

# 5. Banking sector performance

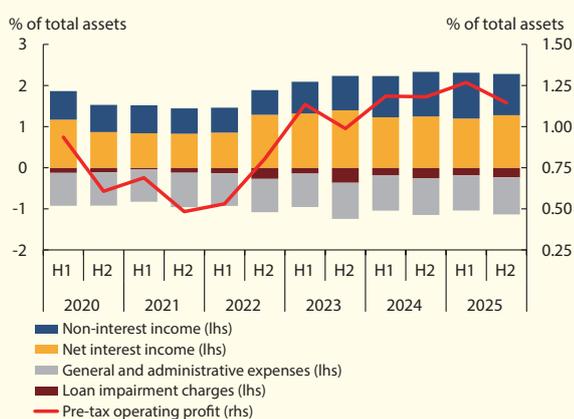
## 5.1 Profitability

### Profitability

The aggregate pre-tax operating profit of retail banks<sup>49</sup> grew by 1.4% in the second half of 2025 compared with the same period in 2024. While increases in net interest income and higher income from fees and commissions contributed to the rise in profit, they were partially offset by a decline in income from foreign exchange and derivatives operations. Overall, as asset growth outpaced profit growth, banks' return on assets (ROA) edged down to 1.14% in the second half of 2025 from 1.18% in the same period in 2024 (Chart 5.1).

For the full year 2025, aggregate pre-tax operating profit of retail banks increased by 7.3%, with their ROA improving to 1.21% from 1.18% in 2024.

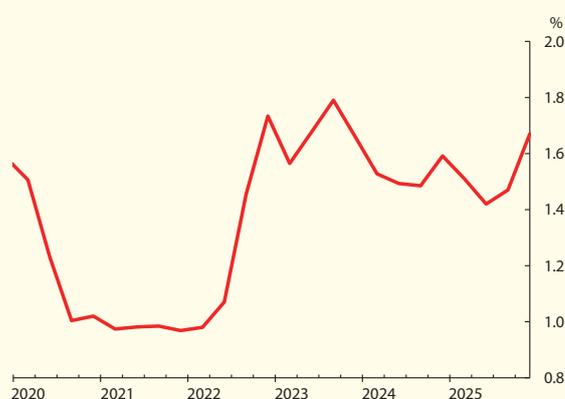
**Chart 5.1**  
Profitability of retail banks



Note: Annualised semi-annual figures.  
Source: HKMA.

In the second half of 2025, the net interest margin (NIM) of retail banks improved to 1.57%, up from 1.54% in same period of 2024 (Chart 5.2). The improvement in NIM was partly supported by lower overall funding cost of retail banks during the review period.

**Chart 5.2**  
Net interest margin of retail banks



Note: Annualised quarterly figures.  
Source: HKMA.

Partly driven by seasonal factors amid a lower level of the Aggregated Balance since August 2025, the short-term Hong Kong Interbank Offered Rates (HIBORs) surged during the third quarter of 2025, but subsequently softened as seasonal liquidity tightness eased<sup>50</sup>. For instance, the three-month HIBOR rose sharply by 185 basis points from June 2025 to 3.53% at the end of September 2025, before easing to 2.93% at the end of December 2025 (blue line in Chart 5.3).

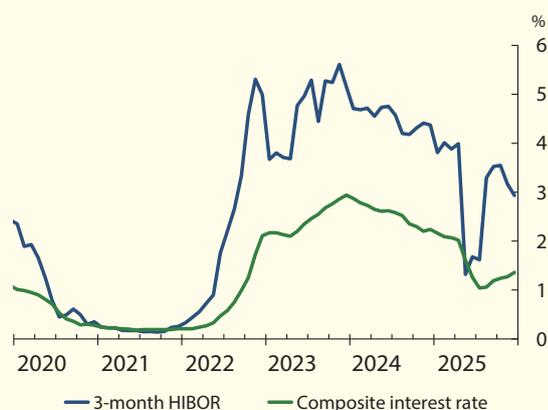
<sup>49</sup> Throughout this chapter, figures for the banking sector relate to Hong Kong offices only, unless otherwise stated.

