CHAPTER 4 : THE FINANCIAL SECTOR#

*Summary*

* *After the visible tightening in the latter part of last year, the interest rate environment in Hong Kong eased somewhat in the first quarter. Following the two 25-basis-point policy rate hikes by the US Federal Open Market Committee (FOMC) in February and March, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate under the Discount Window upward by the same magnitudes to 5.25%. Yet the Hong Kong dollar interbank interest rates generally moved lower during the quarter as the seasonal demand for Hong Kong dollar faded after the year-end. Interest rates on the retail front remained stable.*
* *The Hong Kong dollar spot exchange rate against the US dollar weakened in January and early February and then stayed close to the weak-side Convertibility Undertaking level. As the US dollar weakened against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices fell by 1.6% and 1.3% respectively during the first quarter.*
* *Total loans and advances increased by 0.9% during the first quarter. Within the total, loans for use in Hong Kong rose by 1.4%, while loans for use outside Hong Kong edged down by 0.4%.*
* *The local stock market exhibited considerable volatility in the first quarter. The Hang Seng Index (HSI) extended its rally on entering 2023, supported by expectations of a slower pace of US monetary policy tightening and the return of economic activities to normalcy. This was followed by a sharp correction between late January and mid-March when market sentiment was dampened by concerns over the global economic outlook and the banking sector stress in the US and Europe. The HSI closed the quarter at 20 400, 3.1% higher than end-2022. Trading activities remained active in general, while fund raising activities were extremely quiet.*

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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. After the visible tightening in the latter part of last year, the interest rate environment in Hong Kong eased somewhat in the first quarter. Following the two 25-basis-point policy rate hikes by the US FOMC in February and March, the HKMA adjusted the *Base Rate* under the Discount Window upward by the same magnitudes to 5.25%(1). Yet the *Hong Kong dollar interbank interest rates* (HIBORs) generally moved lower during the quarter as the seasonal demand for Hong Kong dollar faded after the year-end. The overnight HIBOR and the 3‑month HIBOR fell from 3.23% and 4.99% at end-2022 to 1.94% and 3.71% at end‑March 2023 respectively, though still visibly higher than the levels a year earlier.
  2. Both *Hong Kong dollar* and *US dollar* *yields* at the medium and long tenors decreased during the first quarter, while those at the shorter tenors rose. Reflecting the relative movements of the Hong Kong dollar yields and the US dollar counterparts, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened notably from 86 basis points at end‑2022 to 199 basis points at end-March 2023, while that between 10‑year Hong Kong Government Bonds and 10-year US Treasury Notes from 25 basis points to 30 basis points.



* 1. Interest rates on the retail front remained stable. Banks kept their *Best Lending Rates* unchanged, ranging from 5.625% to 6.125% in the first quarter. The *average savings deposit rate* for deposits of less than $100,000 quoted by major banks stayed unchanged at 0.55% at end‑March 2023, while the 1-year *time deposit rate* increased from 0.38% at end-2022 to 0.53% at end‑March 2023. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, edged up from 2.11% at end-2022 to 2.13% at end-March 2023.



