CHAPTER 4 : THE FINANCIAL SECTOR#

*Summary*

* *Interest rates in Hong Kong rose visibly in the second quarter of 2023 amid tightening domestic liquidity conditions and the further policy rate hike in the US. The Hong Kong dollar interbank interest rates increased visibly across all tenors during the quarter, mainly driven by dividend payment-related demand from listed companies and half-year-end funding needs by corporates. Meanwhile, following the 25-basis-point policy rate hike by the US Federal Open Market Committee (FOMC) in early May, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate under the Discount Window upward by the same magnitude to 5.50%. Many banks also raised their Best Lending Rates by 12.5 basis points, the first hike in 2023 after the cumulative increase of 62.5 basis points last year.*
* *The Hong Kong dollar spot exchange rate against the US dollar remained generally soft during the second quarter. As the US dollar strengthened notably against some major currencies including the renminbi (RMB) and Japanese yen though weakened slightly against the euro and pound sterling, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices increased by 2.5% and 2.2% respectively during the second quarter.*
* *Total loans and advances decreased by 1.3% during the second quarter. Within the total, loans for use in and outside Hong Kong fell by 0.4% and 4.1% respectively.*
* *The local stock market was under pressure in the second quarter amid concerns over the recovery momentum of the Mainland economy and expectations of further rate hikes by the US Federal Reserve (Fed). The Hang Seng Index (HSI) closed the quarter at 18 916, down by 7.3% from end‑March. Trading activities turned quieter and fund raising activities remained tepid.*

*\_\_\_\_\_\_\_\_\_*

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

Interest rates and exchange rates

* 1. Interest rates in Hong Kong rose visibly in the second quarter of 2023 amid tightening domestic liquidity conditions and the further policy rate hike in the US. The *Hong Kong dollar interbank interest rates* (HIBORs) increased visibly across all tenors during the quarter, mainly driven by dividend payment-related demand from listed companies and half-year-end funding needs by corporates. The overnight HIBOR surged from 1.94% at end‑March to 5.75% at end‑June, and the 3‑month HIBOR jumped from 3.71% to 4.97%. Meanwhile, following the 25-basis-point policy rate hike by the US FOMC in early May, the HKMA adjusted the *Base Rate* under the Discount Window upward by the same magnitude to 5.50%(1).
  2. Both *Hong Kong dollar* and *US dollar* *yield curves* shifted upward during the second quarter, with the former seeing a more notable shift in the shorter tenors. Reflecting the relative movements of the Hong Kong dollar yields and their US dollar counterparts, the negative yield spread between 6‑month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 199 basis points at end‑March to 130 basis points at end-June, and that between 10‑year Hong Kong Government Bonds and 10-year US Treasury Notes from 30 basis points to 13 basis points.



* 1. On the retail front, many banks raised their *Best Lending Rates* by 12.5 basis points in early May, marking the first hike in 2023 after the cumulative increase of 62.5 basis points last year. At end‑June, the Best Lending Rates among banks ranged from 5.75% to 6.25%. The *average savings deposit rate* for deposits of less than $100,000 quoted by major banks rose from 0.55% at end‑March to 0.63% at end‑June, and the 1‑year *time deposit rate* increased from 0.53% to 0.61%. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, rose from 2.13% at end-March to 2.35% at end‑June.