<sup>50</sup> For details, see section 4.2.

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On the retail front, banks reduced HKD savings deposit rates alongside decreases in their best lending rates (BLRs), following the US policy rate cuts. As the decline in retail funding cost partially offset the increase in wholesale funding cost, the composite interest rate (a measurement of the average cost of HKD funds for retail banks) rose moderately by 10 basis points in the second half of 2025 to 1.36% at the end of December 2025 (green line in Chart 5.3).

**Chart 5.3**  
HKD Interest rates



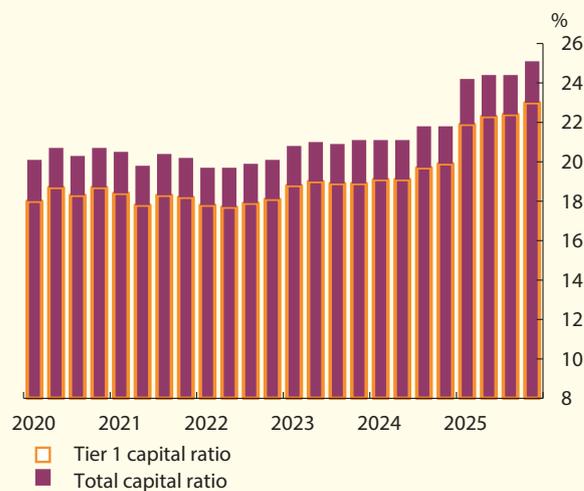
Note: End-of-period figures.  
Sources: HKMA and staff estimates.

## 5.2 Capital and liquidity positions

### Capitalisation

The Hong Kong banking sector remained well-capitalised. The consolidated total capital ratio of locally incorporated authorized institutions (AIs) stood at a high level of 25.1% at the end of 2025 (Chart 5.4), well above the international minimum requirement of 8%<sup>51</sup>. In addition, the non-risk-based Leverage Ratio of locally incorporated AIs remained at a healthy level of 8.0% at the end of 2025, exceeding the statutory minimum of 3%.

**Chart 5.4**  
Capital positions of locally incorporated authorized institutions



Note: Consolidated basis.  
Source: HKMA.

### Liquidity and funding

The liquidity and funding positions of the banking sector, as measured by Basel III liquidity standards, also remained sound during the review period. The average Liquidity Coverage Ratio of category 1 institutions and the average Liquidity Maintenance Ratio of category 2 institutions were 165.6% and 68.3%, respectively, in the fourth quarter of 2025 (upper two rows in Table 5A), remaining well above their corresponding statutory minimum requirements of 100% and 25%.

**Table 5.A**  
Liquidity and funding requirement ratios

Ratios (%)	Jun 2025	Sep 2025	Dec 2025
Liquidity Coverage Ratio (quarterly average)	172.8	171.2	165.6
Liquidity Maintenance Ratio (quarterly average)	66.8	66.7	68.3
Net Stable Funding Ratio	143.9	142.6	141.0
Core Funding Ratio	191.1	195.3	189.5

Note: Consolidated basis.  
Source: HKMA.

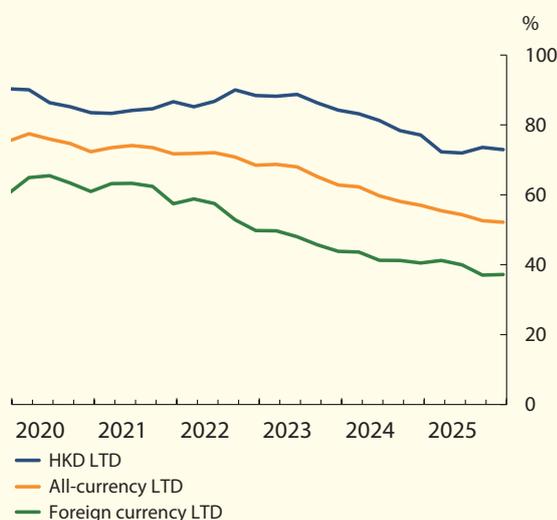
<sup>51</sup> The Tier 1 capital ratio and the Common Equity Tier 1 (CET1) capital ratio were 23.0% and 20.7% respectively.

