

## 4. Monetary and financial conditions

### 4.1 Exchange rate and capital flows

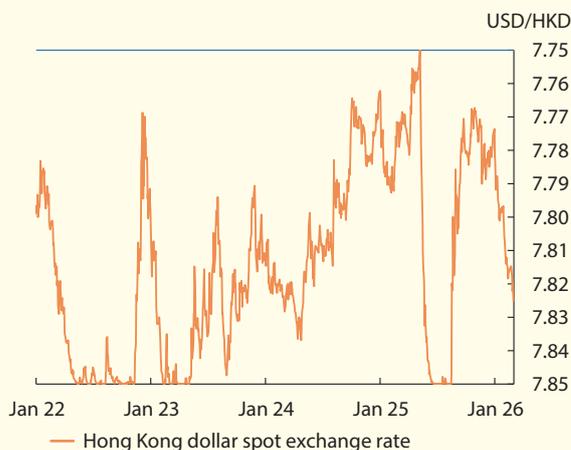
The Hong Kong dollar (HKD) traded within a range between 7.7673 and 7.8251 during the review period (Chart 4.1), with the movements primarily driven by HKD interbank rates and equity-related demand. It initially traded on the strong side of the Convertibility Zone, before shifting to the weaker side of the Convertibility Zone toward the end of the review period.

As the Convertibility Undertakings (CUs) were not triggered during the review period, the Aggregate Balance of the banking system remained largely unchanged at HK\$54.0 billion at the end of February 2026. Day-to-day interbank operations and settlement activities among banks continued to operate in a smooth and orderly manner (Chart 4.2).

Broadly tracking the movements of the US dollar (USD), the HKD nominal effective exchange rate (NEER) strengthened from late September to early November 2025, before softening thereafter (Chart 4.3). Meanwhile, the HKD real effective exchange rate (REER) generally mirrored the NEER trend.

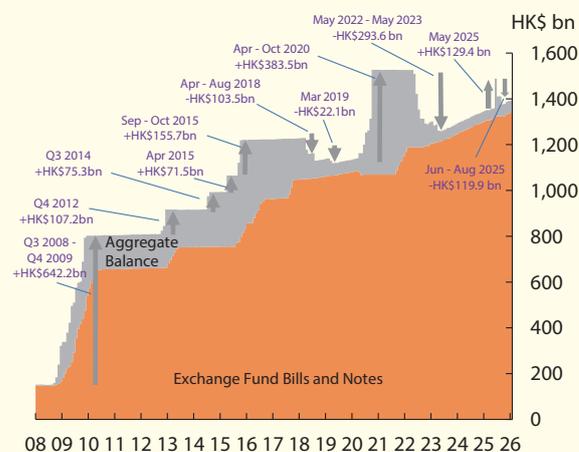
Looking ahead, heightened geopolitical risks and the military conflict in the Middle East, uncertainty over the US trade policy and concerns about the sustainability of the A.I. boom may increase the volatility of fund flows. However, Hong Kong's ample foreign reserves and resilient financial system position it well to absorb such shocks without compromising financial stability.

**Chart 4.1**  
Hong Kong dollar exchange rate



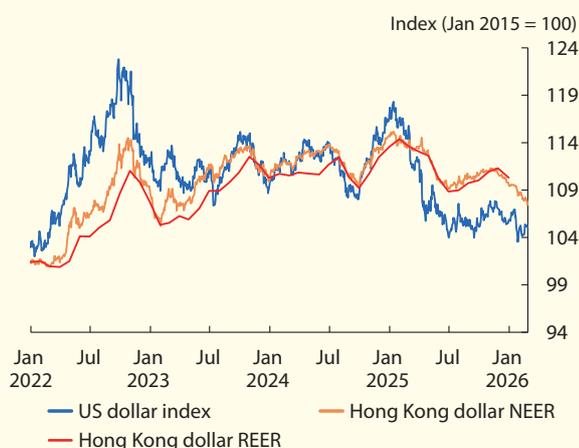
Source: HKMA.

**Chart 4.2**  
Aggregate Balance and Exchange Fund Bills and Notes (EFBNs)



Source: HKMA

**Chart 4.3**  
**NEER index and REER index**



Note: The REER is seasonally adjusted and available only on a monthly basis.  
Sources: CEIC, C&SD and HKMA staff estimates.

## 4.2 Monetary environment and interest rates

Hong Kong’s monetary environment stayed accommodative during the review period. The HKD Monetary Base remained sizeable and broadly stable at HK\$2,071.6 billion as of end-February 2026.

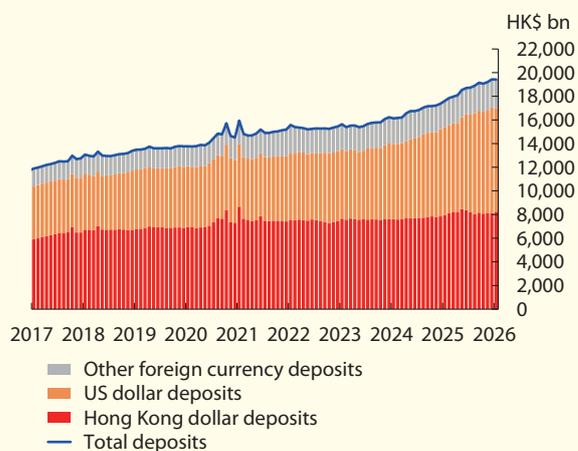
During the seven-month period since end-June 2025, total deposits with authorized institutions (AIs) increased by 3.9%. Of this, HKD deposits decreased by 1.7% while foreign currency deposits increased by 8.4% (Chart 4.4). As monetary statistics are subject to volatility due to a wide range of transient factors, such as seasonal funding demand as well as business and investment related activities, it is more appropriate to observe the longer-term trends.

