CHAPTER 4 : THE FINANCIAL SECTOR#

*Summary*

* *Interest rates in Hong Kong rose in the third quarter of 2023 alongside the further monetary policy tightening in the US. Following the 25‑basis-point rate hike by the US Federal Open Market Committee (FOMC) in late July, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate under the Discount Window upward by the same magnitude to 5.75%. The Hong Kong dollar interbank interest rates generally remained at high levels during the quarter. Many banks raised their Best Lending Rates by another 12.5 basis points in late July, the second rate hike this year.*
* *The Hong Kong dollar spot exchange rate against the US dollar stayed at the weak side of the Convertibility Zone during most of the third quarter. As the US dollar strengthened against major currencies including the pound sterling, Japanese yen, euro and renminbi (RMB), the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices both increased further by 1.9% during the third quarter.*
* *Total loans and advances decreased by 2.2% during the third quarter. Within the total, loans for use in and outside Hong Kong declined by 1.9% and 2.8% respectively.*
* *The local stock market remained under pressure in the third quarter, as concerns over the Mainland’s economic outlook and expectations of a prolonged period of high interest rates continued to dampen investment sentiment. The Hang Seng Index (HSI) closed the quarter at 17 810, down by 5.9% from end‑June. Trading activities contracted further and fund raising activities were extremely quiet.*

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

*(#) 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 in the third quarter of 2023 alongside the further monetary policy tightening in the US. Following the 25‑basis-point rate hike by the US FOMC in late July, the HKMA adjusted the *Base Rate* under the Discount Window upward by the same magnitude to 5.75%(1). The *Hong Kong dollar interbank interest rates* (HIBORs) generally remained at high levels during the quarter. The overnight HIBOR edged down from 5.75% at end‑June to 5.68% at end‑September, while the 3‑month HIBOR rose from 4.97% to 5.27%.
  2. *Hong Kong dollar yield curve* shifted upward during the third quarter, while the *US dollar* *yields* increased at the medium and long 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 130 basis points at end-June to 80 basis points at end-September, while that between 10‑year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 13 basis points to 38 basis points.



* 1. On the retail front, many banks raised their *Best Lending Rates* by another 12.5 basis points in late July, the second rate hike this year. At end‑September, the Best Lending Rates among banks ranged from 5.875% to 6.375%. The *average savings deposit rate* for deposits of less than $100,000 quoted by major banks increased from 0.63% at end‑June to 0.77% at end‑September, and the 1‑year *time deposit rate* rose from 0.61% to 0.67%. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, increased from 2.35% at end‑June to 2.68% at end‑September.



* 1. The *Hong Kong dollar spot exchange rate against the US dollar* stayed at the weak side of the Convertibility Zone during most of the third quarter, except for a brief period in late July to early August amid half-year-end corporate funding needs. The Aggregate Balance stayed at around $45 billion during the quarter as the weak-side Convertibility Undertaking was not triggered. The Hong Kong dollar closed the third quarter at 7.829 against the US dollar, compared with 7.835 at end‑June. The discounts of 3-month and 12‑month *Hong Kong dollar forward rates* narrowed from 162 pips and 654 pips (each pip is equivalent to HK$0.0001) to 137 pips and 539 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 against major currencies including the pound sterling, Japanese yen, euro and RMB, the *trade‑weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*(3) both increased further by 1.9% during the third quarter.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) edged down by 0.1% from end-June to $8,220 billion at end-September, and the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) fell by 5.1% to $1,532 billion(4). Meanwhile, *total deposits* with authorized institutions (AIs)(5) increased by 2.1% to $15,788 billion, within which Hong Kong dollar deposits edged down by 0.1%, while foreign currency deposits rose by 4.2%.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$# | Total | HK$# | Total |
|  |  |  |  |  |  |  |
| 2022 Q1 | 1.2 | 2.3 | 2.1 | 0.7 | 2.1 | 0.7 |
| Q2 | -5.8 | -7.1 | 0.2 | -0.6 | 0.2 | -0.5 |
| Q3 | -7.3 | -8.5 | -2.5 | 0.2 | -2.5 | 0.2 |
| Q4 | -6.9 | -8.8 | 0.9 | 1.2 | 0.9 | 1.2 |
|  |  |  |  |  |  |  |
| 2023 Q1 | -2.2 | -2.0 | 2.3 | 0.5 | 2.3 | 0.5 |
| Q2 | -6.4 | -4.8 | -0.8 | -0.4 | -0.8 | -0.4 |
| Q3 | -5.1 | -3.1 | -0.1 | 1.4 | -0.1 | 1.4 |
|  |  |  |  |  |  |  |
| Total amount at  end-September 2023 ($Bn) | 1,532 | 2,502 | 8,206 | 16,786 | 8,220 | 16,820 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | -19.1 | -17.6 | 2.3 | 2.8 | 2.3 | 2.8 |

