CHAPTER 4 : THE FINANCIAL SECTOR#

*Summary*

* *The high interest rate environment in Hong Kong continued in the second quarter. As the US Federal Open Market Committee (FOMC) left the target range for the Federal Funds Rate unchanged, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) held at 5.75% at end‑June. Hong Kong dollar interbank interest rates came lower on entering the quarter, but rose back somewhat subsequently on the back of more active equity market activities and dividend-related funding demand. Interest rates on the retail front remained stable.*
* *The Hong Kong dollar spot exchange rate against the US dollar strengthened during the second quarter. As the US dollar strengthened slightly against most major currencies, the trade‑weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose by 1.3% and 0.3% respectively during the second quarter.*
* *Total loans and advances decreased by 0.9% during the second quarter. Within the total, loans for use in Hong Kong edged up by 0.3%, while loans for use outside Hong Kong decreased by 4.7%.*
* *The local stock market fared better in the second quarter. As market sentiment improved following the announcement of enhancement measures on mutual access between the capital markets of the Mainland and Hong Kong, the Hang Seng Index (HSI) rose markedly to a near 10-month high of 19 636 on 20 May. Yet, dampened by expectations for delayed US interest rate cuts and concerns about the Mainland’s economic recovery momentum, it then retreated and closed the quarter at 17 719 or 7.1% higher than end-March. Trading activities picked up further and fund raising activities revived somewhat.*

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

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

Interest rates and exchange rates

* 1. The high interest rate environment in Hong Kong continued in the second quarter. As the US FOMC left the target range for the Federal Funds Rate unchanged at 5.25-5.50%, the *Base Rate*(1) under the Discount Window operated by the HKMA held at 5.75% at end‑June. *Hong Kong dollar interbank interest rates* (HIBORs) came lower on entering the quarter, but rose back somewhat subsequently on the back of more active equity market activities and dividend-related funding demand. The 3‑month HIBOR rose slightly from 4.72% at end‑March to 4.75% at end-June, while the overnight HIBOR inched down from 5.00% to 4.98%, both lower than the year-ago levels.
  2. During the second quarter, the *Hong Kong dollar* *yield* *curve* inverted slightly with short-term yields rising, while the *US dollar yield curve* rose somewhat at the longer tenors. 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 narrowed from 113 basis points at end-March to 95 basis points at end-June, while that between 10‑year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 49 basis points to 82 basis points.



* 1. Interest rates on the retail front remained stable during the second quarter. The *Best Lending Rates* in the market remained in the range of 5.875% to 6.375%. The *average savings deposit rate* for deposits of less than $100,000 quoted by major banks stayed unchanged at 0.79%, while the *one‑year time deposit rate* edged down from 0.67% at end‑March to 0.65% at end‑June. The *composite interest rate*(2), which indicates the average cost of funds for retail banks, fell from 2.73% at end-March to 2.62% at end‑June.



4.4 The *Hong Kong dollar spot exchange rate* *against the US dollar* strengthened during the second quarter, supported by equity and dividend-related funding demand. It closed the second quarter at 7.808, compared with 7.824 at end-March. The discounts of 3-month and 12‑month *Hong Kong dollar forward rates* narrowed from 197 pips and 570 pips (each pip is equivalent to HK$0.0001) to 193 pips and 544 pips respectively over the period. The Aggregate Balance was little changed, at $45.0 billion at end-June.

4.5 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 strengthened slightly against most major currencies, the *trade‑weighted Hong Kong dollar Nominal* and *Real Effective Exchange Rate* *Indices*(3) rose by 1.3% and 0.3% respectively during the second quarter.



Money supply and banking sector

* 1. The Hong Kong dollar broad *money supply* (HK$M3) increased by 1.1% from end-March to $8,356 billion at end-June, while the seasonally adjusted Hong Kong dollar narrow money supply (HK$M1) edged down by 0.1% to $1,514 billion(4). Meanwhile, *total deposits* with authorized institutions (AIs)(5) increased by 3.4% to $16,743 billion, within which Hong Kong dollar and foreign currency deposits rose by 1.0% and 5.5% respectively.



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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | M1 | | M2 | | M3 | |
| % change during  the quarter | HK$^ | Total | HK$# | Total | HK$# | Total |
|  |  |  |  |  |  |  |
| 2023 Q1 | -3.0 | -2.0 | 2.3 | 0.5 | 2.3 | 0.5 |
| Q2 | -6.0 | -4.8 | -0.8 | -0.4 | -0.8 | -0.4 |
| Q3 | -3.9 | -3.1 | -0.1 | 1.4 | -0.1 | 1.4 |
| Q4 | 2.3 | 3.8 | 0.5 | 2.4 | 0.5 | 2.5 |
|  |  |  |  |  |  |  |
| 2024 Q1 | -4.1 | -1.6 | 0.0 | -0.1 | 0.0 | 0.0 |
| Q2 | -0.1 | 3.5 | 1.1 | 3.4 | 1.1 | 3.4 |
|  |  |  |  |  |  |  |
| Total amount at  end-June 2024 ($Bn) | 1,514 | 2,647 | 8,342 | 17,774 | 8,356 | 17,817 |
|  |  |  |  |  |  |  |
| % change over  a year earlier | -5.9 | 2.5 | 1.5 | 7.4 | 1.5 | 7.4 |