Overall, Hong Kong’s interbank market continued to trade in a smooth and orderly manner. In accordance with the expectation and the design of the Linked Exchange Rate System, HKD interbank interest rates generally track their USD counterparts<sup>34</sup> while shorter-tenor rates are

<sup>34</sup> The USD London Interbank Offered Rate (LIBOR) has been discontinued since 1 July 2023 and replaced by the Secured Overnight Financing Rate (SOFR) as its alternative reference rate.

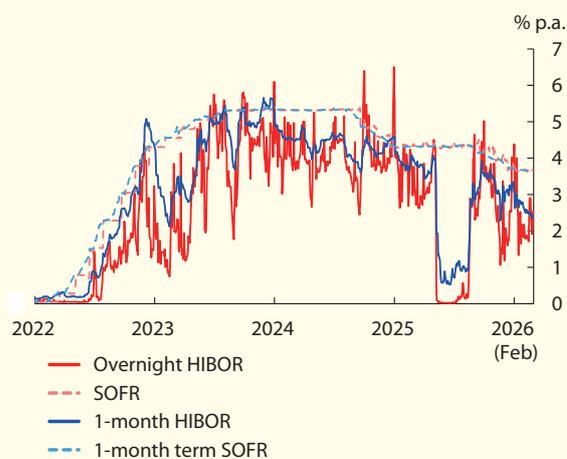
also influenced by local supply of and demand for HKD funding. Short-term Hong Kong Interbank Offered Rates (HIBORs) rose in September 2025, partly reflecting corporate funding needs ahead of quarter-end. They then eased in October and November as equity-related demand cooled. Short-term HIBORs firmed up again towards year-end 2025 on seasonal factors, and then softened in early 2026 as seasonal liquidity tightness eased (Chart 4.5).

**Chart 4.4**  
**Deposits with authorized institutions (AIs) by currency**



Source: HKMA.

**Chart 4.5**  
**Hong Kong Interbank Offered Rates (HIBORs) and US dollar Secured Overnight Financing Rates (SOFRs)**



Sources: Bloomberg and HKMA.

## Monetary and financial conditions

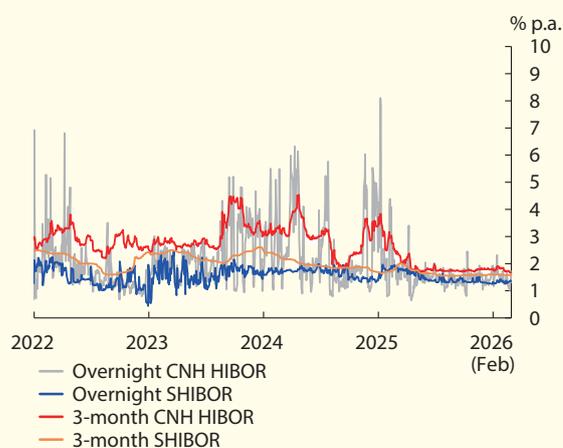
On the retail front, with three consecutive 25-basis points cuts in US policy rate (September, October and December 2025), many banks reduced their Best Lending Rates twice, by a total of 25.0 basis points between September and November 2025. By the end of the review period, the Best Lending Rates in the market ranged from 5.00%–5.50%. During the review period, the average lending rate for new mortgages increased from 2.40% in July 2025 to 3.47% in September, then fell to 3.26% in January 2026. The mortgage rate dynamics mainly reflected the rotation of the effective rate's benchmark from 1-month HIBOR in June to the Best Lending Rate in late August, along with the rebound of 1-month HIBOR. Banks will assess the merit and extent of adjustments for their deposit and lending rates, taking into account factors such as funding supply and demand, interest rate levels, and their own funding cost structures.

The HKMA continues to closely engage with banks, reminding them to properly manage their liquidity, including keeping in close contact with their large clients to understand their HKD funding plans and arrangements. This helps banks to plan and avoid any hoarding of HKD. The HKMA has also reminded banks not to be deterred by the perceived “stigma effect” of tapping into its liquidity facilities. Indeed, banks should feel free to use the HKMA's various liquidity facilities whenever required. Recent use of the Discount Window demonstrates that banks are adapting to changing market developments and are increasingly comfortable utilizing these liquidity facilities.

## Offshore RMB banking business

The offshore renminbi (CNH) interbank market continued to function normally during the review period.<sup>35</sup> The three-month CNH HIBOR has remained below 2% since April 2025. While the overnight CNH HIBOR saw some fluctuations, it mostly traded below 2% (Chart 4.6). Liquidity conditions in the CNH interbank market remained broadly stable.

**Chart 4.6**  
Overnight and 3-month offshore renminbi (CNH) HIBOR fixings



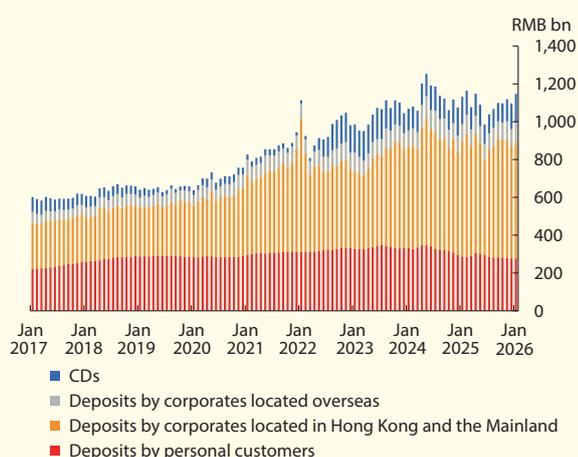
Sources: CEIC and Treasury Markets Association.

<sup>35</sup> See section 2.2 of Chapter 2 for developments in offshore and onshore renminbi exchange rates.