* 1. The *Hong Kong dollar spot exchange rate against the US dollar* remained generally soft during the second quarter. It stayed close to the weak‑side Convertibility Undertaking level in April and early May, before regaining some strength mainly due to dividend payment-related demand from listed companies and half‑year-end funding needs by corporates. The weak‑side Convertibility Undertaking was triggered six times during the second quarter, and the HKMA purchased a total 32.5 billion of Hong Kong dollars. As a result, the Aggregate Balance declined from $76.9 billion at end‑March to $44.9 billion at end-June. The Hong Kong dollar closed the second quarter at 7.835 against the US dollar, compared with 7.850 at end‑March. The discounts of 3-month and 12-month *Hong Kong dollar forward rates* narrowed from 326 pips and 760 pips (each pip is equivalent to HK$0.0001) to 162 pips and 654 pips respectively over the period.
  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 notably against some major currencies including the RMB and Japanese yen though weakened slightly against the euro and pound sterling, the *trade‑weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*(3) increased by 2.5% and 2.2% respectively during the second quarter.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) declined by 0.8% from end-March to $8,230 billion at end-June, and the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) fell by 6.4% to $1,615 billion(4). Meanwhile, *total deposits* with authorized institutions (AIs)(5) decreased by 0.3% to $15,469 billion, within which Hong Kong dollar deposits fell by 0.9% while foreign currency deposits edged up by 0.2%.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$# | Total | HK$# | Total |
|  |  |  |  |  |  |  |
| 2022 Q1 | 1.2 | 2.3 | 2.1 | 0.7 | 2.1 | 0.7 |
| Q2 | -5.8 | -7.1 | 0.2 | -0.6 | 0.2 | -0.5 |
| Q3 | -7.3 | -8.5 | -2.5 | 0.2 | -2.5 | 0.2 |
| Q4 | -6.9 | -8.8 | 0.9 | 1.2 | 0.9 | 1.2 |
|  |  |  |  |  |  |  |
| 2023 Q1 | -2.2 | -2.0 | 2.3 | 0.5 | 2.3 | 0.5 |
| Q2 | -6.4 | -4.8 | -0.8 | -0.4 | -0.8 | -0.4 |
|  |  |  |  |  |  |  |
| Total amount at  end-June 2023 ($Bn) | 1,615 | 2,582 | 8,218 | 16,553 | 8,230 | 16,588 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | -21.0 | -22.2 | -0.1 | 1.5 | -0.1 | 1.5 |

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

* 1. *Total loans and advances* decreased by 1.3% from end-March to $10,520 billion at end‑June. Within the total, Hong Kong dollar loans edged down by 0.3%, and foreign currency loans decreased by 3.2%. Reflecting the relative movements in loans and deposits, the loan‑to‑deposit ratio for Hong Kong dollar rose from 88.2% at end‑March to 88.7% at end‑June, while that for foreign currency fell from 49.7% to 48.0%.
  2. Loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong fell by 0.4% and 4.1% respectively from end-March to $7,787 billion and $2,733 billion at end‑June. Within the former, loans to most economic segments decreased. Loans to stockbrokers shrank by 16.8%, as trading activities in the local stock market turned quieter. Loans to manufacturing and trade finance decreased by 3.8% and 2.4% respectively amid the weak external trade performance. The fall in loans to wholesale and retail trade narrowed to 0.4% alongside the continued recovery of inbound tourism and private consumption. Meanwhile, loans to financial concerns rose by 1.1%. As for property‑related lending, loans to building, construction, property development and investment decreased by 2.1%, while loans for purchase of residential property increased by 1.6%.

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 |
| Q2 | -2.4 | -3.8 | -0.4 | -2.1 | 1.6 | 1.1 | -16.8 | -0.4 | -4.1 | -1.3 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-June 2023 ($Bn) | 406 | 312 | 307 | 1,707 | 1,964 | 943 | 52 | 7,787 | 2,733 | 10,520 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -22.6 | -4.9 | -13.8 | -1.0 | 4.5 | 3.1 | -6.7 | -1.1 | -12.0 | -4.2 |

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 20.8% at end-March. The local banking sector’s overall asset quality deteriorated slightly, but remained at a healthy level. The ratio of classified loans to total loans for all AIs increased from 1.38% at end‑2022 to 1.45% at end‑March 2023, and the delinquency ratio for credit card lending edged up from 0.23% to 0.25%. The delinquency ratio for residential mortgage loans edged up from 0.06% at end‑March to 0.07% at end‑June.

**Table 4.3 : Asset quality of all AIs**\*^

(as % of total loans)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| At end of period | | Pass loans | Special mention loans | Classified loans  (gross) |
|  | | | | |
| 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 |
|  |  |  |  |  |
| 2023 | Q1 | 96.58 | 1.97 | 1.45 |

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 96.41%, 2.12% and 1.47% respectively at end-March 2023.