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

* 1. *Total loans and advances* decreased by 0.9% over end-March to $9,995 billion at end‑June. Within the total, Hong Kong dollar loans and foreign currency loans decreased by 1.3% and 0.2% respectively. Reflecting the relative movements in loans and deposits, the loan‑to‑deposit ratio for Hong Kong dollar fell further from 83.2% at end‑March to 81.3% at end‑June, and that for foreign currency went down from 43.6% to 41.3%.
  2. Loans for use in Hong Kong (including trade finance) edged up by 0.3% from end-March to $7,561 billion at end‑June, while loans for use outside Hong Kong decreased by 4.7% to $2,433 billion. Within the former, loans to various economic segments saw mixed performance. Trade finance resumed growth of 6.0% thanks to improved external trade performance. Loans to financial concerns also rose back slightly by 0.5% while those to stockbrokers saw a narrower decline of 2.4% alongside some revival in financial market activities. Meanwhile, loans to wholesale and retail trade edged up by 0.2%, while those to manufacturing relapsed to a decline of 2.7%. As for property‑related lending, loans to building, construction, property development and investment decreased by 2.8%, while loans for purchase of residential property grew modestly by 0.7%.

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 |
|  |  |  |  |  |  |  |  |  |  |  |
| 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 |
|  |  |  |  |  |  |  |  |  |  |  |
| 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 | -4.7 | -0.9 |
|  |  |  |  |  |  |  |  |  |  |  |
| Total amount at end-June 2024 ($Bn) | 385 | 292 | 287 | 1,620 | 1,994 | 836 | 41 | 7,561 | 2,433 | 9,995 |
|  |  |  |  |  |  |  |  |  |  |  |
| % change over a year earlier | -5.2 | -6.5 | -6.5 | -5.2 | 1.5 | -11.4 | -20.6 | -2.9 | -11.0 | -5.0 |

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. Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 21.1% at end-March. The local banking sector’s overall asset quality deteriorated slightly, but remained at a healthy level. The ratio of classified loans to total loans for all AIs rose from 1.56% at end‑2023 to 1.79% at end‑March 2024, and the delinquency ratio for credit card lending edged up from 0.30% to 0.33%. The delinquency ratio for residential mortgage loans stayed low at 0.10% at end-June, though slightly higher than the 0.09% at end-March.

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

(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 | 1.56 |
|  |  |  |  |  |
| 2024 | Q1 | 96.16 | 2.05 | 1.79 |

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

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

(^) This table presents the asset quality of all AIs. For retail banks, the pass loans, special mention loans and classified loans (gross) as percentages of total loans were 96.01%, 2.08% and 1.91% respectively at end-March 2024.

* 1. *Offshore renminbi (RMB) business* remained active in the second quarter. RMB trade settlement transactions handled by banks in Hong Kong leapt by 32.6% over a year earlier to RMB3,701.0 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased by 12.6% over end‑March to RMB1,191.2 billion at end‑June. As to financing activities, outstanding RMB bank loans grew by 4.8% over end-March to RMB549.1 billion at end‑June. Earlier on, RMB bond issuance increased from RMB130.5 billion in the fourth quarter of 2023 to RMB158.1 billion (of which RMB12.0 billion was issued by the Ministry of Finance) in the first quarter of 2024(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 | | Customer 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 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2024 Q2 over  2023 Q2 | | 8.2 | 24.0 | | 17.0 | | N.A. | | N.A. | N.A. | 32.6 |
|  |  |  |  | |  | |  | |  |  |  |
| % change in  2024 Q2 over  2024 Q1 | | 21.2 | 7.0 | | 12.4 | | N.A. | | N.A. | N.A. | -0.3 |