## Monetary and financial conditions

Hong Kong's CNH liquidity pool expanded during the review period. The total outstanding amount of renminbi (RMB) customer deposits and certificates of deposit (CDs) increased by 10.4% to RMB1,147.0 billion at the end of January 2026 (Chart 4.7 and Table 4.A). Among the total, RMB customer deposits grew by 5.9%, mainly led by corporate customers' deposits. Meanwhile, the outstanding amount of RMB CDs expanded, increasing by 52.3% during the same period.

**Chart 4.7**  
Renminbi customer deposits and certificates of deposit (CDs) in Hong Kong



Source: HKMA.

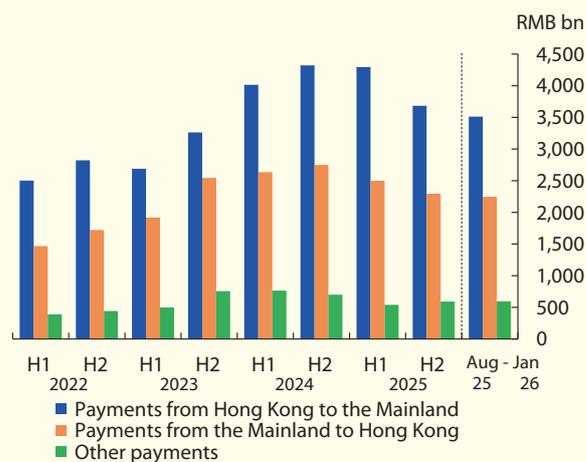
**Table 4.A**  
Offshore renminbi banking statistics

	Dec 2024	Jan 2026
Renminbi deposits & CDs (RMB bn)	1,075.3	1,147.0
Of which:		
Renminbi deposits (RMB bn)	926.6	993.9
Share of renminbi deposits in total deposits (%)	5.7	5.7
Renminbi CDs (RMB bn)	148.7	153.1
Renminbi outstanding loans (RMB bn)	724.0	967.7
Number of participating banks in Hong Kong's renminbi clearing platform	206	210
Amount due to overseas banks (RMB bn)	117.5	145.2
Amount due from overseas banks (RMB bn)	102.8	150.5
	<b>2024</b>	<b>2025</b>
Renminbi trade settlement in Hong Kong (RMB bn)	15,184.6	13,905.2
Of which:		
Inward remittances to Hong Kong (RMB bn)	5,384.5	4,795.2
Outward remittances to the Chinese Mainland (RMB bn)	8,336.3	7,977.6
Turnover in Hong Kong's RMB Real Time Gross Settlement (RTGS) system (Daily average during the period; RMB bn)	3,097.5	2,515.5

Source: HKMA.

As for other renminbi business, the outstanding aggregate amount of RMB loans expanded by 15.3% in the six-month period from July 2025. Renminbi trade settlement handled by banks in Hong Kong amounted to RMB6,353.6 billion between end-July 2025 and end-January 2026 (Chart 4.8), down by 19.2% compared with RMB7,865.7 billion during the same period last year. The deep RMB liquidity pool in Hong Kong and the capabilities and extensive networks of Hong Kong banks continued to support large volumes of RMB payments and financing transactions. For 2025 as a whole, the average daily turnover of the RMB Real Time Gross Settlement (RTGS) system stayed high at RMB2,515.5 billion, compared with RMB3,097.5 billion recorded in 2024.

**Chart 4.8**  
Flows of renminbi trade settlement payments



Source: HKMA.

Moving forward, the continuing development of Hong Kong's CNH ecosystem will further reinforce Hong Kong's role as the leading CNH business hub. On liquidity, the HKMA introduced a new RMB Business Facility (RBF) in October 2025 that replaced the RMB Trade Financing Liquidity Facility which was launched in February 2025. The RBF offers enhanced terms and expanded scope of eligible RMB financing activities, providing participating Hong Kong banks with stable-cost RMB funding for trade finance, capital expenditure and working capital related services — both for their own corporate clients and those of their overseas intragroup banking entities. This facilitates the use of RMB in real economic activities and channels offshore RMB funding from Hong Kong to other jurisdictions. The total size of the RBF was doubled from RMB100 billion to RMB200 billion in February 2026<sup>36</sup>.

The HKMA also enhanced the existing RMB Liquidity Facility in October 2025 by adding a two-week and a one-month repurchase (repo) facilities with T+1 settlement, and adjusting the allocation of funds among the intraday and overnight tenors of the T+0 facility. Such enhancements allow more flexibility for banks in funding management, and support the growing need for intraday RMB funding.

In terms of products, the continuous efforts to upgrade and expand the family of Connect schemes between the Mainland and Hong Kong and improve the ancillary services<sup>37</sup> will widen the spectrum of RMB products and tools available for asset allocation as well as associated liquidity and risk management, facilitating greater two-way traffic between the two markets.

As for financial infrastructure, Hong Kong Exchanges and Clearing Limited (HKEX) was introduced as a strategic shareholder of CMU OmniClear Holdings Limited on 12 November 2025<sup>38</sup>, establishing a strong foundation for transforming Central Moneymarkets Unit (CMU) into a multi-asset class platform. This will provide investors with one-stop access to equity and debt securities, while facilitating efficient two-way investment flows across the Chinese Mainland, Hong Kong and international markets.

With these developments, Hong Kong will continue to play a unique role in supporting the Mainland's capital account opening, and the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road initiatives.

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<sup>36</sup> For more details, see the press release "HKMA RMB Business Facility doubles to RMB200 billion in size" on 26 January 2026 (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/01/20260126-3/>).

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<sup>37</sup> The HKMA, the People's Bank of China, the China Securities Regulatory Commission and the State Administration of Foreign Exchange launched the cross-boundary bond repo business on 26 September 2025. For details, see the press release "Launch of cross-boundary bond repurchase business" on 26 September 2025 (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/09/20250926-5/>). Furthermore, the Northbound Swap Connect dealer list was expanded, and the daily net trading position quota was increased to RMB45 billion.

