CHAPTER 4 : THE FINANCIAL SECTOR#

*Summary*

* *Interest rates in Hong Kong remained relatively high in the third quarter despite some softening. In mid-September, the US Federal Open Market Committee (FOMC) lowered the target range for the Federal Funds Rate by 50 basis points. In tandem, the Hong Kong Monetary Authority (HKMA) adjusted the Base Rate under the Discount Window downwards by the same magnitude to 5.25%. Hong Kong dollar interbank interest rates generally came lower during the quarter as dividend-related funding demand subsided, though short-term interest rates climbed towards the quarter-end amid exceptionally vibrant stock market activities. Interest rates on the retail front declined towards the quarter-end.*
* *The Hong Kong dollar spot exchange rate against the US dollar strengthened during the third quarter. With the US dollar weakening against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined by 2.9% and 2.0 respectively during the third quarter.*
* *Total loans and advances decreased by 0.2% during the third quarter. Within the total, loans for use in Hong Kong decreased by 0.8%, while loans for use outside Hong Kong increased by 1.7%.*
* *The local stock market stayed soft on entering the third quarter amid uncertainties surrounding the pace of US interest rate cuts and the economic outlook of major economies. The Hang Seng Index (HSI) was largely range-bound during most of the quarter. Following the US’ rate cut and the Mainland’s subsequent announcement of a package of support measures, market sentiment improved visibly and the HSI jumped to close the quarter at 21 134, 19.3% higher than end-June. Trading activities also turned more active towards the quarter-end. Fund raising activities picked up notably during the quarter.*

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

*(#) 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 remained relatively high in the third quarter despite some softening. In mid-September, the US FOMC lowered the target range for the Federal Funds Rate by 50 basis points to 4.75-5.00%. In tandem, the HKMA adjusted the *Base Rate*(1) under the Discount Window downwards by the same magnitude to 5.25%. *Hong Kong dollar interbank interest rates* (HIBORs) generally came lower during the quarter as dividend-related funding demand subsided, though short-term interest rates climbed towards the quarter-end amid exceptionally vibrant stock market activities. The overnight HIBOR rose from 4.98% at end-June to 6.39% at end-September, while the three-month HIBOR came down from 4.75% to 4.18%.
  2. Both the *Hong Kong dollar* and *US dollar* *yield* *curves* shifted downwards during the third quarter, more so for the former. Reflecting the relative movements of the Hong Kong dollar yields and the US dollar counterparts, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills widened from 95 basis points at end-June to 127 basis points at end-September, and that between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 82 basis points to 105 basis points.



* 1. On the retail front, many local banks lowered their *Best Lending Rates* by 25 basis points after the US rate cut. At end-September, the *Best Lending Rates* in the market ranged from 5.625% to 6.125%. The *average savings deposit rate* for deposits of less than $100,000 quoted by major banks declined from 0.79% at end-June to 0.55% at end-September, while the *one-year time deposit rate* decreased from 0.65% to 0.62%. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, fell from 2.62% at end-June to 2.35% at end-September.