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 0.8% from the preceding quarter to $1,273.8 billion in the second quarter, with the increase of 27.4% in private sector issuance largely offsetting the decrease of 3.2% in public sector issuance(7). The total outstanding amount of Hong Kong dollar debt securities increased by 0.6% over end-March to $2,774.9 billion at end-June, equivalent to 33.2% of HK$M3 or 27.6% 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 second quarter under the GB Programme. At end‑June, the total outstanding amount of Hong Kong dollar bonds under the GB and Government Sustainable Bond (GSB, formerly the Government Green Bond (GGB)) Programmes was $258.7 billion, comprising 15 institutional issues totalling $92.5 billion, three retail issues (Silver Bonds) totalling $124.2 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$18.5 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 | 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 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 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2024 Q2 over 2023 Q2 | | 2.0 | -30.3 | -84.2 | 0.6 | 36.8 | -32.3 | 24.3 | 25.5 | 257.5 | 5.1 |
|  | | | | | | | | | | | |
| % change in 2024 Q2 over 2024 Q1 | | 1.3 | -76.2 | -72.7 | -3.2 | 49.4 | 13.1 | 16.6 | 27.4 | -27.3 | 0.8 |
|  | | | | | | | | | | | |
| **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 | 288.6 | 134.3 | 566.2 | 989.0 | 53.8 | 2,731.2 |
|  | Q4 | 1,255.4 | 152.0 | 284.6 | 1,692.0 | 290.1 | 130.1 | 576.9 | 997.1 | 53.8 | 2,742.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 2024 | Q1 | 1,268.4 | 187.5 | 287.2 | 1,743.1 | 265.1 | 120.8 | 573.5 | 959.4 | 55.4 | 2,757.9 |
|  | Q2 | 1,281.7 | 172.1 | 258.7 | 1,712.5 | 284.3 | 114.2 | 599.2 | 997.7 | 64.6 | 2,774.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2024 Q2 over 2023 Q2 | | 4.4 | 15.3 | 10.4 | 6.3 | -4.0 | -16.8 | 9.6 | 1.8 | 26.8 | 5.0 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| % change in 2024 Q2 over 2024 Q1 | | 1.0 | -8.2 | -9.9 | -1.8 | 7.3 | -5.5 | 4.5 | 4.0 | 16.7 | 0.6 |

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

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

**The stock and derivatives markets**

* 1. The *local stock market* fared better in the second quarter. Market sentiment improved following the announcement of enhancement measures on mutual access between the capital markets of the Mainland and Hong Kong in late April. The HSI rose markedly to 19 636 on 20 May, the highest in almost 10 months. Yet, dampened by expectations for delayed US interest rate cuts and concerns about the Mainland’s economic recovery momentum, the HSI then retreated and closed the quarter at 17 719 or 7.1% higher than end-March. *Market capitalisation* rose back by 6.1% during the quarter to $32.1 trillion. The local stock market ranked the seventh largest in the world and the fourth largest in Asia(9).
  2. Trading activities picked up further in the second quarter. *Average daily turnover* in the securities market rose by 22.4% over the preceding quarter or 18.2% over a year earlier to $121.6 billion. Within the total, the average daily trading value of equities, unit trusts (including Exchange-Traded Funds (ETFs))(10) and callable bull/bear contracts increased by 27.5%, 16.9% and 0.8% respectively over the preceding quarter, while that of derivative warrants declined by 11.5%. As to futures and options(11), the average daily trading volume increased by 4.3%. Within the total, trading of stock options leapt by 15.8%, while that of Hang Seng China Enterprises Index futures, HSI futures and HSI options fell by 8.2%, 5.3% and 5.1% 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 |
|  |  |  |  |  |  |
| % change in  2024 Q2 over  2023 Q2 | 2.3 | -7.3 | 1.3 | 24.7 | 18.9 |
|  |  |  |  |  |  |
| % change in  2024 Q2 over  2024 Q1 | -5.3 | -5.1 | -8.2 | 15.8 | 4.3 |

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

* 1. Fund raising activities in Hong Kong revived somewhat during the second quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM(12), rebounded by 18.5% over the preceding quarter to $36.0 billion in the second quarter, but was still 12.8% lower than a year earlier. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) bounced back by 78.5% over the preceding quarter to $8.6 billion, but still down 23.5% from a year earlier. Hong Kong ranked ninth among stock exchange markets globally in terms of the amount of funds raised through IPOs in the first half of the year(13).
  2. Mainland enterprises continued to play a prominent role in the Hong Kong stock market. At end-June, a total of 1 460 Mainland enterprises (including 343 H-share companies and 1 117 Non-H share Mainland enterprises) were listed on the Main Board and GEM, accounting for 56% of the total number of listed companies and 79% of total market capitalisation. Mainland-related stocks accounted for 86% of equity turnover and 87% of total equity funds raised in the Hong Kong Stock Exchange in the first half of 2024.

Fund management and investment funds

* 1. The fund management business saw mixed performance in the second quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*(14) rose by 3.6% over end-March to $1,225.9 billion at end-June. The monthly average gross retail sales of *mutual funds* fell by 5.9% from the preceding quarter to US$6.2 billion in April – May(15)(16), but were still 39.1% higher than the level a year earlier.