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The average Net Stable Funding Ratio of category 1 institutions was 141.0% as the end of 2025, also well above the statutory minimum requirement of 100%. The average Core Funding Ratio of category 2A institutions stayed at an elevated level of 189.5% (bottom two rows in Table 5A), substantially above the statutory minimum requirement of 75%.

The average all-currency loan-to-deposit (LTD) ratio of all AIs declined further to 52.2% at the end of December 2025, compared to 54.3% at the end of June 2025 (Chart 5.5). The decline in ratio was attributable to a decrease in foreign currency LTD ratio, while the HKD LTD ratio rose slightly. Specifically, the foreign currency LTD ratio dropped to 37.2% at the end of 2025 from 40% six months ago, while the HKD LTD ratio rose to 72.9% from 72.0% over the same period.

**Chart 5.5**  
Average loan-to-deposit ratios of all authorized institutions



Note: End-of-quarter figures.  
Source: HKMA.

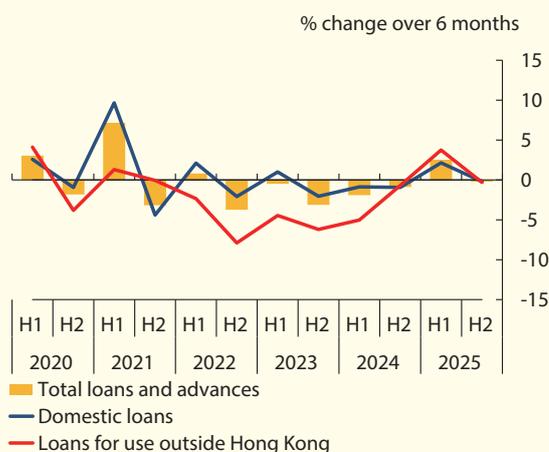
## 5.3 Credit risk

### Overview

Partly reflecting solid Hong Kong economic growth and lower interest rates in 2025, total loans and advances of all AIs grew by 2.3% for 2025, reversing the 2.8% decline recorded in 2024.

However, on a half-yearly basis, total loans and advances of all AIs edged down by 0.2% in the second half of 2025, following a 2.5% increase in the first half of the year (Chart 5.6). The decline was attributable to decreases in both domestic loans (comprising loans for use in Hong Kong and trade financing) and loans for use outside Hong Kong, which decreased by 0.2% and 0.3% in the second half of 2025, respectively.

**Chart 5.6**  
Loan growth



Note: Domestic loans comprise loans for use in Hong Kong and trade financing.  
Source: HKMA.

Nonetheless, banks' assessment of the outlook of credit demand in the near term improved modestly. According to the HKMA's Opinion Survey on Credit Condition Outlook, the share of surveyed AIs expecting loan demand to be higher in the coming three months (Table 5.B) rose to 26% in December 2025 from 17% six months ago, while the share expecting demand to be lower fell from 13% to 3% during the same period.