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

* 1. In mid-July, the Hong Kong Deposit Protection Board (the Board) launched a three-month public consultation on enhancements to the Deposit Protection Scheme (DPS). The Board proposed to (i) raise the protection limit of the DPS from the current $500,000 to $800,000; (ii) switch back to the build‑up levy to be charged against scheme members to cater for a higher protection limit while keeping the build-up levy rates unchanged; (iii) provide enhanced coverage to affected depositors for six months upon a bank merger; and (iv) require the display of the DPS membership sign on the digital channel of scheme members and streamline negative disclosure requirements on non-protected deposits for private banking customers. The proposed enhancements will help ensure that the DPS continues to protect small depositors and contributes towards maintaining the stability of Hong Kong’s banking system.
  2. *Total loans and advances* decreased by 2.2% from end‑June to $10,292 billion at end‑September. Within the total, Hong Kong dollar loans and foreign currency loans fell by 2.9% and 0.9% respectively. Reflecting the relative movements in loans and deposits, the loan‑to‑deposit ratio for Hong Kong dollar decreased from 88.7% at end‑June to 86.3% at end‑September, and that for foreign currency from 48.0% to 45.7%.
  3. Loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong declined by 1.9% and 2.8% respectively from end‑June to $7,636 billion and $2,656 billion at end‑September. Within the former, loans to most economic segments decreased amid rising interest rates. Affected by the weak external trade performance, loans to manufacturing and trade finance fell by 3.5% and 2.9% respectively. Loans to financial concerns and loans to wholesale and retail trade also decreased by 5.4% and 3.0% respectively. Meanwhile, loans to stockbrokers rose back moderately by 1.5%, after the sharp decline in the preceding quarter. As for property‑related lending, loans to building, construction, property development and investment decreased by 2.5%, while loans for purchase of residential property rose by 0.9%.

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 | -2.0 | 1.6 | 1.1 | -16.8 | -0.4 | -4.1 | -1.3 |
| Q3 | -2.9 | -3.5 | -3.0 | -2.5 | 0.9 | -5.4 | 1.5 | -1.9 | -2.8 | -2.2 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-September 2023 ($Bn) | 394 | 301 | 298 | 1,666 | 1,982 | 892 | 53 | 7,636 | 2,656 | 10,292 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -19.2 | -12.3 | -13.1 | -1.9 | 4.2 | -2.1 | 7.7 | -2.2 | -11.8 | -4.9 |

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 21.0% at end-June. 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 rose from 1.45% at end‑March to 1.50% at end‑June, and the delinquency ratio for credit card lending edged up from 0.25% to 0.26%. The delinquency ratio for residential mortgage loans remained at a low level of 0.07% at end‑September, same as 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 | 2.02 | 1.39 |
|  |  |  |  |  |
| 2023 | Q1 | 96.57 | 1.98 | 1.45 |
|  | Q2 | 96.58 | 1.92 | 1.50 |

Notes : Due to rounding, figures may not add up to 100. Figures may be subject to revisions.