* 1. The *Hong Kong dollar* *spot exchange rate* *against the US dollar* strengthened during the third quarter, amid growing expectations for US interest rate cuts and strong equity-related funding demand towards the quarter-end. It closed the quarter at 7.767, compared with 7.808 at end-June. The discounts of 3-month and 12‑month *Hong Kong dollar forward rates* narrowed from 193 pips and 544 pips (each pip is equivalent to HK$0.0001) to 94 pips and 344 pips respectively over the period. The Aggregate Balance was little changed, at $44.8 billion at end-September.
  2. Under the Linked Exchange Rate System, movements of the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against most major currencies, the *trade-weighted Hong Kong dollar Nominal* *and Real* *Effective Exchange Rate Indices*(3) declined by 2.9% and 2.0% respectively during the third quarter.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) increased by 1.3% from end-June to $8,466 billion at end-September, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) increased by 5.3% to $1,594 billion(4). Meanwhile, *total deposits* with authorized institutions (AIs)(5) increased by 2.5% to $17,163 billion, within which Hong Kong dollar and foreign currency deposits increased by 1.3% and 3.5% respectively.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$(a) | Total | HK$(a) | Total |
|  |  |  |  |  |  |  |
| 2023 Q1 | -3.0 | -2.0 | 2.3 | 0.5 | 2.3 | 0.5 |
| Q2 | -6.0 | -4.8 | -0.8 | -0.4 | -0.8 | -0.4 |
| Q3 | -3.9 | -3.1 | -0.1 | 1.4 | -0.1 | 1.4 |
| Q4 | 2.3 | 3.8 | 0.5 | 2.4 | 0.5 | 2.5 |
|  |  |  |  |  |  |  |
| 2024 Q1 | -4.1 | -1.6 | 0.0 | -0.1 | 0.0 | 0.0 |
| Q2 | -0.1 | 3.5 | 1.1 | 3.4 | 1.1 | 3.4 |
| Q3 | 5.3 | 6.7 | 1.3 | 2.4 | 1.3 | 2.4 |
|  |  |  |  |  |  |  |
| Total amount at  end-September 2024 ($Bn) | 1,594 | 2,825 | 8,451 | 18,210 | 8,466 | 18,251 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | 3.2 | 12.9 | 3.0 | 8.5 | 3.0 | 8.5 |
|  |  |  |  |  |  |  |

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

* 1. *Total loans and advances* decreased by 0.2% from end-June to $9,975 billion at end‑September. Analysed by currency, Hong Kong dollar loans decreased by 2.3%, while foreign currency loans increased by 3.4%. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar fell further from 81.3% at end-June to 78.4% at end-September, while that for foreign currencies inched down from 41.3% to 41.2%.
  2. Loans for use in Hong Kong (including trade finance) decreased by 0.8% from end-June to $7,499 billion at end-September, while loans for use outside Hong Kong increased by 1.7% to $2,475 billion. Within the former, loans to various economic segments saw mixed performance. Loans to stockbrokers surged by 54.9% amid the strong pick-up in stock market activities in the latter part of the quarter, though those to financial concerns fell back modestly by 1.3%. Loans to trade finance also fell back by 1.5%, while those to manufacturing, and wholesale and retail trade increased by 2.1% and 3.4% respectively. As for property-related lending, loans for purchase of residential property edged up by 0.7%, while loans to building, construction, property development and investment decreased further by 3.2%.

Table 4.2 : 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 |
|  |  |  |  |  |  |  |  |  |  |  |
| 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 | -3.5 | -1.0 |
|  |  |  |  |  |  |  |  |  |  |  |
| 2024 Q1 | -0.5 | 0.5 | -4.7 | -0.7 | 0.1 | -7.5 | -10.4 | -1.2 | -0.5 | -1.0 |
| Q2 | 6.0 | -2.7 | 0.2 | -2.8 | 0.7 | 0.5 | -2.4 | 0.3 | -4.6 | -0.9 |
| Q3 | -1.5 | 2.1 | 3.4 | -3.2 | 0.7 | -1.3 | 54.9 | -0.8 | 1.7 | -0.2 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-September 2024 ($Bn) | 379 | 298 | 297 | 1,569 | 2,007 | 825 | 64 | 7,499 | 2,475 | 9,975 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -3.8 | -1.1 | -0.4 | -5.8 | 1.3 | -7.5 | 21.2 | -1.8 | -6.8 | -3.1 |

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 robust and resilient, underpinned by strong capital and liquidity positions. Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 21.1% 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 1.79% at end-March to 1.89% at end-June, and the delinquency ratio for credit card lending edged up from 0.33% to 0.34%. The delinquency ratio for residential mortgage loans edged up from 0.10% to 0.11% during the same period.

**Table 4.3 : Asset quality of all authorized institutions**\*^

(as % of total loans)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| At end of period | | Pass loans | Special mention loans | Classified loans  (gross) |
|  | | | | |
| 2023 | Q1 | 96.57 | 1.98 | 1.46 |
|  | Q2 | 96.57 | 1.93 | 1.50 |
|  | Q3 | 96.49 | 1.90 | 1.61 |
|  | Q4 | 96.41 | 2.03 | 1.57 |
|  |  |  |  |  |
| 2024 | Q1 | 96.16 | 2.05 | 1.79 |
|  | Q2 | 96.18 | 1.93 | 1.89 |

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 96.04%, 1.86% and 2.10% respectively at end-June 2024.