**Table 5.B**  
Expectations of loan demand in the next three months

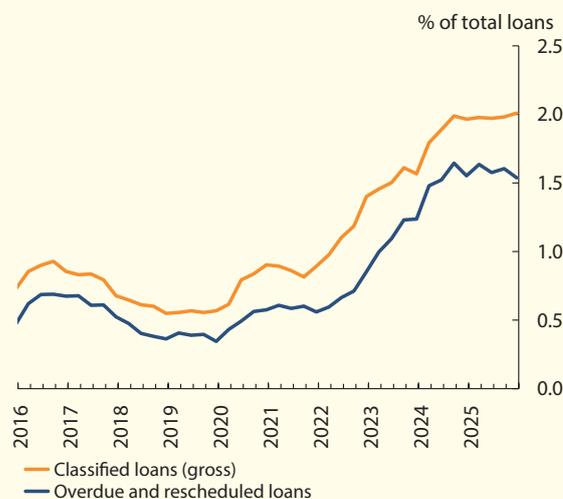
% of total respondents	Jun 2025	Sep 2025	Dec 2025
Considerably higher	0	0	0
Somewhat higher	17	19	26
Same	70	74	71
Somewhat lower	13	6	3
Considerably lower	0	0	0
Total	100	100	100

Note: Figures may not add up to total due to rounding.  
Source: HKMA.

The gross classified loan ratio (CLR) of all AIs edged up to 2.01% at the end of 2025 from 1.97% at the end of June 2025. The ratio of overdue and rescheduled loans of all AIs decreased mildly from 1.58% at the end of June 2025 to 1.54% at the end of 2025 (Chart 5.7).

The upward pressure in CLR in recent quarters continued to be largely driven by commercial real estate (CRE) loans. Nonetheless, banks' credit risk associated with CRE loans is assessed to be manageable<sup>52</sup>. Overall, the asset quality of the banking sector remained manageable, with banks maintaining sufficient provisions.

**Chart 5.7**  
Asset quality of all authorized institutions



Note: Classified loans are those loans graded as "sub-standard", "doubtful" or "loss".  
Source: HKMA.

### Household exposure<sup>53</sup>

Household debt grew by 2.7% in the second half of 2025, faster than the 1.8% increase in the first half (Table 5.C). A breakdown of the data shows that the growth of residential mortgage loans increased to 2.1% in the second half of 2025 amid increased residential property transactions during the period. Over the same period, the growth of personal loans increased to 4.3%.

**Table 5.C**  
Half-yearly growth of loans to households by all AIs

(%)	2022		2023		2024		2025	
	H1	H2	H1	H2	H1	H2	H1	H2
Residential mortgages	2.1	1.9	2.6	0.8	0.8	0.6	1.2	2.1
Personal loans	-2.5	-2.2	-1.4	-0.3	-1.7	-0.5	3.1	4.3
of which:								
Credit card advances	-5.3	14.4	0.2	10.5	-5.3	6.7	-7.0	9.8
Loans for other private purposes	-2.0	-5.1	1.6	-2.6	-0.9	-1.0	5.6	3.1
Total loans to households	0.7	0.7	2.2	0.5	0.0	0.6	1.8	2.7

Source: HKMA.

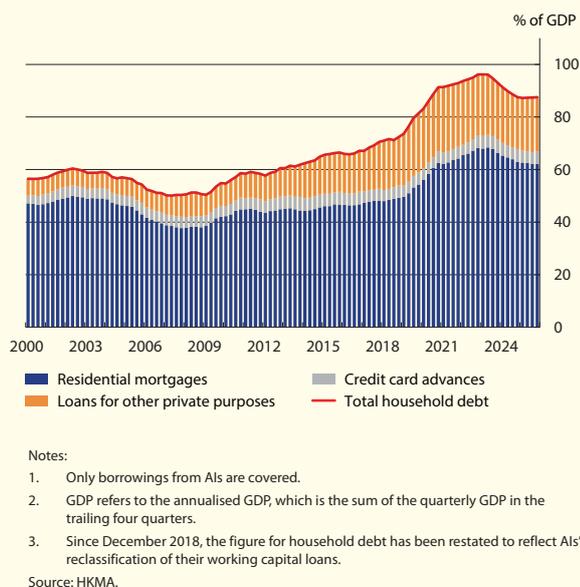
<sup>52</sup> For details, see the inSight article "Credit risk management of commercial real estate exposures" issued on 13 August 2025 (<https://www.hkma.gov.hk/eng/news-and-media/insight/2025/08/20250813/>).