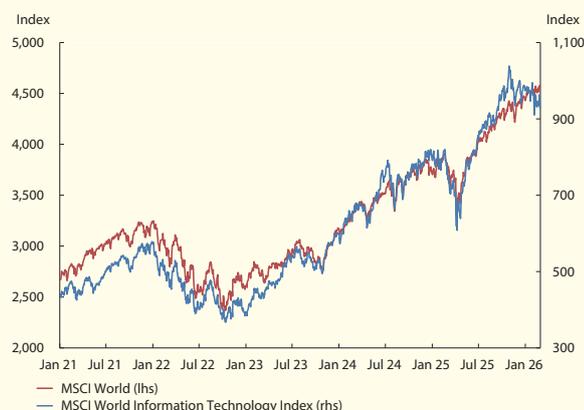
<sup>38</sup> In October 2025, the Exchange Fund managed by the HKMA established CMU OmniClear Holdings Limited with the intention to wholly own CMU OmniClear Limited (CMU OmniClear), which was established in 2024 to carry out the operations and business development activities of Hong Kong's central securities depository infrastructure (i.e. the Central Moneymarkets Unit system) on behalf of the HKMA.

## Asset markets

### 4.3 Equity market

During the review period, global equity markets advanced steadily, as global market sentiment was supported by positive developments in the US, including interest rate cuts and solid corporate earnings growth. However, concerns over elevated valuations of artificial intelligence (A.I.)-related firms led to heightened volatility in the information technology sector (Chart 4.9). Entering into 2026, escalating geopolitical tensions triggered increased volatility across global equity markets. Overall, the MSCI World Index rose by 9.1% from the end of August 2025 to the end of February 2026.

**Chart 4.9**  
The MSCI World Index and the MSCI World Information Technology Index



Source: Bloomberg.

The Hong Kong equity market delivered its best annual performance in eight years in 2025, with the Hang Seng Index gaining 27.8% during the year (Chart 4.10). Local market sentiment was supported by advancements in A.I.-related technologies in the Chinese Mainland and sustained capital inflows. In the final quarter of 2025, the Hang Seng Index was weighed down by factors including renewed concerns over trade tensions between the Chinese Mainland and the US, economic growth in the Chinese Mainland, as well as price corrections among global technology firms. Moving into 2026,

uncertainties in the external environment continued to add volatility to the Hong Kong equity market. Despite these headwinds, the Hang Seng Index gained 6.2% from the end of August 2025 to the end of February 2026. Entering March 2026, the military conflict in the Middle East has contributed to heightened volatility across global equity markets, including Hong Kong.

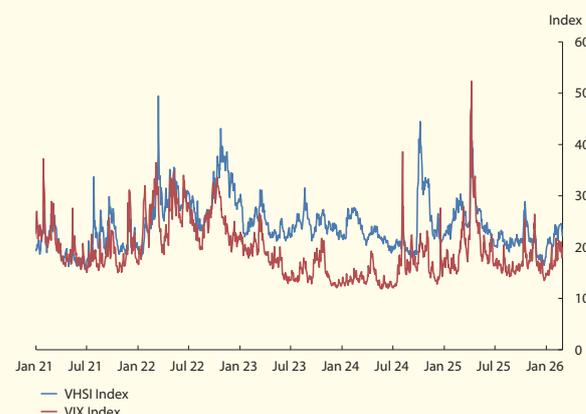
**Chart 4.10**  
The Hang Seng Index



Source: Bloomberg.

Option-implied volatilities for both the S&P 500 Index and the Hang Seng index remained relatively low for most of the review period, with occasional spikes driven by trade policy uncertainties, geopolitical tensions and technology firms' valuation concerns (Chart 4.11).

**Chart 4.11**  
Option-implied volatilities of the Hang Seng Index (VHSI Index) and the S&P 500 Index (VIX Index)

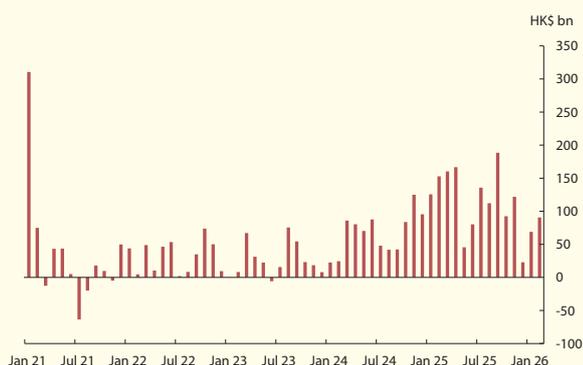


Source: Bloomberg.

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Inflows into Hong Kong's equity market via the Southbound Stock Connect remained strong, with net purchases by the Chinese Mainland investors totalling HK\$585.4 billion between the end of August 2025 and the end of February 2026 (Chart 4.12).

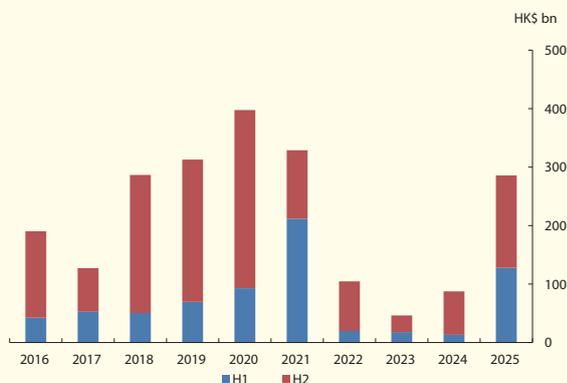
**Chart 4.12**  
Net buying through Southbound Stock Connect over time



Note: Southbound net buying is the sum of such buying on the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.  
Sources: CEIC and HKMA staff estimates.