* 1. The *Hong Kong dollar spot exchange rate against the US dollar* weakened in January and early February and stayed close to the weak-side Convertibility Undertaking level thereafter, due to the decline in seasonal demand for Hong Kong dollar and also the selling pressure from carry trades. The weak‑side Convertibility Undertaking was triggered twice during the quarter, and the HKMA purchased a total of $19.1 billion worth of Hong Kong dollars. As a result, the Aggregate Balance declined from $96.3 billion at end‑2022 to $76.9 billion at end-March 2023. The Hong Kong dollar closed the first quarter at 7.850 against the US dollar, compared with 7.797 at end-2022. The discounts of 3-month and 12-month *Hong Kong dollar forward rates* widened from 125 pips and 215 pips (each pip is equivalent to HK$0.0001) at end-2022 to 326 pips and 760 pips at end‑March 2023 respectively.
  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 weakened against most major currencies (including the pound sterling, euro, and renminbi (RMB)), the *trade-weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*(3) fell by 1.6% and 1.3% respectively during the first quarter.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) rose by 2.3% over end-2022 to $8,299 billion at end-March 2023, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) declined by 2.2% to $1,725 billion(4). Meanwhile, *total deposits* with authorized institutions (AIs)(5) edged up by 0.5% to $15,519 billion, within which Hong Kong dollar deposits increased by 2.6% while foreign currency deposits decreased by 1.4%.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$# | Total | HK$# | Total |
|  |  |  |  |  |  |  |
| 2022 Q1 | 1.2 | 2.3 | 2.1 | 0.7 | 2.1 | 0.7 |
| Q2 | -5.8 | -7.1 | 0.2 | -0.6 | 0.2 | -0.5 |
| Q3 | -7.3 | -8.5 | -2.5 | 0.2 | -2.5 | 0.2 |
| Q4 | -6.9 | -8.8 | 0.9 | 1.2 | 0.9 | 1.2 |
|  |  |  |  |  |  |  |
| 2023 Q1 | -2.2 | -2.0 | 2.3 | 0.5 | 2.3 | 0.5 |
|  |  |  |  |  |  |  |
| Total amount at  end-March 2023 ($Bn) | 1,725 | 2,713 | 8,286 | 16,620 | 8,299 | 16,654 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | -20.5 | -24.0 | 0.9 | 1.4 | 0.9 | 1.4 |

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

* 1. *Total loans and advances* increased by 0.9% over end-2022 to $10,663 billion at end‑March 2023. Within the total, Hong Kong dollar loans rose by 2.4%, while foreign currency loans decreased by 1.6%. Reflecting the relative movements in loans and deposits, the loan‑to‑deposit ratio for Hong Kong dollar edged down from 88.4% at end‑2022 to 88.2% at end‑March 2023, and that for foreign currency from 49.8% to 49.7% .
  2. Loans for use in Hong Kong (including trade finance) rose by 1.4% over end-2022 to $7,814 billion at end‑March 2023, while loans for use outside Hong Kong edged down by 0.4% to $2,849 billion. Within the former, loans to most economic segments increased. Loans to stockbrokers jumped by 14.6% along with the active trading in the local stock market. Loans to manufacturing and loans to financial concerns also rose by 3.8% and 1.2% respectively. Amid the recovery of inbound tourism and private consumption, loans to wholesale and retail trade registered a narrower decline of 1.1%. The decline in trade finance also narrowed visibly to 0.9%. As for property‑related lending, loans to building, construction, property development and investment, as well as loans for purchase of residential property increased by 1.8% and 0.9% respectively.

Table 4.2 : 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 |
|  |  |  |  |  |  |  |  |  |  |  |
| 2022 Q1 | 9.6 | 5.9 | 8.1 | 1.9 | 1.3 | 2.1 | -8.8 | 2.0 | -0.7 | 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 | -8.9 | -9.1 | 0.7 | 0.7 | 1.2 | 11.1 | -1.3 | -5.0 | -2.3 |
|  |  |  |  |  |  |  |  |  |  |  |
| 2023 Q1 | -0.9 | 3.8 | -1.1 | 1.8 | 0.9 | 1.2 | 14.6 | 1.4 | -0.4 | 0.9 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-March 2023 ($Bn) | 416 | 324 | 308 | 1,743 | 1,933 | 933 | 62 | 7,814 | 2,849 | 10,663 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -21.8 | -2.1 | -12.3 | -0.1 | 3.6 | 0.6 | 19.1 | -0.7 | -9.8 | -3.3 |

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.
   1. The Hong Kong banking sector stayed resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 20.1% at end-2022. The local banking sector’s overall asset quality stayed at a healthy level. The ratio of classified loans to total loans for all AIs rose from 1.19% at end‑September 2022 to 1.38% at end-2022, while the delinquency ratio for credit card lending edged down from 0.24% to 0.23%. Meanwhile, the delinquency ratio for residential mortgage loans remained at a low level of 0.06% at end-March 2023, same as end-2022.