(\*) 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 96.46%, 2.00% and 1.55% respectively at end-June 2023.

* 1. *Offshore RMB business* was generally active in the third quarter. RMB trade settlement transactions handled by banks in Hong Kong surged by 30.4% over a year earlier to RMB3,145.8 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) edged down by 0.1% from end‑June to RMB1,071.8 billion at end‑September. As to financing activities, RMB bond issuance amounted to RMB65.3 billion in the third quarter (including the issuance of RMB12.0 billion by the Ministry of Finance), as compared to the RMB94.6 billion in the preceding quarter, while outstanding RMB bank loans jumped by 29.1% over end‑June to RMB383.0 billion at end‑September.

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 |
|  | Q3 | 361,994 | 590,571 | | 952,565 | | 0.16 | | 0.31 | 139 | 3,145,772 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2023 Q3 over  2022 Q3 | | 9.2 | 12.2 | | 11.1 | | N.A. | | N.A. | N.A. | 30.4 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2023 Q3 over  2023 Q2 | | -9.5 | 16.4 | | 5.0 | | N.A. | | N.A. | N.A. | 12.7 |

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 rose by 3.8% over the preceding quarter to $1,257.8 billion in the third quarter, underpinned by the respective increases of 4.2% and 0.4% in public and private sector debt issuance(6). The total outstanding amount of Hong Kong dollar debt securities increased by 3.5% over end‑June to $2,726.6 billion at end-September, equivalent to 33.2% of HK$M3 or 26.4% 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 $3.5 billion institutional Government Bonds (GBs) were issued through tenders in the third quarter under the GB Programme, and a total of $55.0 billion Silver Bond was issued under the retail part of the GB Programme in August. At end‑September, the total outstanding amount of Hong Kong dollar bonds under the GB and Government Green Bond (GGB) Programmes was $288.9 billion, comprising 17 institutional issues totalling $93.5 billion and six retail issues (two iBonds and four Silver Bonds) totalling $174.6 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, there was one US dollar sukuk with an issuance size of US$1.0 billion outstanding under the GB Programme at end-September, 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(c) | 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 |
|  | Q3 | 994.5 | 16.4 | 58.5 | 1,069.4 | 80.3 | 7.1 | 95.0 | 182.3 | 6.1 | 1,257.8 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q3 over 2022 Q3 | | 3.3 | 24.2 | 19.4 | 4.4 | -9.8 | 20.1 | 28.9 | 8.2 | -43.6 | 4.5 |
|  | | | | | | | | | | | |
| % change in 2023 Q3 over 2023 Q2 | | -0.3 | -15.7 | 515.8 | 4.2 | 23.1 | -31.5 | -10.4 | 0.4 | 63.0 | 3.8 |
|  | | | | | | | | | | | |
| **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 |
|  | Q3 | 1,240.4 | 158.7 | 288.9 | 1,688.0 | 288.6 | 133.5 | 563.3 | 985.4 | 53.3 | 2,726.6 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q3 over 2022 Q3 | | 3.7 | 34.1 | 22.2 | 8.8 | -8.0 | 2.9 | 17.6 | 6.8 | 40.1 | 8.6 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 Q3 over 2023 Q2 | | 1.1 | 6.6 | 23.2 | 4.8 | -2.5 | -2.2 | 4.0 | 1.1 | 5.6 | 3.5 |

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.