* 1. *Offshore renminbi (RMB) business* remained generally active in the third quarter. RMB trade settlement transactions handled by banks in Hong Kong increased by 21.3% over a year earlier to RMB3,816.6 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) fell back by 5.8% over end-June to RMB1,122.3 billion at end-September, though up by 4.7% over a year earlier. As to financing activities, outstanding RMB bank loans increased by 18.3% over end-June to RMB649.3 billion at end-September. Earlier on, RMB bond issuance amounted to RMB146.8 billion (of which RMB11.0 billion was issued by the Ministry of Finance) in the second quarter, as compared to RMB158.1 billion in the preceding quarter(6).

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | |  |  | |  | |  |  |  |
|  | |  | | | | | Interest rates on(a) | | | Number of AIs engaged in RMB business | Amount of cross-border RMB  trade settlement(c) |
| At end of period | | Demand  and savings deposits | Time  deposits | | | Total deposits | Savings  deposits(b) | Three-month  time deposits(b) | |
|  |  | (RMB Mn) | (RMB Mn) | | | (RMB Mn) | (%) | (%) | |  | (RMB Mn) |
|  |  |  |  | | |  |  |  | |  |  |
| 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 |
|  |  |  |  | | |  |  |  | |  |  |
| 2024 | Q1 | 356,992 | 587,672 | | | 944,664 | 0.16 | 0.31 | | 139 | 3,713,713 |
|  | Q2 | 432,712 | 628,954 | | | 1,061,666 | 0.16 | 0.31 | | 138 | 3,700,964 |
|  | Q3 | 459,606 | 556,732 | | | 1,016,339 | 0.16 | 0.31 | | 139 | 3,816,626 |
|  |  |  |  | | |  |  |  | |  |  |
| % change in 2024 Q3 over 2023 Q3 | | 27.0 | -5.7 | | | 6.7 | N.A. | N.A. | | N.A. | 21.3 |
|  | |  |  | | |  |  |  | |  |  |
| % change in 2024 Q3 over 2024 Q2 | | 6.2 | -11.5 | | | -4.3 | N.A. | N.A. | | N.A. | 3.1 |

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

(c) Figures during the period.

N.A. Not applicable.