**Table 4.3 : 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 | 97.56 | 1.55 | 0.89 |
|  |  |  |  |  |
| 2022 | Q1 | 97.37 | 1.66 | 0.98 |
|  | Q2 | 97.11 | 1.79 | 1.10 |
|  | Q3 | 97.08 | 1.73 | 1.19 |
|  | Q4 | 96.59 | 2.03 | 1.38 |

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 96.43%, 2.16% and 1.41% respectively at end-2022.

* 1. *Offshore RMB business* remained generally active in the first quarter. RMB trade settlement transactions handled by banks in Hong Kong increased by 15.5% over a year earlier to RMB2,312.6 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) fell by 3.2% from end‑2022 to RMB950.6 billion at end‑March 2023. As to financing activities, RMB bond issuance amounted to RMB84.3 billion in the first quarter, higher than the RMB60.3 billion in the preceding quarter, while outstanding RMB bank loans increased by 28.0% over end-2022 to RMB245.4 billion at end‑March 2023.

Table 4.4 : 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) |
|  |  |  |  | |  | |  | |  |  |  |
| 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 |
|  |  |  |  | |  | |  | |  |  |  |
| 2023 | Q1 | 319,076 | 475,018 | | 794,095 | | 0.16 | | 0.31 | 141 | 2,312,566 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2023 Q1 over  2022 Q1 | | 16.9 | -8.4 | | 0.3 | | N.A. | | N.A. | N.A. | 15.5 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2023 Q1 over  2022 Q4 | | -6.7 | -3.8 | | -5.0 | | N.A. | | N.A. | N.A. | -10.1 |

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 7.7% over the preceding quarter to $1,253.8 billion in the first quarter, underpinned by the respective increases of 37.7% and 1.4% in private and public sector debt issuance(6). The total outstanding amount of Hong Kong dollar debt securities increased by 1.7% over end-2022 to $2,574.9 billion at end-March 2023, equivalent to 31.0% of HK$M3 or 25.0% of Hong Kong dollar-denominated assets of the banking sector(7).
  2. As to the Hong Kong dollar bonds issued by the Government, a total of $7.0 billion institutional Government Bonds (GBs) were issued through tenders in the first quarter under the GB Programme. Meanwhile, the inaugural tokenised green bond with an issuance size of $800 million was issued under the Government Green Bond (GGB) Programme in February, marking the first tokenised green bond issued by a government globally. At end‑March, the total outstanding amount of Hong Kong dollar bonds under the GB and GGB Programmes was $226.9 billion, comprising 17 institutional issues totalling $83.5 billion and five retail issues (two iBonds and three Silver Bonds) totalling $122.6 billion under the GB Programme, as well as one retail issue of $20.0 billion and one tokenised institutional issue of $800 million under the GGB Programme. As for GBs denominated in other 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$13.0 billion equivalent of institutional green bonds outstanding under the GGB Programme.
  3. As announced in the 2023-24 Budget, the Pilot Insurance-linked Securities (ILS) Grant Scheme, which has facilitated the issuance of several catastrophe bonds in Hong Kong and promoted diversified development of the insurance market, would be extended for two more years. The extension of the Scheme would attract more issuing institutions, which would in turn support industry development and expand the channels for risk diversification and management. In relation to this, the World Bank (International Bank for Reconstruction and Development) issued ILS in the form of a catastrophe bond in Hong Kong with a size of US$350 million in late March, offering protection against losses related to earthquake risks in Chile over the next three years. This marks the fourth issuance, as well as the inaugural listing, of ILS in Hong Kong, and is an important milestone for Hong Kong to become a vibrant ILS hub.