<sup>53</sup> Loans to households constitute lending to professional and private individuals, excluding lending for other business purposes. Mortgages account for the major proportion of household loans, while the remainder comprises mainly loans to private banking and wealth management customers secured by financial assets, credit card advances and unsecured personal loans. At the end of December 2025, household lending accounted for 38.2% of domestic lending. In this section, household debt is also referred to as loans to households.

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The household debt-to-gross domestic product (GDP) ratio edged up to 87.6% in the second half of 2025 (Chart 5.8) from 87.4% in the first half, as household debt grew at a slightly faster pace than Hong Kong's nominal GDP.

**Chart 5.8**  
Household debt-to-GDP and its components

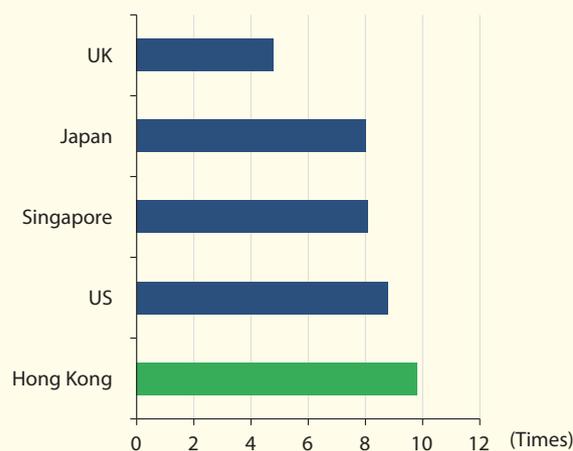


When interpreting the household debt-to-GDP ratio, it is important to take into account that the denominator of the ratio uses nominal GDP as a proxy for household income for ease of comparison across economies. Therefore, the household debt-to-GDP ratio does not reflect the actual debt servicing burden of households in the economy.

A full and objective assessment of the risks associated with household debt requires other factors to be considered. In fact, the average debt servicing ratio of new mortgages remained at a healthy level of 39.4% in January 2026. Household net worth has also stayed at a high level, with both the net worth-to-liabilities ratio and the safe asset-to-liabilities ratio of Hong Kong's household sector (Charts 5.9 and 5.10) remaining higher than those of other developed economies.

The HKMA has been closely monitoring household indebtedness. The majority of household debts are residential mortgage loans, which are governed by the macroprudential policy framework, and collateralised loans to wealth management customers, which are subject to prudent and effective credit risk management measures by banks. The HKMA also requires banks to adopt prudent underwriting standards for credit card advance and unsecured personal loan businesses. Altogether, the HKMA considers the household balance sheet to be healthy and the associated credit risk to be manageable.

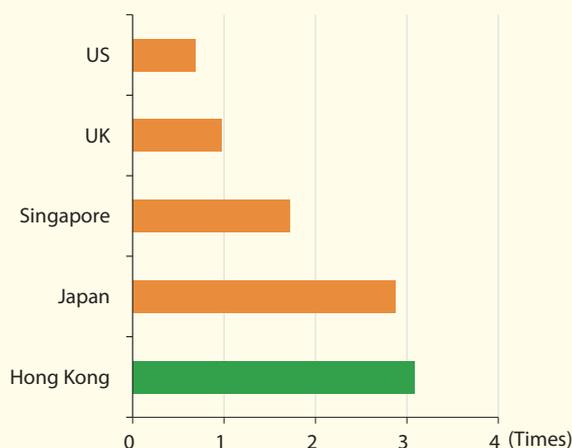
**Chart 5.9**  
Household net worth-to-liabilities ratio for selected economies



Note: Figures for Singapore and the US refer to end-2025, while figures for other economies (including Hong Kong) refer to end-2024.  
Sources: Statistical agencies or central banks of selected economies, and HKMA staff estimates.