###### The debt market

* 1. As to the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities was little changed from the preceding quarter at $1,273.7 billion, with the increase of 3.6% in public sector issuance largely offsetting the decrease of 14.0% in private sector issuance(7). The total outstanding amount of Hong Kong dollar debt securities decreased by 0.5% over end-June to $2,761.0 billion at end-September, equivalent to 32.6% of HK$M3 or 27.1% of Hong Kong dollar-denominated assets of the banking sector(8).
  2. As to the Hong Kong dollar bonds issued by the Government, a total of $1.5 billion institutional Government Bonds (GBs) were issued through tenders in the third quarter under the GB Programme. At end-September, the total outstanding amount of Hong Kong dollar bonds under the GB Programme and Government Sustainable Bond (GSB, formerly the Government Green Bond (GGB)) Programmes was $222.1 billion, comprising 14 institutional issues totalling $83.0 billion and two retail issues (Silver Bonds) totalling $97.1 billion under the GB Programme, as well as two retail issues totalling $40.0 billion and one tokenised institutional issue of $2.0 billion under the GSB Programme. As for GBs denominated in other currencies, there was one US dollar sukuk with an issuance size of US$1.0 billion outstanding under the GB Programme, as well as around US$21.7 billion equivalent of institutional green bonds outstanding under the GSB 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** | | | | | | | | | | | | |
|  | | | | | | | | | | | | |
| 2023 | | Annual | 3,978.0 | 76.3 | 106.3 | 4,160.6 | 290.0 | 30.2 | 419.7 | 739.8 | 26.2 | 4,926.7 |
|  | |  |  |  |  |  |  |  |  |  |  |  |
|  | | 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 | 80.4 | 7.1 | 95.0 | 182.5 | 6.1 | 1,258.0 |
|  | | Q4 | 1,010.6 | 8.7 | 30.5 | 1,049.8 | 58.2 | 3.7 | 90.2 | 152.1 | 1.5 | 1,203.4 |
|  | |  |  |  |  |  |  |  |  |  |  |  |
| 2024 | | Q1 | 1,004.5 | 57.0 | 5.5 | 1,066.9 | 59.7 | 6.2 | 113.0 | 178.9 | 18.4 | 1,264.3 |
|  | | Q2 | 1,017.4 | 13.6 | 1.5 | 1,032.4 | 89.2 | 7.0 | 131.8 | 228.0 | 13.4 | 1,273.8 |
|  | | Q3 | 1,036.2 | 31.5 | 1.5 | 1,069.1 | 86.2 | 13.1 | 96.6 | 196.0 | 8.6 | 1,273.7 |
|  | |  |  |  |  |  |  |  |  |  |  |  |
| % change in  2024 Q3 over  2023 Q3 | | | 4.2 | 91.8 | -97.4 | \* | 7.2 | 85.0 | 1.8 | 7.4 | 40.8 | 1.3 |
| % change in  2024 Q3 over  2024 Q2 | | | 1.8 | 132.0 | \* | 3.6 | -3.3 | 87.2 | -26.7 | -14.0 | -35.8 | \* |
|  | | | | | | | | | | | | |
| **Outstanding (at end of period)** | | | | | | | | | | | | |
|  | | | | | | | | | | | | |
| 2023 | Q1 | 1,216.7 | 146.0 | 226.9 | 1,589.5 | 305.6 | 133.9 | 503.8 | 943.3 | 48.7 | 2,581.5 |
|  | Q2 | 1,227.1 | 149.3 | 234.5 | 1,610.9 | 296.0 | 137.3 | 546.6 | 979.9 | 50.9 | 2,641.8 |
|  | Q3 | 1,240.4 | 159.2 | 288.9 | 1,688.5 | 288.7 | 134.3 | 566.2 | 989.2 | 53.8 | 2,731.4 |
|  | Q4 | 1,255.4 | 152.0 | 284.6 | 1,692.0 | 290.3 | 130.1 | 576.9 | 997.3 | 53.8 | 2,743.1 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 2024 | Q1 | 1,268.4 | 187.5 | 287.2 | 1,743.1 | 265.2 | 120.8 | 573.5 | 959.6 | 55.4 | 2,758.0 |
|  | Q2 | 1,281.7 | 172.1 | 258.7 | 1,712.5 | 284.5 | 114.2 | 599.2 | 997.9 | 64.6 | 2,775.0 |
|  | Q3 | 1,294.7 | 183.1 | 222.1 | 1,699.9 | 287.0 | 119.6 | 590.9 | 997.6 | 63.6 | 2,761.0 |
|  | | |  |  |  |  |  |  |  |  |  |  |
| % change in  2024 Q3 over  2023 Q3 | | | 4.4 | 15.1 | -23.1 | 0.7 | -0.6 | -10.9 | 4.4 | 0.8 | 18.2 | 1.1 |
| % change in  2024 Q3 over  2024 Q2 | | | 1.0 | 6.4 | -14.2 | -0.7 | 0.9 | 4.7 | -1.4 | \* | -1.6 | -0.5 |

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.

(\*) Change within ± 0.05%.