Table 4.5 : 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** | | | | | | | | | | | |
|  | | | | | | | | | | | |
| 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 2023 | Q1 | 975.8 | 31.8 | 7.8 | 1,015.3 | 86.1 | 9.0 | 128.5 | 223.6 | 14.9 | 1,253.8 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q1 over 2022 Q1 | | 4.1 | 117.9 | 136.4 | 6.3 | -19.0 | -51.3 | 84.5 | 15.0 | 292.6 | 8.7 |
|  | | | | | | | | | | | |
| % change in 2023 Q1 over 2022 Q4 | | 0.6 | 26.3 | 30.0 | 1.4 | 17.8 | -39.3 | 72.5 | 37.7 | 2 872.0 | 7.7 |
|  | | | | | | | | | | | |
| **Outstanding (at end of period)** | | | | | | | | | | | |
|  | | | | | | | | | | | |
| 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 2023 | Q1 | 1,216.7 | 145.5 | 226.9 | 1,589.0 | 305.6 | 133.1 | 499.0 | 937.6 | 48.2 | 2,574.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q1 over 2022 Q1 | | 2.3 | 36.9 | 32.4 | 8.3 | 16.4 | -8.8 | 6.4 | 6.9 | 58.7 | 8.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q1 over 2022 Q4 | | 0.8 | 11.4 | -4.9 | 0.8 | 0.7 | -1.3 | 3.9 | 2.1 | 31.5 | 1.7 |

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 considerable volatility in the first quarter. Supported by expectations of a slower pace of US monetary policy tightening and the return of economic activities to normalcy, the HSI extended its rally on entering 2023. This was followed by a sharp correction from 22 689 on 27 January to 19 001 on 20 March when market sentiment was dampened by concerns over the global economic outlook and the banking sector stress in the US and Europe. The HSI then recouped some of the loss and closed the quarter at 20 400, 3.1% higher than end-2022. *Market capitalisation* increased by 3.5% to $36.9 trillion during the quarter. The local stock market ranked the seventh largest in the world and the fourth largest in Asia(8).
  2. Trading activities in the local stock market remained active in general in the first quarter. *Average daily turnover* in the securities market edged up by 0.5% over the preceding quarter to $127.8 billion, though 12.8% lower than the hectic level a year earlier. Within the total, the average daily trading value of equities rose by 1.0% over the preceding quarter, while that of derivative warrants, callable bull/bear contracts and unit trusts (including Exchange-Traded Funds)(9) decreased by 6.0%, 1.3% and 0.7% respectively. As to futures and options(10), the average daily trading volume declined by 4.4%. Within the total, trading of HSI options, HSI futures and Hang Seng China Enterprises Index futures fell by 15.3%, 11.3% and 10.7% respectively, while that of stock options increased by 3.7%.



Table 4.6 : 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\* |
|  |  |  |  |  |  |
| 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 |
|  |  |  |  |  |  |
| 2023 Q1 | 145 708 | 25 243 | 196 405 | 665 210 | 1 418 700 |
|  |  |  |  |  |  |
| % change in  2023 Q1 over  2022 Q1 | -8.8 | -14.1 | 9.8 | 4.4 | 5.7 |
|  |  |  |  |  |  |
| % change in  2023 Q1 over  2022 Q4 | -11.3 | -15.3 | -10.7 | 3.7 | -4.4 |

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

* 1. Fund raising activities were extremely quiet in the first quarter amid the cautious global market sentiment and the uncertain interest rate outlook. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM(11), plunged by 44.8% from the preceding quarter or 56.8% from a year earlier to $33.7 billion in the first quarter, the lowest quarterly level since the first quarter of 2009. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) plummeted by 78.5% from the preceding quarter to $6.7 billion. Hong Kong ranked the fifth globally in terms of the amount of funds raised through IPOs in the first quarter(12).
  2. Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-March, a total of 1 423 Mainland enterprises (including 320 H-share companies, 176 “Red Chip” companies and 927 private enterprises) were listed on the Main Board and GEM, accounting for 55% of the total number of listed companies and 78% of total market capitalisation. Mainland-related stocks accounted for 87% of equity turnover and 88% of total equity fund raised in the Hong Kong stock exchange in the first quarter.