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**Chart 5.10**  
Safe assets-to-liabilities ratio for selected economies

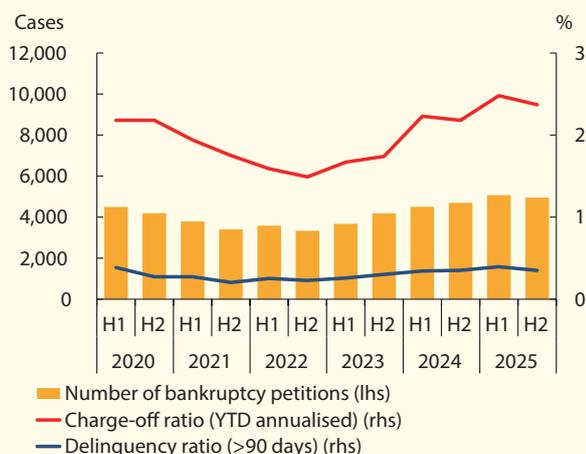


Note: Safe assets comprise deposits, as well as currencies if data is available. In the case of Hong Kong, safe assets refer to deposits only. Figures for Singapore and the US refer to end-2025 while figures for other economies (including Hong Kong) refer to end-2024.

Sources: Statistical agencies or central banks of selected economies, and HKMA staff estimates.

For unsecured household exposure, the associated credit risk remained contained during the review period. The year-to-date annualised credit card charge-off ratio decreased to 2.37% in the fourth quarter of 2025 from 2.48% in the second quarter of 2025 (Chart 5.11). The delinquency ratio was low at 0.35% in the last quarter of 2025.

**Chart 5.11**  
Charge-off ratio and delinquency ratio for credit card lending and bankruptcy petitions

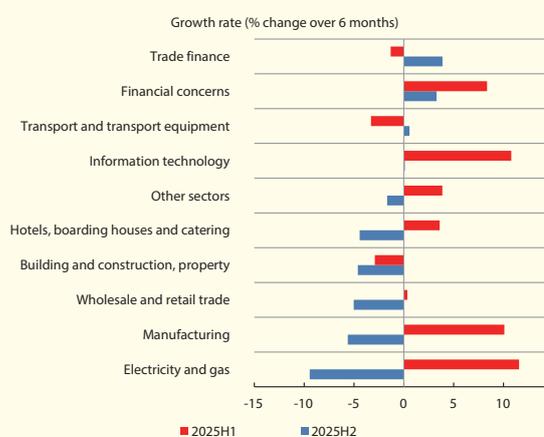


Sources: Official Receiver's Office and HKMA.

## Corporate exposure<sup>54</sup>

Domestic corporate loans contracted by 1.9% during the second half of 2025, after registering a modest growth of 2.3% in the first half of 2025. Lending to most economic sectors recorded declines, with larger contraction observed in the electricity and gas, manufacturing, and wholesale and retail trade sectors (Chart 5.12).

**Chart 5.12**  
Growth in domestic corporate loans by selected sectors



Source: HKMA.

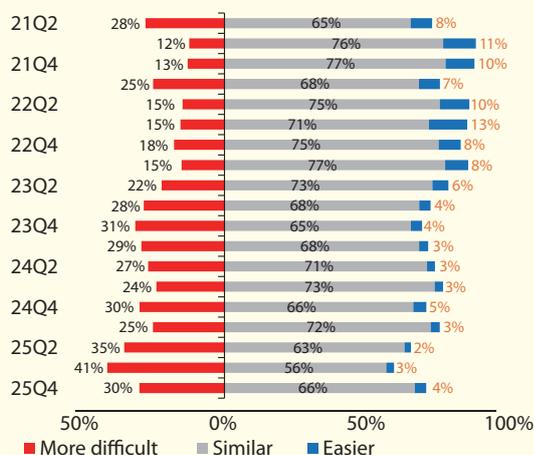
The demand-side survey on the credit conditions of SMEs showed that SMEs' credit conditions remained broadly stable. In the fourth quarter of 2025, the share of respondents perceiving more difficult credit approval dropped to 30% from 41% in the previous quarter (Chart 5.13).

