CHAPTER 5 : THE FINANCIAL SECTOR#

*Summary*

* *Interest rates in Hong Kong rose further during 2023. Following aggressive policy rate hikes in the preceding year, the US Federal Open Market Committee raised interest rates further four times during January to July 2023, by 25 basis points each, before coming to a pause amid easing inflation. In tandem, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate upward by a total of 100 basis points from 4.75% at end-2022 to 5.75% at end-2023. Hong Kong dollar interbank interest rates generally remained at high levels during the year, with increases in the shorter tenors. Many banks raised their Best Lending Rates in May and July 2023, by a total of 25 basis points.*
* *The Hong Kong dollar spot exchange rate against the US dollar softened in early 2023 and stayed close to the weak-side Convertibility Undertaking (CU) from February to early May. Subsequently, the Hong Kong dollar regained some strength and traded around the central parity of 7.8 towards the year-end. Alongside the movement of the US dollar, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices increased further by 1.2% and 2.3% respectively during the year.*
* *Total loans and advances decreased by 3.6% during 2023. Within the total, loans for use in Hong Kong and loans for use outside Hong Kong decreased by 1.1% and 10.4% respectively.*
* *The local stock market was under pressure during most of 2023. Since early the year, market sentiment has been successively dampened by the banking sector stress in the US and Europe, concerns over the global and Mainland’s economic outlook, and then the expectations of a prolonged period of high interest rates. The Hang Seng Index (HSI) drifted down from its year-high of 22 689 on 27 January and closed the year at 17 047, down 13.8% from a year earlier. Trading activities turned quieter from the preceding year, while fund raising activities were extremely quiet amid* *subdued global fund raising demand and local stock market performance.*

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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. Interest rates in Hong Kong rose further during 2023. Following aggressive rate hikes in the preceding year, the US FOMC raised the target range for the federal funds rate four times further by a total of 100 basis points from 4.25-4.50% to 5.25-5.50% during January to July 2023, before coming to a pause amid easing inflation. Consequently, the HKMA adjusted the *Base Rate*(1) under the Discount Window upward, by a total of 100 basis points from 4.75% at end-2022 to 5.75% at end-2023. *Hong Kong dollar interbank interest rates* (HIBORs) generally remained at high levels during the year, with increases at the shorter tenors. The overnight HIBOR rose from 3.23% at end-2022 to 6.09% at end-2023, and the 3-month HIBOR rose from 4.99% to 5.15% during the same period.
  2. Both the *Hong Kong dollar* and *US dollar* *yield* *curves* inverted during 2023, with yields on the medium and longer tenors for the Hong Kong dollar coming down more notably. Reflecting the relative movements of the US dollar yields and the Hong Kong dollar counterparts, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 86 basis points at end-2022 to 103 basis points at end-2023, and that between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 25 basis points to 65 basis points.



* 1. On the retail front, many banks raised their *Best Lending Rates* by 12.5 basis points in early-May and another 12.5 basis points in late-July. Meanwhile, some banks raised the cap on HIBOR-based mortgage rates of newly approved mortgage loans during the year. At end-2023, the Best Lending Rates among banks ranged from 5.875% to 6.375%, up from 5.625% to 6.125% at end-2022. The *average savings deposit rate* on deposits of less than $100,000 quoted by major banks rose from 0.55% at end-2022 to 0.79% at end-2023, and the *one-year time deposit rate* rose from 0.38% to 0.67%. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, rose from 2.11% to 2.94%.