Fund management and investment funds

* 1. The fund management business(13) showed some improvement in the first quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(14) rose by 5.5% over end‑2022 to $1,109.0 billion at end-March 2023. The monthly average gross retail sales of *mutual funds* surged by 88.9% over the preceding quarter to US$5.3 billion in January – February(15), though 12.7% lower than the level a year earlier.

Insurance sector

* 1. The *insurance sector*(16) showed mixed performance in 2022. For the year as a whole, new office premium of long-term business fell by 19.1%, within which premium from non-investment linked plans (which accounted for 89% of total premium for this segment) and investment linked plans decreased by 11.9% and 51.6% respectively. As to general business, gross and net premiums rose by 4.5% and 1.6% respectively.

Table 4.7 : Insurance business in Hong Kong@ ($Mn)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | General business | | |  |  | New office premium of 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 Annual | 64,624 | | 42,138 | 4,186 | | 119,480 | | 14,899 | 43 | 460 | 134,882 | | 199,506 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| 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 | |
| Q4 | 13,239 | | 8,414 | 789 | | 19,594 | | 3,040 | 11 | 65 | 22,710 | | 35,949 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| % change in 2022 Q4 over 2021 Q4 | 1.6 | | -3.3 | 7.3 | | -44.6 | | -65.8 | 37.5 | \* | -48.8 | | -37.3 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| % change in 2022 over 2021 | 4.5 | | 1.6 | 113.8 | | -11.9 | | -51.6 | 43.3 | 24.7 | -19.1 | | -12.7 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |

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

(^) Retirement scheme business is excluded.

(\*) Change within ± 0.05%.

**Highlights of policy and market developments**

* 1. In late March, the Government issued the Policy Statement on Developing Family Office Businesses in Hong Kong to set out the Government’s policy stance and measures on developing a vibrant ecosystem for global family offices and asset owners, with a view to supporting asset owners in deploying and managing wealth and capturing new investment opportunities in Hong Kong.
  2. In late January, the HKMA issued the consultation conclusion to the discussion paper on crypto-assets and stablecoins. Having considered feedback from the industry, public bodies, business and professional organisations and individuals, the HKMA proposed to bring certain activities relating to stablecoins into the regulatory perimeter, and indicated the expected regulatory scope and key regulatory requirements. The HKMA will engage with stakeholders and market participants, and expects to implement the regulatory arrangements by 2024.
  3. In February, the Securities and Futures Commission (SFC) launched a consultation on the proposed regulatory requirements for licensed virtual asset trading platforms. This was to prepare for the new licensing regime that will come into effect on 1 June 2023 under which all centralised virtual asset trading platforms carrying on their businesses in Hong Kong or actively marketing their services to Hong Kong investors will need to be licensed and regulated by the SFC. The consultation ended at end-March, and the SFC is finalising the regulatory requirements for the implementation of the new regime having taken into account the comments received.

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) 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.

(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 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.

(5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2023, there were 154 licenced banks, 15 restricted licence banks and 12 deposit-taking companies in Hong Kong. Altogether, 181 AIs (excluding representative offices) from 31 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, 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 market capitalisation figures of global stock exchange markets compiled by the World Federation of Exchanges and the London Stock Exchange 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 2023, there were 126 classes of stock options contracts and 98 classes of stock futures contracts.

(11) At end-March 2023, there were 2 265 and 338 companies listed on the Main Board and GEM respectively.

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

(13) At end‐March 2023, there was one SFC‐authorised retail hedge fund with net asset size of US$116 million. This amount of net assets under management decreased by 8.7% from end‐2022, and represented a 14.1% decrease from a year earlier, and a 27.5% decrease from end‐2002, the year when the hedge funds guidelines were first issued.

(14) At end-March 2023, there were 13 approved trustees. On MPF products, 24 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 414 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 347 000 employers, 2.67 million employees and 238 000 self-employed persons are estimated to have participated in MPF schemes.

(15) 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-February 2023, the survey covered a total of 1 761 active authorised funds.

(16) At end-March 2023, 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).