* 1. In late June, the HKMA commenced a 3‑month public consultation on review of the three-tier banking system. The HKMA proposed to simplify the current three-tier banking system into two tiers by merging deposit-taking companies (DTCs) into the “second-tier institutions” (i.e. restricted licence banks) while keeping licensed banks (LBs) as the “first-tier institutions”. A transition period of 5 years is proposed to be provided for existing DTCs to upgrade to the “second‑tier institutions” or LBs. The HKMA’s review aims to simplify the structure of Hong Kong’s banking system and enhance its vital role in strengthening Hong Kong’s status as an international financial centre, as well as to revitalise institutions in the category of DTCs and enhance their flexibility and efficiency in conducting business and meeting customers’ needs.
  2. *Offshore RMB business* saw broad‑based growth in the second quarter. RMB trade settlement transactions handled by banks in Hong Kong increased by 18.5% over a year earlier to RMB2,791.7 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased by 12.9% over end‑March to RMB1,073.3 billion at end‑June. As to financing activities, RMB bond issuance amounted to RMB94.6 billion in the second quarter (including the issuance of RMB12.0 billion by the Ministry of Finance), higher than the RMB84.3 billion in the preceding quarter, while outstanding RMB bank loans rose by 20.9% over end-March to RMB296.6 billion at end‑June.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | |  | |  |  |  | |  |  |
|  | |  | | | | | Interest rates on(a),(b) | | | 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 | | Three-month  time deposits |
|  |  | (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 |
|  | Q2 | 399,974 | 507,327 | | 907,302 | | 0.16 | | 0.31 | 141 | 2,791,750 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2023 Q2 over  2022 Q2 | | 33.3 | -1.5 | | 11.3 | | N.A. | | N.A. | N.A. | 18.5 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2023 Q2 over  2023 Q1 | | 25.4 | 6.8 | | 14.3 | | N.A. | | N.A. | N.A. | 20.7 |

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 decreased by 3.4% from the preceding quarter to $1,211.5 billion in the second quarter. Within the total, the public sector debt issuance increased by 1.1%, while the debt securities issued by the private sector and multilateral development banks declined by 18.8% and 74.8% respectively(6). The total outstanding amount of Hong Kong dollar debt securities rose by 2.3% over end‑March to $2,635.2 billion at end-June, equivalent to 32.0% of HK$M3 or 25.3% 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 $9.5 billion institutional Government Bonds (GBs) were issued through tenders in the second quarter under the GB Programme. At end‑June, the total outstanding amount of Hong Kong dollar bonds under the GB and Government Green Bond (GGB) Programmes was $234.5 billion, comprising 17 institutional issues totalling $91.5 billion and five retail issues (two iBonds and three Silver Bonds) totalling $122.2 billion under the GB Programme, as well as one retail issue of $20.0 billion and one tokenised institutional issue of $0.8 billion under the GGB Programme. As for GBs denominated in other currencies, a total of around US$6.0 billion equivalent of institutional green bonds were issued under the GGB Programme in the second quarter. At end‑June, there was one US dollar sukuk with an issuance size of US$1.0 billion outstanding under the GB Programme, as well as around US$19.0 billion equivalent of institutional green bonds outstanding under the GGB Programme.

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 |
|  | Q2 | 997.2 | 19.4 | 9.5 | 1,026.2 | 65.2 | 10.4 | 106.0 | 181.6 | 3.7 | 1,211.5 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q2 over 2022 Q2 | | 5.1 | -12.9 | -66.7 | 2.6 | -41.4 | 53.1 | 34.1 | -7.9 | 102.2 | 1.1 |
|  | | | | | | | | | | | |
| % change in 2023 Q2 over 2023 Q1 | | 2.2 | -38.8 | 21.8 | 1.1 | -24.3 | 15.2 | -17.5 | -18.8 | -74.8 | -3.4 |
|  | | | | | | | | | | | |
| **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 |
|  | Q2 | 1,227.1 | 148.8 | 234.5 | 1,610.4 | 296.0 | 136.5 | 541.8 | 974.3 | 50.4 | 2,635.2 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q2 over 2022 Q2 | | 3.1 | 27.5 | 22.9 | 7.5 | -0.1 | 0.4 | 15.6 | 8.2 | 68.7 | 8.5 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q2 over 2023 Q1 | | 0.9 | 2.3 | 3.3 | 1.3 | -3.1 | 2.6 | 8.6 | 3.9 | 4.5 | 2.3 |