* 1. The *Hong Kong dollar spot exchange rate against the US dollar* softened and stayed close to the weak-side CU in early 2023, amid the US Fed’s further rate hikes and market expectations of “higher for longer” US policy rate. It regained some strength since May driven in part by corporate funding needs and buying flows through the Southbound Stock Connect, and closed at 7.812 against the US dollar at end-2023, compared to 7.797 at end-2022. The weak-side CU was triggered eight times from mid-February to early-May, and the HKMA purchased a total of $51.5 billion worth of Hong Kong dollars. As a result, the Aggregate Balance declined from $96.3 billion at end-2022 to $45.0 billion at end-2023. The discount of 3-month *Hong Kong dollar forward rate* widened from 125 pips (each pip is equivalent to HK$0.0001) at end-2022 to 166 pips at end-2023, and that of the 12-month forward rate widened from 215 pips to 515 pips.
  2. Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. Alongside the movement of the US dollar, the *trade-weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices*(3) rose further by 1.2% and 2.3% respectively during the year.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) increased modestly by 1.9% over a year earlier to $8,263 billion at end-2023, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) fell notably by 10.8% to $1,573 billion(4). Meanwhile, *total deposits* with authorized institutions (AIs)(5) increased by 5.1% to $16,222 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 2.1% and 7.9% respectively.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$(a) | Total | HK$(a) | Total |
|  |  |  |  |  |  |  |
| 2022 Q1 | 1.2 | 2.3 | 2.1 | 0.7 | 2.1 | 0.7 |
| Q2 | -5.8 | -7.1 | 0.2 | -0.6 | 0.2 | -0.5 |
| Q3 | -7.3 | -8.5 | -2.5 | 0.2 | -2.5 | 0.2 |
| Q4 | -6.9 | -8.8 | 0.9 | 1.2 | 0.9 | 1.2 |
|  |  |  |  |  |  |  |
| 2023 Q1 | -2.2 | -2.0 | 2.3 | 0.5 | 2.3 | 0.5 |
| Q2 | -6.4 | -4.8 | -0.8 | -0.4 | -0.8 | -0.4 |
| Q3 | -5.1 | -3.1 | -0.1 | 1.4 | -0.1 | 1.4 |
| Q4 | 2.6 | 3.8 | 0.5 | 2.4 | 0.5 | 2.5 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Total amount at  end-2023 ($Bn) | 1,573 | 2,598 | 8,250 | 17,195 | 8,263 | 17,234 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | -10.8 | -6.2 | 1.9 | 4.0 | 1.9 | 4.0 |
|  |  |  |  |  |  |  |

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

* 1. *Total loans and advances* decreased by 3.6% from a year earlier to $10,193 billion at end‑2023. Within the total, Hong Kong dollar loans and foreign currency loans decreased by 2.8% and 5.0% respectively. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar went down from 88.4% at end-2022 to 84.2% at end-2023, and that for foreign currencies fell from 49.8% to 43.9%.
  2. Comparing end-2023 with end-2022, loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong declined by 1.1% and 10.4% to $7,628 billion and $2,565 billion respectively. Within the former, trade finance and loans to manufacturing went down by 13.1% and 4.5% respectively, affected by the weak external trade performance. Loans to wholesale and retail trade also fell by 3.6%. Loans to stockbrokers and loans to financial concerns shrank by 13.3% and 2.5% respectively amid subdued financial market activities. As for property-related lending, loans to building, construction, property development and investment decreased by 1.9%, while loans for purchase of residential property increased by 3.4%.

Table 5.2 : Loans and advances

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | All loans and advances for use in Hong Kong | | | | | | | |  |  |
|  | Loans to : | |  |  |  |  |  |  |  |  |
|  |  |  |  | Building and |  |  |  |  |  |  |
|  |  |  | 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 |
| Q4 | -7.5 | -0.8 | 0.9 | 0.8 | -0.1 | 0.8 | -10.5 | -0.1 | -3.4 | -1.0 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-2023 ($Bn) | 365 | 299 | 301 | 1,679 | 1,979 | 899 | 47 | 7,628 | 2,565 | 10,193 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -13.1 | -4.5 | -3.6 | -1.9 | 3.4 | -2.5 | -13.3 | -1.1 | -10.4 | -3.6 |

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 remained sound and resilient, underpinned by strong capital and liquidity buffers. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 20.9% at end-September 2023. The banking sector’s overall asset quality stayed at a healthy level, though the ratio of classified loans to total loans for all AIs rose from 1.40% at end-2022 to 1.61% at end-September 2023 and the delinquency ratio for credit card lending edged up from 0.23% to 0.28%. The delinquency ratio for residential mortgage loans stayed low at 0.08% at end-2023, slightly higher than that at end-2022.

**Table 5.3 : Asset quality of all authorized institutions**\*^

(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 | 96.58 | 2.02 | 1.40 |
|  |  |  |  |  |
| 2023 | Q1 | 96.57 | 1.98 | 1.46 |
|  | Q2 | 96.57 | 1.93 | 1.50 |
|  | Q3 | 96.49 | 1.90 | 1.61 |

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

(\*) Period-end figures relate to Hong Kong offices, overseas branches and major overseas subsidiaries. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

(^) As a reference, for retail banks, the pass loans, special mention loans and classified loans (gross) as percentages of total loans were 96.40%, 1.91% and 1.69% respectively at end-September 2023.