(c) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

**The stock and derivatives markets**

* 1. The *local stock market* remained under pressure in the third quarter, as concerns over the Mainland’s economic outlook and expectations of a prolonged period of high interest rates continued to dampen investment sentiment. The HSI was range-bounded in July, and trended down in the ensuing two months. It closed the quarter at 17 810, 5.9% lower than end-June. *Market capitalisation* shrank by 5.1% during the quarter to $32.1 trillion. 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 contracted further in the third quarter amid the cautious market atmosphere. *Average daily turnover* in the securities market shrank by 4.3% from the preceding quarter to $98.4 billion, and was only 0.9% higher than the low level a year earlier. Within the total, the average daily trading value of callable bull/bear contracts and equities fell by 13.8% and 7.0% from the preceding quarter respectively, while that of unit trusts (including Exchange-Traded Funds) and derivative warrants(9) increased by 10.9% and 5.1% respectively. As to futures and options(10), the average daily trading volume rose by 1.6%. The increase was due entirely to a 223% surge in trading of RMB Currency Futures, as trading of Hang Seng China Enterprises Index futures, HSI options, HSI futures and stock options fell by 5.1%, 1.9%, 1.5% and 1.3% 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 |
| Q3 | 136 670 | 22 706 | 179 322 | 590 969 | 1 336 408 |
|  |  |  |  |  |  |
| % change in  2023 Q3 over  2022 Q3 | 0.8 | 8.4 | 16.2 | 17.0 | 19.8 |
|  |  |  |  |  |  |
| % change in  2023 Q3 over  2023 Q2 | -1.5 | -1.9 | -5.1 | -1.3 | 1.6 |

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 third quarter alongside the subdued global fund raising demand and the weak local stock market performance. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM(11), plunged by 40.4% from the preceding quarter or 68.5% from a year earlier to $24.6 billion in the third quarter. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) shrank by 39.5% from the preceding quarter to $6.8 billion. Taking the first three quarters together, total equity capital raised fell notably by 48.4% from a year earlier to $99.6 billion, within which the amount of funds raised through IPOs plummeted by 66.6% to $24.6 billion. Hong Kong ranked the sixth globally in terms of the amount of funds raised through IPOs in the first nine months of the year (12).
  2. Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-September, a total of 1 435 Mainland enterprises (including 325 H-share companies, 176 “Red Chip” companies and 934 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 86% of equity turnover and 77% of total equity fund raised in the Hong Kong stock exchange in the third quarter.
  3. Having accepted the recommendations of the Task Force on Enhancing Stock Market Liquidity (the Task Force), the Chief Executive announced in the 2023 Policy Address various measures to strengthen the competitiveness of the stock market. Key measures include (i) reducing the rate of Stamp Duty on Stock Transfer from the current 0.13% to 0.1% of the consideration or value of each transaction payable by buyers and sellers respectively with the legislative procedures targeting to be completed by the end of November; (ii) reviewing stock trading spread to facilitate the market prices of those liquid but spread‑constrained stocks to better reflect market circumstances and reduce bid‑ask spreads; (iii) reducing market data fees to facilitate investors obtaining real-time market data; and (iv) reforming GEM (see *paragraph 4.19* for details). The Government will work with the Hong Kong Exchanges and Clearing Limited and financial regulators to implement the above measures and other short-term proposals put forward by the Task Force, and explore medium to long-term measures to further promote sustainable development of the stock market.
  4. The Stock Exchange of Hong Kong Limited launched a six‑week public consultation in late September on GEM listing reforms, aiming to enhance GEM’s attractiveness while maintaining high standards of investor protection. The proposed reform measures include introducing a new streamlined transfer mechanism for eligible GEM companies to transfer to the Main Board; adding a new alternative eligibility test targeting high growth enterprises that are heavily engaged in research and development activities; and reducing the continuing obligations of GEM issuers.

Fund management and investment funds(13)

* 1. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(14) decreased by 2.2% from end‑June to $1,087.5 billion at end-September.