Insurance sector

* 1. The *insurance sector*(17) recorded impressive growth in the first quarter. New office premiums of long-term business leapt by 39.0% over a year earlier, within which premium from non-investment linked plans (which accounted for 97% of total premium for this segment) soared by 45.5%, while that from investment linked plans decreased by 46.0%. As to general business, gross and net premiums rose by 0.9% and 5.3% 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 |
|  |  | |  |  | |  | |  |  |  |  | |  |
| % change in 2024 Q1 over 2023 Q1 | 0.9 | | 5.3 | 102.3 | | 45.5 | | -46.0 | \* | 98.6 | 39.0 | | 27.3 |
|  |  | |  |  | |  | |  |  |  |  | |  |

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

(^) Retirement scheme business is excluded.

(\*) Change within ± 0.05%.

**Highlights of policy and market developments**

4.19 To further expand the mutual access between the capital markets of the Mainland and Hong Kong, the China Securities Regulatory Commission announced five measures on 19 April, including (i) expanding the eligible product scope of ETFs under Stock Connect; (ii) including real estate investment trusts (REITs) under Stock Connect; (iii) supporting the inclusion of RMB stock trading counter under Southbound trading of Stock Connect; (iv) enhancing the arrangements for mutual recognition of funds; and (v) encouraging leading enterprises of industries in the Mainland to list in Hong Kong. The new measures will further strengthen Hong Kong’s role to connect the Mainland and international capital markets and enhance Hong Kong’s status as an offshore RMB centre, thereby contributing to the further development of Hong Kong’s financial markets as well as the steady and prudent advancement of RMB internationalisation. Among others, the expansion of eligible scope of ETFs under Stock Connect took effect on 22 July, enriching the asset allocation choices for domestic, Mainland and overseas investors.

4.20 In May 2024, the People’s Bank of China, the Securities and Futures Commission (SFC) and the HKMA jointly announced enhancement measures on the mutual access arrangement between the Mainland and Hong Kong interest rate swap markets (Swap Connect), to introduce features including (i) accepting interest rate swap contracts with payment cycles based on the International Monetary Market dates for clearing; (ii) introducing compression service and the clearing of backdated swap contracts; and (iii) rolling out other system enhancements and incentive programmes to reduce the participation costs of Mainland and overseas investors. The enhancements could facilitate better alignment with international practices and enhance capital efficiency for investors, thereby further addressing their diverse risk management needs.

4.21 Asia’s first spot virtual asset ETFs were listed in Hong Kong on 30 April. The listing of six bitcoin and ether spot ETFs marked a key milestone in Hong Kong’s ETF market development by enhancing its product diversity and liquidity, and further supporting Hong Kong’s position as the region’s leading ETF marketplace.

4.22 Hong Kong Exchanges and Clearing Limited announced on 18 June the finalised operational model and arrangements to allow Hong Kong’s securities and derivatives markets to remain open during severe weather conditions, which will be implemented from 23 September. Under the initiative, trading, post-trade and listing arrangements in securities and derivatives markets, including Stock Connect, derivatives holiday trading, and after-hours trading, will be maintained under severe weather. The arrangements will facilitate investors to continue trading Hong Kong stocks and derivatives as well as Mainland A-shares through Northbound trading of Stock Connect without being affected by the adverse local weather conditions in Hong Kong, further consolidating Hong Kong’s role as the two-way gateway and bridge for international and Mainland investors and capital.

4.23 The eMPF Platform was launched on 26 June, signifying the birth of a new digital era for the MPF system, enhancing operational efficiency, reducing administrative costs, and improving user experience. The centralised electronic platform enables employers and scheme members to handle administration tasks and manage MPF assets electronically, including enrolment, making contributions, change of investment choices, account consolidation and withdrawal of benefits, etc. Following the onboarding of all MPF schemes to the eMPF Platform by end-2025, the current systems administered by trustees will be replaced by the eMPF Platform.

Notes :

(1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.

(2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movements in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector. Since June 2019, the composite interest rate has been calculated based on the new local “Interest rate risk in the banking book” framework. As such, the figures are not strictly comparable with those of previous months.

(3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against 18 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2019 and 2020.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

(4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers’ demand deposits with licensed banks.

M2 : M1 plus customers’ savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector, as well as short‑term Exchange Fund placements of less than one month.

M3 : M2 plus customers’ deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK$M1, currency held by the public, and demand deposits. As monthly monetary statistics are subject to volatilities due to a wide range of transient factors, such as seasonal and IPO-related funding demand as well as business and investment-related activities, caution is required when interpreting the statistics.

(5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2024, there were 149 licenced 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 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.

(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 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.

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

(12) At end-June 2024, there were 2 293 and 324 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-June 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 364 000 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-June 2024, there was one SFC-authorised retail hedge fund with net asset size of US$112 million. This amount of net assets under management decreased by 3.4% from end-March, and represented a 7.4% decrease from a year earlier and a 30.0% decrease from end-2002, the year when the hedge funds guidelines were first issued.

(17) At end-June 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).