* 1. *Offshore RMB business* recorded broad-based growth in 2023. RMB trade settlement transactions handled by banks in Hong Kong increased by 24.9% to RMB11,668.6 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased by 6.5% over a year earlier to RMB1,045.3 billion at end-2023. As to financing activities, RMB bond issuance amounted to RMB334.5 billion in 2023 (of which RMB50.0 billion were issued by the Ministry of Finance), compared with RMB143.4 billion in 2022, and outstanding RMB bank loans increased by 130.2% over a year earlier to RMB441.2 billion at end-2023.

Table 5.4 : Renminbi customer deposits and

cross-border renminbi trade settlement in Hong Kong

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | |  | |  |  |  | |  |  |
|  | |  | | | | | Interest rates on(a) | | | Number of AIs engaged in RMB business | Amount of cross-border RMB  trade settlement(c) |
| At end of period | | Demand  and savings deposits | Time  deposits | | Total 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 |
|  | 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 |
|  | Q4 | 381,803 | 557,400 | | 939,203 | | 0.16 | | 0.31 | 139 | 3,418,469 |
|  |  |  |  | |  | |  | |  |  |  |
| % change over a year earlier | | 11.6 | 12.9 | | 12.4 | | N.A. | | N.A. | N.A. | 32.9 |

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 4.4% to $4,926.5 billion in 2023. Issuance by the public and private sectors increased by 4.5% and 2.4% respectively(6). As a result, the total outstanding amount of Hong Kong dollar debt securities rose by 8.2% over a year earlier to $2,739.1 billion at end-2023, equivalent to 33.1% of HK$M3 or 27.2% 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 $30.5 billion institutional Government Bonds (GBs) were issued through tenders in 2023, and $55.0 billion Silver Bond was issued under the retail part of the GB Programme in August. Under the Government Green Bond (GGB) Programme, the inaugural tokenised institutional green bond with an issuance size of $0.8 billion was issued in February, marking the first tokenised green bond issued by a government globally; and the second retail green bond with an issuance size of $20.0 billion was issued in October. At end-2023, the total outstanding amount of Hong Kong dollar bonds under the GB and GGB Programmes was $284.6 billion, comprising 16 GB institutional issues totalling $98.5 billion, four GB retail issues (one iBond and three Silver Bonds) totalling $145.3 billion, two retail GGB issues totalling $40.0 billion, and one tokenised institutional GGB issue of $0.8 billion. As for GBs denominated in foreign currencies, there was one US dollar sukuk with an issuance size of US$1.0 billion outstanding under the GB Programme, as well as around US$19.0 billion equivalent of institutional green bonds outstanding under the GGB Programme.

Table 5.5 : New issuance and outstanding value of

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  | | | Exchange Fund paper | Statutory bodies/ government-owned corporations | Govern-ment | Public  sector  total | AIs(a) | Local corporations | Non-MDBs overseas borrowers(b) | Private sector total | MDBs(b) | Total |
|  | | | | | | | | | | | | |
| **New Issuance** | | | | | | | | | | | | |
|  | | | | | | | | | | | | |
| 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 | | Annual | 3,978.0 | 76.3 | 106.3 | 4,160.6 | 289.9 | 30.2 | 419.7 | 739.7 | 26.2 | 4,926.5 |
|  | |  |  |  |  |  |  |  |  |  |  |  |
|  | | 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 |
|  | | Q4 | 1,010.6 | 8.7 | 30.5 | 1,049.8 | 58.2 | 3.7 | 90.2 | 152.1 | 1.5 | 1,203.4 |
|  | |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2023 over 2022 | | | 4.2 | 1.4 | 22.5 | 4.5 | -23.7 | -34.4 | 41.4 | 2.4 | 54.6 | 4.4 |
|  | | | | | | | | | | | | |
| **Outstanding (as 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 |
|  | Q4 | 1,255.4 | 151.5 | 284.6 | 1,691.5 | 290.1 | 129.3 | 574.9 | 994.3 | 53.3 | 2,739.1 |
|  | | |  |  |  |  |  |  |  |  |  |  |
| % change at  end-2023 over  end-2022 | | | 4.0 | 16.0 | 19.3 | 7.3 | -4.4 | -4.1 | 19.7 | 8.3 | 45.3 | 8.2 |

Notes : Figures may not add up to the corresponding totals due to rounding. Figures are provisional and may be subject to revision.