Hong Kong reclaimed its position as the world's leading initial public offering (IPO) market in 2025, driven by issuers in innovative sectors including new energy and A.I.. Over the year, funds raised through IPOs totaled HK\$285.8 billion, representing a 225% increase from 2024 (Chart 4.13).

**Chart 4.13**  
IPO market in Hong Kong



Source: Hong Kong Exchanges and Clearing Limited (HKEX).

Looking ahead, the outlook for global equity markets remained highly uncertain, hinging on several factors. First, persistent trade policy uncertainty and geopolitical tensions continue to weigh on market sentiment. In particular, a potentially prolonged military conflict in the Middle East could dampen investor confidence. Escalating risks may drive a shift in global capital flows as investors seek diversification, potentially amplifying volatility.

Secondly, while the positive outlook for A.I.-related firms continued to support global equity markets, their stretched valuations and growing concerns about the sustainability of heavy capital investment, particularly for firms reliant on debt financing, could add volatility into global equity markets.

Thirdly, the uncertainty about the pace and extent of interest rate cuts in the US, including potential changes in the US Federal Reserve's balance sheet, will continue to affect market sentiment. Increased oil price volatility stemming from the military conflict in the Middle East could further cloud the US inflation outlook and the path of US interest rates.

For Hong Kong, in addition to these global factors, expectations regarding the renminbi (RMB) exchange rate may play a significant role in shaping local equity performance, given the large presence of the Chinese Mainland firms listed in Hong Kong.

### 4.4 Debt market<sup>39</sup>

While the US Federal Reserve’s overnight policy rate has declined by 75 basis points since August 2025, the yield on the 10 year US Treasury Notes has hovered around 4% (Chart 4.14), partly reflecting market concerns about the inflationary effects of US tariffs and long term fiscal sustainability risks.

The yield on the 10-year HK dollar (HKD) Hong Kong Special Administrative Region (HKSAR) Government Bond has followed the movement of its US counterpart, while consistently trading well below it. While occasional upticks occurred, the average yield on HKD corporate bonds has generally trended downward during the review period.

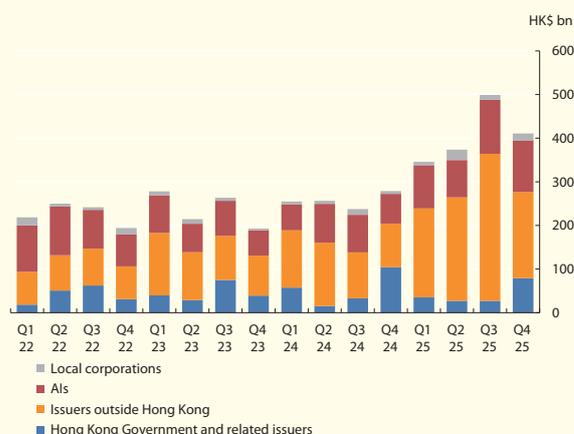
**Chart 4.14**  
**Yields of 10-year US Treasury Notes, 10-year HKD HKSAR Government Bond, and HKD corporate bonds**



Notes: 1. Starting from 15 January 2025, the yield of the 10-year HKD HKSAR Government Bond refers to the yield of the benchmark 10-year HKD Bond issued under the Infrastructure Bond Programme and Government Sustainable Bond Programme. Prior to this date, it refers to the benchmark 10-year HKD Bond issued under the Government Bond Programme. 2. The average yield on HKD corporate bonds is represented by the ICE BofA HKD Local Emerging Market Non-Sovereign Index, which covers HKD bonds issued by corporates and quasi government entities. Sources: ICE Data Indices, Bloomberg and HKMA.

In 2025, total issuance of HKD-denominated debt securities rose 16.6% year-on-year to HK\$5,980.5 billion (Chart 4.15). This was primarily driven by Non-Exchange Fund Bills and Notes (non-EFBN), especially those issued by entities outside Hong Kong. The issuance of non-EFBN HKD debt securities surged 58.6% year-on-year to HK\$1,629.3 billion.

**Chart 4.15**  
**New issuance of non-EFBN HKD debt securities**



Notes: 1. Issuers outside Hong Kong include, among others, entities such as multilateral development banks, corporate and government issuers outside Hong Kong. 2. Hong Kong Government and related issuers refer to the Government of the HKSAR, statutory bodies and government-owned corporations in Hong Kong. Source: HKMA staff estimates based on data from Bloomberg, CMU, Dealogic and Reuters.

<sup>39</sup> Debt securities statistics reported in this section include bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, and similar instruments normally traded in the financial markets that serve as evidence of a debt. Outstanding amounts of debt securities are estimated based on the maturity date of individual debt securities, with early redemptions factored in where sufficient information is available. Estimates may be subject to overestimation. All debt securities figures are subject to revision.

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As a result, the outstanding amount of HKD debt securities increased by 19.1% year-on-year to HK\$3,359.6 billion at the end of 2025 (Chart 4.16), largely due to a 33.3% year-on-year increase in non-EFBN HKD debt securities, which rose to HK\$2,017.6 billion.

**Chart 4.16**  
Outstanding HKD debt securities by issuer

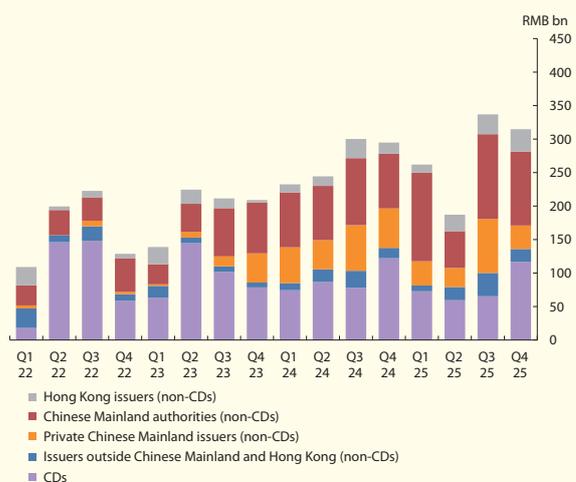


Notes: 1. Issuers outside Hong Kong include, among others, entities such as multilateral development banks, corporate and government issuers outside Hong Kong. 2. Hong Kong Government and related issuers refer to the Government of the HKSAR, statutory bodies and government-owned corporations in Hong Kong.