Insurance sector

* 1. The *insurance sector*(15) showed solid expansion in the second quarter. New office premium of long-term business soared by 42.4% over a year earlier, within which premium from non-investment linked plans (which accounted for 94% of total premium for this segment) surged by 49.9%, though that from investment linked plans decreased by 19.5%. As to general business, gross and net premiums increased by 2.8% and 2.6% 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 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| 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 | |
| Q2 | 16,324 | | 10,803 | 940 | | 52,890 | | 3,171 | 11 | 87 | 56,159 | | 72,483 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |
| % change in 2023 Q2 over 2022 Q2 | 2.8 | | 2.6 | -36.6 | | 49.9 | | -19.5 | 22.2 | -58.4 | 42.4 | | 31.0 | |
|  |  | |  |  | |  | |  |  |  |  | |  | |

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. On promoting mutual access of the financial markets in the Mainland and Hong Kong, the China Securities Regulatory Commission and the Securities and Futures Commission (SFC) reached a consensus in August on the introduction of block trading (manual trades) under the mutual market access programme. The block trading arrangement will enhance the certainty and transparency in the transaction price and timing for large-sized securities transactions, thereby allowing investors to manage their asset allocation more efficiently at lower costs, while reducing the potential price impact of relevant transactions through auto-matching. The measure will further facilitate the concerted development of the capital markets in both the Mainland and Hong Kong, as well as strengthen Hong Kong’s position and function as an international financial centre and global offshore RMB business hub.
  2. Furthermore, in September, the People’s Bank of China, the National Administration of Financial Regulation, the China Securities Regulatory Commission, the State Administration of Foreign Exchange, the HKMA, the SFC and the Monetary Authority of Macao jointly announced enhancements to the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) Cross-boundary Wealth Management Connect Pilot Scheme. They include (i) refining the eligibility criteria of investors to support more GBA residents to participate in the Scheme; (ii) expanding the scope of participating institutions to include eligible securities firms; (iii) expanding the scope of eligible investment products; (iv) increasing the individual investor quota as appropriate; and (v) further enhancing the promotion and sales arrangements. The enhancements will be conducive for the industry to explore business opportunities in the GBA, and can further realise the potential of the Wealth Management Connect while enhancing Hong Kong’s position as an international asset and management centre.
  3. On promoting green finance and fintech development in Hong Kong, in August, the Green and Sustainable Finance Cross-Agency Steering Group announced its key priorities to further promote and consolidate Hong Kong’s role as a leading sustainable finance hub, including (i) establishing world-class regulation through alignment with global standards; (ii) boosting Hong Kong’s vibrancy and competitiveness through capacity building, data enhancement and technology innovation of the finance ecosystem to support net-zero transition across the economy; and (iii) growing dynamic, trusted markets with diverse products to mobilise capital at larger scale to support the net-zero transition. Meanwhile, the HKMA, the SFC and the Insurance Authority published a new Fintech Promotion Roadmap in the same month, outlining the key initiatives that they would undertake over the next 12 months to give further impetus to fintech adoption in the financial services industry. The new Roadmap focuses on the fintech business areas of Wealthtech, Insurtech and Greentech as well as the technology types of Artificial Intelligence and Distributed Ledger Technology, and demonstrates the commitment to building a sustainable and inclusive fintech ecosystem in Hong Kong.

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-September 2023, there were 151 licenced banks, 15 restricted licence banks and 12 deposit-taking companies in Hong Kong. Altogether, 178 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-September 2023, there were 126 classes of stock options contracts and 98 classes of stock futures contracts.

(11) At end-September 2023, there were 2 274 and 329 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‐September 2023, there was one SFC‐authorised retail hedge fund with net asset size of US$117 million. This amount of net assets under management decreased by 3.3% from end‐June 2023, and represented a 19.3% decrease from a year earlier, and a 26.9% decrease from end‐2002, the year when the hedge funds guidelines were first issued.

Hong Kong Investment Funds Association is temporarily unable to provide the gross retail sales of mutual funds for the third quarter of 2023.

(14) At end-September 2023, there were 13 approved trustees. On MPF products, 23 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 404 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 357 000 employers, 2.67 million employees and 237 000 self-employed persons are estimated to have participated in MPF schemes.

(15) At end-September 2023, there were 163 authorized insurers in Hong Kong. Within this total, 53 were engaged in long term insurance business, 88 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).