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

* 1. The *local stock market* was under pressure during most of 2023. While the HSI extended its rally in January alongside market expectations of economic activities returning to normal, sentiment was then successively dampened by the banking sector stress in the US and Europe, concerns over the global and Mainland’s economic outlook, and the expectations of a prolonged period of higher interest rates. The HSI, after reaching its year-high of 22 689 on 27 January, drifted down subsequently and closed the year at 17 047. For 2023 as a whole, the HSI went down by 13.8%. *Market capitalisation* shrank further by 13.0% from a year earlier to $31.0 trillion at end‑2023. The local stock market ranked the eighth largest in the world and the fifth largest in Asia(8).
  2. Trading activities in the local stock market turned quieter from the preceding year. For the year as a whole, *average daily turnover* in the securities market contracted further by 15.9% to $105.0 billion, the lowest since 2019. Within the total, the average daily trading value of equities, derivative warrants, and callable bull/bear contracts declined by 18.4%, 29.2% and 22.6% respectively, while that of unit trusts (including Exchange-Traded Funds (ETFs))(9) increased by 16.3%. As to futures and options(10), the average daily trading volume expanded moderately by 3.9%. Within the total, trading of stock options and Hang Seng China Enterprises Index futures rose by 4.2% and 2.0% respectively, while that of HSI futures and HSI options fell by 9.1% and 11.7% respectively.



Table 5.6 : Average daily turnover of futures and options

**of the Hong Kong market**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Hang Seng Index futures | Hang Seng Index options | Hang Seng China Enterprises  Index futures | Stock  options | Total  futures and  options traded\* |
|  |  |  |  |  |  |
| 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 Annual | 138 446 | 22 820 | 186 689 | 612 182 | 1 353 839 |
|  |  |  |  |  |  |
| 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 |
| Q4 | 132 813 | 20 207 | 182 652 | 593 478 | 1 343 428 |
|  |  |  |  |  |  |
| % change in  2023 Q4 over  2022 Q4 | -19.2 | -32.2 | -16.9 | -7.4 | -9.5 |
|  |  |  |  |  |  |
| % change in  2023 over  2022 | -9.1 | -11.7 | 2.0 | 4.2 | 3.9 |

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 in Hong Kong were extremely quiet in 2023 amid subdued global fund raising demand and local stock market performance. According to the data compiled by the World Federation of Exchanges, the total equity capital raised in the global markets fell by a visible 54% in the year. Locally, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM(11), plunged by 40.7% to $150.7 billion, the lowest level since 2002. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) shrank by 55.8% to $46.3 billion. Hong Kong ranked sixth among stock exchange markets globally in terms of the amount of funds raised through IPOs in 2023(12).
  2. Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-2023, a total of 1 447 Mainland enterprises (including 339 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 76% of total market capitalisation. Mainland-related stocks accounted for 87% of equity turnover and 86% of total equity fund raised in the Hong Kong Stock Exchange in 2023.
  3. In late November, Asia’s first ETF to track Saudi Arabian equities was listed on the Hong Kong Stock Exchange, marking a milestone in Hong Kong’s financial co-operation with Saudi Arabia. This provides investors with a new opportunity to invest in Saudi Arabia’s capital markets through a Hong Kong‑listed ETF, further enhancing the global connectivity of Hong Kong’s ETF market.

Fund management and investment funds

* 1. Performance of fund management business saw relative improvement in 2023 notwithstanding the local stock market correction. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(13) increased by 8.5% over a year earlier to $1,140.7 billion at end-2023. The gross retail sales of *mutual funds* leaped by 17.9% over a year earlier to US$55.6 billion in 2023(14)(15).

Insurance sector

* 1. The *insurance sector*(16) continued to see solid growth in the third quarter of 2023. New office premiums of long-term business surged by 43.3% over a year earlier, within which premium from non-investment linked plans (which accounted for 94% of total premium for this segment) soared by 52.4%, though that from investment linked plans fell by 29.0%. As to general business, gross and net premiums increased by 3.9% and 2.0% respectively.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | General business | | |  |  | New office premium for long-term business^ | | | | |  | |
|  | Gross premium | | Net premium | Underwriting profit | | Individual  life and annuity (non-investment  linked) | | Individual  life and annuity (investment  linked) | Other individual business | Non-retirement scheme group business | All  long-term business | | Gross premium from long-term business  and general business |
|  |  | |  |  | |  | |  |  |  |  | |  |
| 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 |
| Q3 | 16,821 | | 11,459 | 66 | | 40,916 | | 2,375 | 12 | 78 | 43,381 | | 60,202 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| % change in 2023 Q3 over 2022 Q3 | 3.9 | | 2.0 | -92.3 | | 52.4 | | -29.0 | 9.1 | 8.3 | 43.3 | | 29.6 |
|  |  | |  |  | |  | |  |  |  |  | |  |