Source: HKMA staff estimates based on data from Bloomberg, CMU, Dealogic and Reuters.

The issuance of offshore renminbi (CNH) debt securities in Hong Kong increased by 2.7% year-on-year to Renminbi (RMB) 1,100.9 billion during 2025 (Chart 4.17). The total outstanding amount of CNH debt securities issued in Hong Kong rose by 27.6% from the end of 2024 to RMB1,607.3 billion at the end of 2025.

**Chart 4.17**  
New issuance of CNH debt securities in Hong Kong



Source: HKMA staff estimates based on data from Bloomberg, CMU, Dealogic and Reuters.

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Looking ahead, strong momentum in HKD debt securities issuance is expected to continue in the near term, though its sustainability will depend on HKD fund flows. In the longer term, improved market depth, evidenced by an increase in large-scale issuances of HKD debt securities in recent years, could boost demand from both issuers and investors.

For CNH debt securities issuance, outcomes will be influenced by interest rate movements of both US dollar (USD) and RMB. As the market consensus expects a larger cut in USD interest rates compared to RMB, the cost advantage of issuing CNH debt securities may be dampened. However, expectations of moderate RMB appreciation are likely to boost investor demand for CNH debt securities. Additionally, the increasing need for diversification among global investors amid heightened uncertainties would continue to support the long-term development of the CNH debt market in Hong Kong.

During the review period, several policy initiatives were introduced to foster the development of Hong Kong's debt market.

On 25 September 2025, the Securities and Futures Commission (SFC) and the HKMA jointly announced Hong Kong's Roadmap for the Development of Fixed Income and Currency (FIC) Markets, positioning the city strategically as a global FIC hub by fostering demand, liquidity and innovation.

Furthermore, the introduction of Hong Kong Exchanges and Clearing Limited (HKEX) as the strategic shareholder of CMU OmniClear Holdings Limited was announced on 12 November 2025. This move will facilitate the development of Hong Kong's post-trade securities infrastructure into a major central securities depository in the region, through harnessing the combined resources, technology, talent, and market expertise from the HKMA and HKEX.

Several milestone bond issuances also took place during the review period. On 10 November 2025, the HKSAR Government successfully priced its third digital green bond offering worth around HK\$10 billion. Building on key innovative features of the previous issuances, this offering introduced new innovative features and achieved breakthroughs in integrating digital money in the settlement process, expanding scale and advancing adoption of global standards. The issuance reinforces the vision for Hong Kong to become a global hub for digital assets, and further consolidates Hong Kong's status as a leading green and sustainable finance hub.

On 25 November 2025, the Hong Kong Mortgage Corporation Limited (HKMC) successfully issued its multi-currency (CNH, HKD and USD) benchmark bonds totalling HK\$25.3 billion. The issuance included a HK\$2 billion 30-year HKD social bond tranche, which was the largest-ever 30-year HKD bond issuance in Hong Kong. The HKMC benchmark bonds issuance has further solidified Hong Kong's position as Asia's leading international bond issuance hub and the premier offshore RMB business centre.

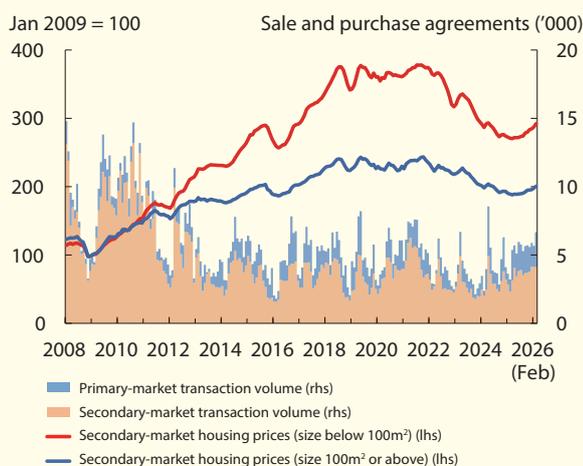
To further facilitate green and sustainable capital flow and support the region's transition to a low carbon economy, the HKMA published the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy) Phase 2A on 22 January 2026. Building on the foundational framework established in Phase 1 of the Hong Kong Taxonomy, the key enhancements made in the Phase 2A include expanded sector coverage, increase in economic activities, transition elements and introduction of climate change adaptation as a new environmental objective.

## 4.5 Property markets

### Residential property market

The residential property market continued to recover in the second half of 2025. With market sentiment improving, secondary-market flat-viewing and transaction activities strengthened. In response to improved market conditions, some property developers also accelerated new project launches. Overall, average monthly housing transaction volume remained robust, rising from 5,567 units in the third quarter to 5,728 units in the fourth quarter. For 2025 as a whole, total housing transactions reached 62,832 units, up 18.3% from the previous year (Chart 4.18).

