated in MPF schemes.

(16) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association (HKIFA) on their members, and cover only the active authorised funds that have responded to the survey. At end-2022, the survey covered a total of 1 350 active authorised funds.

(17) At end-2022, there were 164 authorized insurers in Hong Kong. Within this total, 53 were engaged in long-term insurance business, 89 in general insurance business, 19 in composite insurance business, and three in special purpose business. These authorized insurers come from 22 countries and territories (including Hong Kong).