**The stock and derivatives markets**

* 1. The *local stock market* stayed soft on entering the third quarter amid uncertainties surrounding the pace of US interest rate cuts and the economic outlook of major economies. The HSI was range-bound between 17 000 and 18 000 during most of the quarter. Following the US’ rate cut by 50 basis points on 18 September and the Mainland’s subsequent announcement of a package of measures (see *paragraph 4.19* for details) to shore up the economy and capital markets, market sentiment improved visibly and the HSI jumped to close the quarter at 21 134, 19.3% higher than end-June. *Market capitalisation* rose further by 14.9% to $36.9 trillion during the quarter. The local stock market ranked the seventh largest in the world and the fourth largest in Asia(9).
  2. Trading activities turned more active towards the quarter-end, with daily turnover reaching a record-high of $505.9 billion on the last trading day. For the quarter as a whole, *average daily turnover* in the securities market contracted slightly by 2.3% from the preceding quarter to $118.8 billion, though up 20.7% over a year earlier. Within the total, the average daily trading value of equities fell by 6.7% on a quarter-to-quarter basis, while that of unit trusts (including Exchange-Traded Funds (ETFs))(10), derivative warrants and callable bull/bear contracts increased by 10.5%, 13.6% and 22.3% respectively. As to futures and options(11), the average daily trading volume decreased by 5.3%. Within the total, trading of stock options, Hang Seng China Enterprises Index futures, HSI futures, and HSI options fell by 5.7%, 9.1%, 8.3%, and 9.1% 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\* |
|  |  |  |  |  |  |
| 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 |
|  |  |  |  |  |  |
| 2024 Q1 | 149 867 | 22 591 | 208 485 | 645 126 | 1 500 494 |
| Q2 | 141 876 | 21 446 | 191 449 | 747 232 | 1 565 097 |
| Q3 | 130 138 | 19 505 | 173 985 | 704 694 | 1 482 419 |
|  |  |  |  |  |  |
| % change in  2024 Q3 over  2023 Q3 | -4.8 | -14.1 | -3.0 | 19.2 | 10.9 |
|  |  |  |  |  |  |
| % change in  2024 Q3 over  2024 Q2 | -8.3 | -9.1 | -9.1 | -5.7 | -5.3 |

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. Thanks to some large flotations, fund raising activities in Hong Kong picked up notably during the third quarter. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and GEM(12), leaped by 65.9% over the preceding quarter or 140.3% year-on-year to $59.8 billion in the third quarter. Within the total, the amount of funds raised through IPOs surged almost five-fold over the preceding quarter or more than six-fold over a year earlier to $42.2 billion. Hong Kong ranked fourth among stock exchange markets globally in terms of the amount of funds raised through IPOs in the first nine months of the year(13).
  2. Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-September, a total of 1 466 Mainland enterprises (including 350 H-share companies and 1 116 Non-H share Mainland enterprises) were listed on the Main Board and GEM, accounting for 56% of the total number of listed companies and 80% of total market capitalisation. Mainland-related stocks accounted for 87% of equity turnover and 94% of total equity funds raised in the Hong Kong Stock Exchange in the third quarter.

Fund management and investment funds

* 1. Performance of the fund management business improved further in the third quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(14) rose by 8.2% over end-June to $1,326.7 billion at end-September. The monthly average gross retail sales of *mutual funds* increased by 23.4% over the preceding quarter to US$7.7 billion in July – August(15)(16), and was 50.9% higher than the level a year earlier.

Insurance sector

* 1. *Insurance business*(17) fell back in the second quarter, after surging at double-digit rates in the past four quarters. New office premiums of long-term business declined by 9.9% from a year earlier, within which premium from non-investment linked plans (which accounted for 95% of total premium for this segment) decreased by 9.3% and that from investment linked plans fell by 22.5%. As to general business, gross and net premiums rose by 4.4% and 4.6% respectively.

Table 4.7 : 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 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| 2023 Annual | 67,302 | | 43,280 | 846 | | 169,438 | | 11,165 | 50 | 310 | 180,963 | | 248,265 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| 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 |
| Q4 | 13,497 | | 8,558 | -673 | | 32,156 | | 2,200 | 14 | 74 | 34,444 | | 47,941 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| 2024 Q1 | 20,838 | | 13,124 | 1,038 | | 63,279 | | 1,846 | 13 | 141 | 65,279 | | 86,117 |
| Q2 | 17,041 | | 11,298 | 908 | | 47,987 | | 2,457 | 17 | 125 | 50,586 | | 67,627 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| % change in 2024 Q2 over 2023 Q2 | 4.4 | | 4.6 | -3.4 | | -9.3 | | -22.5 | 54.5 | 43.7 | -9.9 | | -6.7 |

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. The People’s Bank of China (PBoC), the National Financial Regulatory Administration, and the China Securities Regulatory Commission announced on 24 September a package of measures to provide financial support for high-quality economic development. These include reducing the reserve requirement ratios for financial institutions, cutting the benchmark interest rates, and lowering the mortgage rates on existing loans, etc. The PBoC also introduced a swap programme and a relending facility of a total initial size of RMB 800 billion which allow eligible funds, insurance companies, brokers and listed companies to access funding for investment in the stock market.  The measures, together with the Politburo’s pledge to step up countercyclical policy support for the economy and boost the capital market in the Mainland, have visibly revived local market sentiment.