**Chart 4.18**  
Residential property prices and transaction volumes



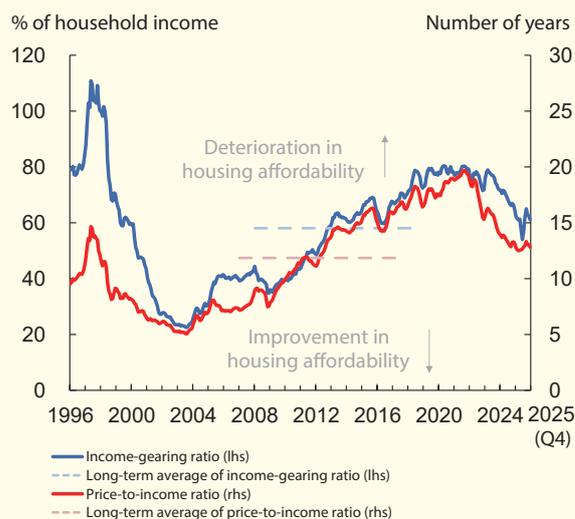
Sources: R&VD and Land Registry.

Secondary-market housing prices further stabilised. Supported by an improving domestic economy and eased financial conditions, prices for both small and medium-sized flats (with a saleable area of less than 100m<sup>2</sup>) and large flats (with a saleable area of 100m<sup>2</sup> or above) continued to rise in the second half of 2025 (Chart 4.18). For the full year of 2025, residential property prices registered a modest increase of 3.6%, ending three consecutive years of decline. The housing market remained active into early 2026: housing prices maintained the upward

trend in January and February, with the average monthly transaction volume staying buoyant at 6,169 units.

Housing affordability remained stretched in the second half of 2025. Specifically, the housing price-to-income ratio rose moderately to 13.0 in the fourth quarter of 2025, while the income-gearing ratio increased to 62.1% (Chart 4.19)<sup>40</sup>. In the leasing market, housing rentals increased by 4.2% in 2025 and edged up further by 0.1% in the first two months of 2026 (Chart 4.20), reaching a historical high. In tandem, residential rental yields remained steady at 3.1% in January 2026.

**Chart 4.19**  
Indicators of housing affordability



Sources: R&VD, C&SD and HKMA staff estimates.

<sup>40</sup> The price-to-income ratio measures the average price of a typical 50m<sup>2</sup> flat relative to the median income of households living in private housing. The income-gearing ratio compares mortgage payment for a typical 50m<sup>2</sup> flat (under a 20-year mortgage scheme with a 70% loan-to-value ratio (LTV) ratio) to the median income of households living in private housing. The income-gearing ratio is not the same as a borrower's actual debt-servicing ratio (DSR), which is subject to a maximum cap under the HKMA supervisory requirements.

**Chart 4.20**  
Residential property rental index



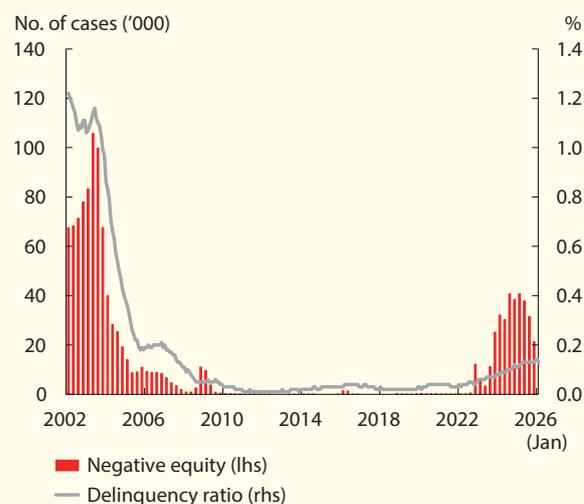
Source: R&VD.

As housing prices stabilised, the estimated number of residential mortgage loans (RMLs) in negative equity decreased further to 21,304 cases by end-December 2025, down from 31,449 cases at end-September 2025 (Chart 4.21). These cases were primarily linked to bank staff housing loans or RMLs under the Mortgage Insurance Programme (MIP), which generally carry higher loan-to-value (LTV) ratios. Given that the delinquency ratio of all outstanding RMLs remained at a very low level of 0.13% in January 2026<sup>41</sup>, and that over half of the private housing units did not carry any outstanding mortgages as of end-2025, the systemic risks relating to banks' RMLs are properly managed on various fronts.

<sup>41</sup> The delinquency ratio of RMLs in negative equity also remained at a low level of 0.31% at the end of December 2025.

On the other hand, following the US Federal Reserve's policy rate cuts, major local banks have further lowered their Best Lending Rates (BLRs) by 25 basis points since September 2025 (see also Section 4.2). Correspondingly, the average mortgage interest rate for new loans eased from about 3.5% in September 2025 to about 3.25% in early 2026, alleviating the debt-servicing burden for mortgage borrowers<sup>42</sup>.

**Chart 4.21**  
Negative equity and mortgage delinquency ratio



Source: HKMA.

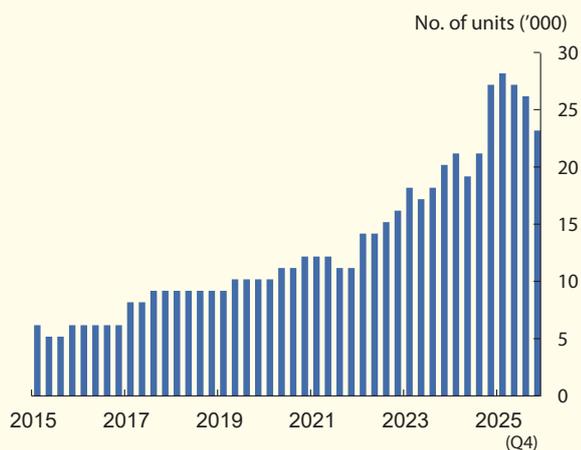
The HKMA continues to monitor market development closely and implement supervisory requirements on RMLs as appropriate to safeguard banking stability. In January 2026, the average LTV ratio and the debt service ratio (DSR) for newly approved mortgages remained steady at around 61% and 39%. The HKMA considers that the Hong Kong banking sector maintains ample buffers to withstand potential challenges stemming from the property market.

<sup>42</sup> Taking into account funding costs and local market conditions, some banks have also reportedly raised their cash rebates to new mortgage borrowers.