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* was under pressure in the second quarter. Dampened by concerns over the recovery momentum of the Mainland economy and expectations of further rate hikes by the US Fed, the HSI fell visibly in the latter part of May and hit a low of 18 217 on 1 June. It then recouped some of the loss and closed the quarter at 18 916, down by 7.3% from end-March. *Market capitalisation* shrank by 8.2% to $33.9 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 turned quieter in the second quarter amid the cautious market atmosphere. *Average daily turnover* in the securities market contracted by 19.5% from the preceding quarter or 20.7% from a year earlier to $102.8 billion. Within the total, the average daily trading value of equities, callable bull/bear contracts, unit trusts (including Exchange-Traded Funds), and derivative warrants(9) all fell, by 22.3%, 12.2%, 9.7% and 5.0% respectively from the preceding quarter. As to futures and options(10), the average daily trading volume declined by 7.3%. Within the total, trading of stock options, HSI options, HSI futures and Hang Seng China Enterprises Index futures all decreased, by 10.0%, 8.3%, 4.8% and 3.8% respectively.



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 |
| Q2 | 138 717 | 23 143 | 188 933 | 598 988 | 1 315 783 |
|  |  |  |  |  |  |
| % change in  2023 Q2 over  2022 Q2 | -7.8 | -0.6 | 5.0 | 5.1 | 3.3 |
|  |  |  |  |  |  |
| % change in  2023 Q2 over  2023 Q1 | -4.8 | -8.3 | -3.8 | -10.0 | -7.3 |

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 remained tepid in the second quarter, though rising back from the extremely low level in the preceding quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM(11), rebounded by 22.7% over the preceding quarter or 11.4% over a year earlier to $41.3 billion in the second quarter. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) jumped by 68.1% over the preceding quarter to $11.2 billion. Hong Kong ranked the sixth globally in terms of the amount of funds raised through IPOs in the first half of the year(12).
  2. In late June, Hong Kong Exchanges and Clearing Limited (HKEX) announced that the Fast Interface for New Issuance (FINI), which is an innovative IPO settlement platform, will be launched in October. FINI will shorten the time between the pricing of an IPO and the trading of shares from five business days to two business days, and also introduce a new public offer pre-funding model to help alleviate the scale of funds that are locked up in over-subscribed IPOs. The new platform will modernise and digitalise Hong Kong’s IPO settlement process, enhance market efficiency and strengthen the competitiveness and attractiveness of Hong Kong’s IPO market.
  3. Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-June, a total of 1 429 Mainland enterprises (including 321 H-share companies, 176 “Red Chip” companies and 932 private enterprises) were listed on the Main Board and GEM, accounting for 55% of the total number of listed companies and 77% of total market capitalisation. Mainland-related stocks accounted for 88% of equity turnover and 90% of total equity fund raised in the Hong Kong stock exchange in the second quarter.

Fund management and investment funds

* 1. Performance of fund management business(13) was mixed in the second quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(14) edged up by 0.2% over end‑March to $1,111.7 billion at end-June. Meanwhile, the monthly average gross retail sales of *mutual funds* fell by 14.0% from the preceding quarter to US$4.5 billion in April – May(15), though was 8.8% higher than the level a year earlier.

Insurance sector

* 1. The *insurance sector*(16) recorded solid growth in the first quarter. New office premium of long-term business rose by 10.7% over a year earlier, within which premium from non-investment linked plans (which accounted for 93% of total premium for this segment) increased by 15.2%, while that from investment linked plans fell by 25.2%. As to general business, gross and net premiums grew by 6.9% and 4.1% 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 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| 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 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| 2023 Q1 | 20,660 | | 12,460 | 513 | | 43,476 | | 3,419 | 13 | 71 | 46,979 | | 67,639 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| % change in 2023 Q1 over 2022 Q1 | 6.9 | | 4.1 | -51.7 | | 15.2 | | -25.2 | 8.3 | -37.7 | 10.7 | | 9.5 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |

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. In mid-May, the Northbound Trading of Swap Connect was launched, which provides a convenient and secure channel for investors from Hong Kong and other jurisdictions to trade interest rate swap products in the Mainland. At the initial stage, the quotation, transaction and settlement currency would be in RMB and the daily net notional principal amounts of the interest rate swap contracts traded by all overseas investors were set at no more than RMB20 billion. The scheme will facilitate global investors’ management of interest rate risks arising from their allocation to Mainland bonds, and is conducive to creating favourable conditions for global investors to increase their participation in the onshore bond market. It will provide new opportunities for Hong Kong’s financial institutions and strengthen Hong Kong’s position as a global risk management centre and offshore RMB hub.
  2. Separately, the HKMA commenced the e-HKD Pilot Programme in the same month. Under the Pilot Programme, the HKMA will conduct a series of pilots in close collaboration with various stakeholders to examine potential use cases in six categories (i.e. full-fledged payments, programmable payments, offline payments, tokenised deposits, settlement of Web3 transactions and settlement of tokenised assets), as well as implementation and design issues relating to e-HKD. While the HKMA has not yet made a decision on whether and when to introduce e-HKD, the outcomes and insights gained through this Pilot Programme will help enrich the HKMA’s perspective and refine the HKMA’s approach to the possible implementation of e-HKD.
  3. In late May, the Securities and Futures Commission (SFC) released the consultation conclusion on regulation of virtual asset trading platforms, and modified some of the proposed regulatory requirements. A significant majority of respondents agreed to allow licensed trading platform operators to serve retail investors, and the SFC will implement a number of measures to protect these investors, including ensuring suitability in the onboarding process, good governance, enhanced token due diligence, admission criteria and disclosures. The licensing regime has come into effect on 1 June 2023, under which operators of centralised virtual asset trading platforms carrying on their businesses in Hong Kong or actively marketing their services to Hong Kong investors have to be licensed and regulated by the SFC.
  4. In late May, the Hong Kong Mortgage Corporation Limited completed its first issuance of infrastructure loan-backed securities under its pilot scheme on infrastructure financing securitisation through a special purpose vehicle, Bauhinia ILBS 1 Limited (Bauhinia 1). Bauhinia 1 has a portfolio of 35 project and infrastructure loans in 25 individual projects spreading across 12 countries and nine sectors, with a total value of approximately US$404.8 million. It offers institutional investors exposure to a diversified portfolio of project finance, infrastructure and corporate loans across multiple geographies and sectors. This marks an important step towards developing an infrastructure financing securitisation platform in Hong Kong.
  5. In mid-June, the HKEX launched its new HKD - RMB Dual Counter Model and the “Dual Counter Market Maker” (DCMM) regime. Under the new model, designated shares listed in both HKD and RMB counters can be traded and settled in HKD or RMB. DCMMs for eligible shares offer continuous buy and sell quotes for securities in the RMB counter, providing liquidity for HKD-RMB Dual Counter securities trading and minimising any possible price discrepancies between the two counters. The new model will provide investors with more choice and companies with another channel to tap Hong Kong’s offshore RMB pool, thereby reinforcing Hong Kong’s role as the global offshore RMB hub.
  6. Following the announcement in the 2023-24 Budget, the Green Technology and Finance Development Committee was established and convened its first meeting in late June. The Committee, which comprises leaders from finance, technology, academic, professional services sectors and government officials, provides an important platform for discussing how to promote faster and greater development of green technology and finance and to showcase Hong Kong’s advantages in these areas to the world.

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-June 2023, there were 152 licenced banks, 15 restricted licence banks and 12 deposit-taking companies in Hong Kong. Altogether, 179 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-June 2023, there were 126 classes of stock options contracts and 98 classes of stock futures contracts.

(11) At end-June 2023, there were 2 271 and 333 companies listed on the Main Board and GEM respectively.

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

(13) At end‐June 2023, there was one SFC‐authorised retail hedge fund with net asset size of US$121 million. This amount of net assets under management increased by 4.3% over end‐March 2023, and represented a 15.4% decrease from a year earlier, and a 24.4% decrease from end‐2002, the year when the hedge funds guidelines were first issued.

(14) At end-June 2023, there were 13 approved trustees. On MPF products, 24 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 415 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 353 000 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. As HKIFA has made some reclassification to its funds statistics, the figures for April – May 2023 may not be comparable with those contained in previous issues of this report.

(16) At end-June 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).