4.20 On financial innovation, the HKMA launched the Project Ensemble Sandbox (the Sandbox) on 28 August and introduced four main themes of tokenisation use cases within the financial sector for the initial round of experimentation, focusing on (i) fixed income and investment funds; (ii) liquidity management; (iii) green and sustainable finance; and (iv) trade and supply chain finance. The Sandbox is designed to facilitate interbank settlement using experimental tokenised money. Earlier on 13 August, the HKMA collaborated with the Hong Kong Cyberport to launch the new Generative Artificial Intelligence (GenA.I.) Sandbox at FiNETech2, a pioneering initiative that promotes responsible innovation in GenA.I. across the banking industry, empowering banks to pilot their novel GenA.I. use cases within a risk-managed framework.

4.21 On 23 September, the HKMA commenced Phase 2 of the e-HKD Pilot Program, an integral part of Project e-HKD+, to explore innovative use cases for new forms of digital money, including e-HKD and tokenised deposits. Under Phase 2, 11 groups of firms from various sectors have been selected to explore use cases across three main themes, namely (i) settlement of tokenised assets, (ii) programmability and (iii) offline payments. Selected firms will also examine commercial feasibility within a real-world setting of new forms of digital money, with a view to unlocking the full potential of digital money.

4.22 On regional financial cooperation, starting from 19 July, the Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, added the Abu Dhabi Securities Exchange and the Dubai Financial Market as Recognised Stock Exchanges, which will allow public joint stock companies with a primary listing on the main market of these two exchanges in the United Arab Emirates to apply for a secondary listing in Hong Kong. This enables more issuers in the Middle East to tap Hong Kong’s markets while further enhancing the diversity of Hong Kong’s stock market, thereby strengthening Hong Kong’s position as Asia’s leading international financial centre. Separately, on 16 September, the HKMA and the Dubai Financial Services Authority signed a Memorandum of Understanding to further deepen their strategic partnership on sustainable finance.

4.23 To promote the development of bond markets in Hong Kong and Macao, the HKMA and the Monetary Authority of Macao (AMCM) jointly announced on 16 September the establishment of a direct linkage between the Central Moneymarkets Unit of the HKMA and the central securities depository operated by a wholly owned subsidiary of the AMCM. Under the direct linkage arrangement, investors in each market, through their accounts in their respective local market, will be able to clear, settle and hold bonds lodged with the other market. This arrangement marks a milestone in the financial cooperation between Hong Kong and Macao.

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 2024, there were 149 licensed banks, 16 restricted licence banks and 11 deposit-taking companies in Hong Kong. Altogether, 176 AIs (excluding representative offices) from 32 countries and territories (including Hong Kong) had a presence in Hong Kong.

(6) HKMA discontinued the old RMB bond issuance data since June 2024 and adopted another data series. The new series has broader coverage sourced from various data sources including Bloomberg, the Central Moneymarkets Unit, Dealogic and Reuters but with longer time lag. Hence the latest data are up to the previous quarter only, and the new data are not directly comparable with those in previous issues of this report. Figures are subject to revisions.

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

(8) Assets of the banking sector include notes and coins, amount due from Authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

(9) The ranking is based on the market capitalisation figures of global stock exchange markets compiled by the World Federation of Exchanges and the London Stock Exchange Group.

(10) Given the relatively small share (less than 0.6% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.

(11) At end-September 2024, there were 126 classes of stock options contracts and 98 classes of stock futures contracts.

(12) At end-September 2024, there were 2 298 and 323 companies listed on the Main Board and GEM respectively.

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

(14) At end-September 2024, 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 367 000 employers, 2.64 million employees and 235 000 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 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.

(16) At end-September 2024, there was one SFC-authorised retail hedge fund with net asset size of US$99 million. This amount of net assets under management decreased by 11.6% from end-June 2024, and represented a 15.4% decrease from a year earlier and a 38.1% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(17) At end-September 2024, there were 157 authorized insurers in Hong Kong. Within this total, 52 were engaged in long-term insurance business, 85 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).