## Monetary and financial conditions

The outlook for the residential property market remains subject to a range of uncertainties, with risks on both sides. On the one hand, still-elevated inventory levels in the primary market<sup>43</sup> (Chart 4.22) and ongoing global economic uncertainties may continue to weigh on the housing market. On the other hand, the Government's ongoing efforts to attract talents, investors and students should provide support for housing demand in the near term. Over the longer term, the outlook for the housing market will depend on the supply-demand balance. The Government projects that private housing supply will remain high in the coming years<sup>44</sup>.

**Chart 4.22**  
**Unsold units in completed projects**

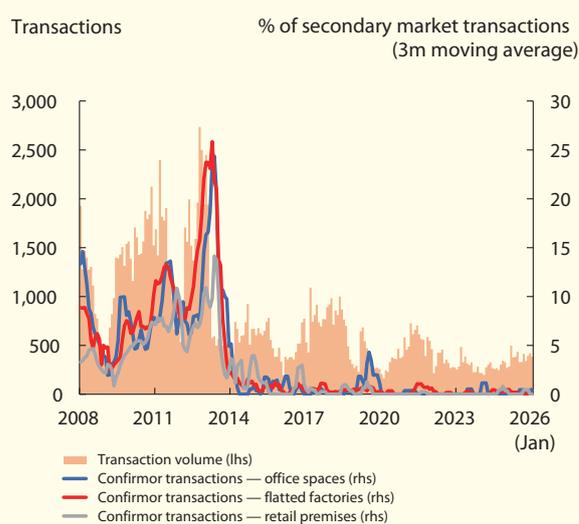


Source: Housing Bureau.

## Commercial real estate (CRE) market<sup>45</sup>

The CRE market remained sluggish in the second half of 2025. Average monthly transaction volume rose to 371 units during the review period, up from 291 units in the same period of the previous year, with speculative activities remaining limited (Chart 4.23). Nonetheless, prices for office spaces, retail premises and flatted factories declined further (Chart 4.24). In the leasing market, rents continued to adjust modestly (Chart 4.25), although demand for Grade A offices showed signs of improvement. Overall, rental yields across segments edged up to 3.6%–4.4% in January 2026.

**Chart 4.23**  
**Transactions in CRE properties**



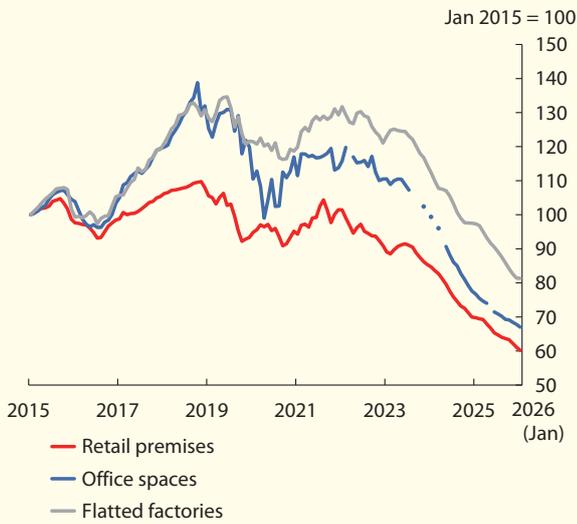
Sources: R&VD and Centaline Property Agency Limited.

<sup>43</sup> There were around 23,000 unsold units in completed projects as of the end of December 2025.

<sup>44</sup> According to the Housing Bureau, the potential first-hand private housing supply for the next three to four years will remain elevated at around 104,000 units as estimated at the end of December 2025.

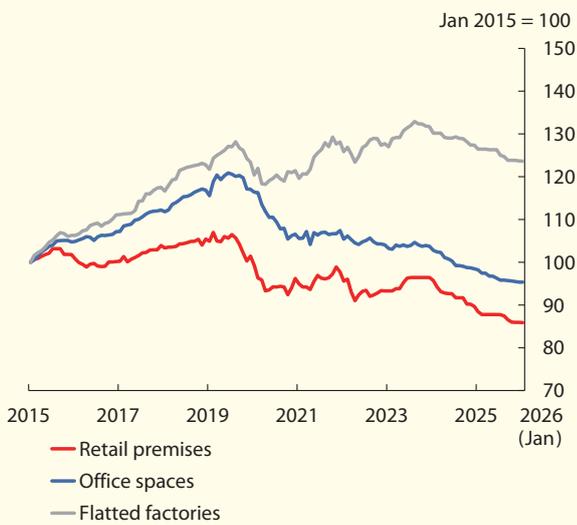
<sup>45</sup> CRE refers to office spaces, retail premises and flatted factories.

**Chart 4.24**  
**CRE property price indices**



Note: The price index of office spaces could not be compiled in certain months due to insufficient transaction data for analysis.  
Source: R&VD.

**Chart 4.25**  
**CRE property rental indices**



Source: R&VD.

In the near term, the CRE market may continue to face challenges. Despite signs of stabilisation in prime district offices<sup>46</sup>, upward pressure on the overall office vacancy rate may persist due to new supply. Nevertheless, the market may receive some support from improving retail sales performance, the Government’s efforts to attract businesses and measures to bolster the market for commercial buildings<sup>47, 48</sup>.

<sup>46</sup> Market data from surveyor firms suggests that the vacancy rate of Grade A offices in Central decreased to 9.9% in February 2026.

<sup>47</sup> As of February 2026, the Government has received 25 applications for the Hostels in the City Scheme which encourages and facilitates the market to convert commercial buildings into student hostels, all of which have been confirmed to be eligible under the Scheme.

<sup>48</sup> In view of the vacancy rate and the supply-demand condition, the Government announced in the 2026-27 Budget that it will not put up general commercial sites for sale in the coming year.