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 November, the Hong Kong Exchanges and Clearing Limited (HKEX) announced its plan to launch China Treasury Bond Futures in Hong Kong. As part of HKEX’s RMB and China-product ecosystem, the launch will help regional and global investors interested in accessing the Mainland to more effectively manage their interest rate and investment risks, support greater international participation in the Mainland’s equities and fixed-income markets, further broaden investment and risk management opportunities in our markets, and cement Hong Kong’s role as the world’s leading offshore RMB hub.
  2. The Government announced a series of major initiatives to foster co‑development of fintech and the real economy in Hong Kong FinTech Week 2023 in November. These initiatives include launching a new integrated fund platform for distribution of Hong Kong’s retail funds; welcoming cross-boundary e-CNY applications to benefit inbound and outbound visitors between the Mainland and Hong Kong; promoting real economy related applications and innovations by the Virtual Assets (VA) and Web3 sector, as well as further enhancing the regulatory framework by bringing trading of VA beyond centralised trading platforms and issuance of stablecoins into the regulatory remit (see paragraph 5.22).
  3. In view of the important roles played by stablecoins in the Web3 and VA ecosystem, and the rising interconnectedness between the traditional financial system and the VA markets, the Government and the HKMA launched a public consultation on the legislative proposal to implement regulatory regime for fiat‑referenced stablecoin (FRS) issuers in December. Bringing FRS issuers into the regulatory remit under a risk-based and agile approach will facilitate proper management of the potential monetary and financial stability risks, and provide transparent and suitable guardrails with the increased prevalence of VAs. To facilitate the subsequent implementation of the regulatory regime, the HKMA will also introduce a sandbox arrangement for communicating supervisory expectations and guidance on compliance to entities having a genuine interest in and a reasonable plan on issuing FRS in Hong Kong, as well as obtaining their feedback on the proposed regulatory requirements.
  4. The Insurance (Amendment) Ordinance 2023 that provides legal framework for the implementation of a Risk-based Capital (RBC) regime for Hong Kong’s insurance industry was enacted in July 2023. The RBC regime, which will replace the existing rule-based capital adequacy regime, would render the capital requirements imposed on insurance companies more sensitive to their asset and liability matching, risk profile and mix of products. This would strengthen the financial soundness of insurers through incentivising better asset‑liability matching and the cultivation of robust risk management culture of insurers, and align Hong Kong’s insurance regulatory regime with international standards. Subsequently, the Insurance Authority launched further public consultation on draft subsidiary legislations to set out detailed capital, valuation, reporting and other requirements, with a view to commencing the RBC regime within 2024.
  5. In view of the general support to the establishment of the Policy Holders’ Protection Scheme (PPS) received during the public consultation, the Government will begin preparatory work based on the consultation conclusions as published in December 2023, including the formulation of detailed arrangements of the PPS and the drafting of the necessary legislative amendments. The PPS will enhance the protection of policy holders and strengthen market stability in the event of insurer insolvency.

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-2023, there were 151 licensed banks, 16 restricted licence banks and 12 deposit-taking companies in Hong Kong. Altogether, 179 AIs (excluding representative offices) from 32 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 and 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-2023, there were 126 classes of stock options contracts and 98 classes of stock futures contracts.

(11) At end-2023, there were 2 283 and 326 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-2023, there were 12 approved trustees. On MPF products, 21 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 379 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 359 000 employers, 2.66 million employees and 237 000 self-employed persons are estimated to have participated in MPF schemes.

(14) 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 revised the coverage of its funds statistics for 2023, the figures in this report may not be comparable with those contained in previous issues of this report.

(15) At end-2023, there was one SFC-authorised retail hedge fund with net asset size of US$105 million. This amount of net assets under management decreased by 10.3% from end-September 2023, and represented a 17.3% decrease from a year earlier and a 34.4% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(16) At end-2023, there were 161 authorized insurers in Hong Kong. Within this total, 53 were engaged in long-term insurance business, 88 in general insurance business, 18 in composite insurance business, and two in special purpose business. These authorized insurers come from 22 countries and territories (including Hong Kong).