Meanwhile, among respondents with existing credit lines, only 1% reported a "tighter" banks' stance (Chart 5.14). In this survey, a tighter stance on existing credit lines denotes a range of possible measures or arrangements, such as raising the interest rate. Therefore, respondents' indication may not directly reflect banks' supply of credit to SMEs.

<sup>54</sup> Excluding interbank exposure. At the end of December 2025, the share of corporate loans in domestic lending was 61.7%.

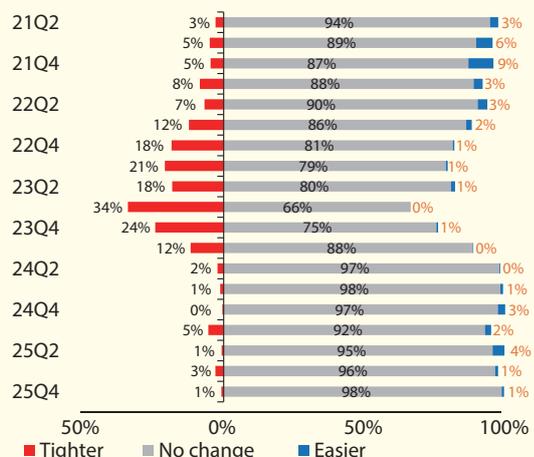
## Banking sector performance

**Chart 5.13**  
SMEs' perception of banks' credit approval stance relative to six months ago



Note: Excluding respondents who answered "no idea/don't know".  
Source: HKMA.

**Chart 5.14**  
SMEs' reported change in banks' stance on existing credit lines



Note: The data covers only respondents with existing credit lines.  
Source: HKMA.

The HKMA and the banking sector have continued to support SMEs in accessing bank financing and in their upgrade and transformation to cope with the changing business environment. The 18 participating banks in the Taskforce on SME Lending have further increased the total amount of dedicated funds set aside for SMEs to more than HK\$420 billion.

The HKMA, in collaboration with the Commerce and Economic Development Bureau and the Intellectual Property Department, launched the Intellectual Property (IP) Financing Sandbox in December 2025<sup>55</sup>. Through the Sandbox, banks can develop and refine their IP financing arrangements to better serve the needs of innovative enterprises, particularly SMEs that are rich in IP assets but may lack tangible assets that can be pledged as collateral for bank financing.

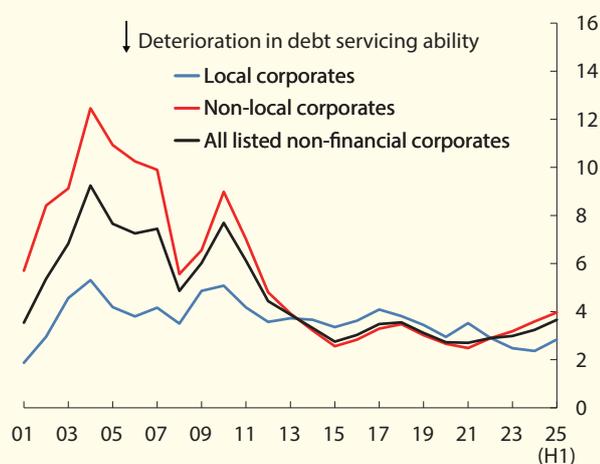
More sufficient and timely financial data can facilitate SMEs in obtaining bank credit. As part of the HKMA's "Fintech 2025" initiatives, the Commercial Data Interchange (CDI) — launched in October 2022 — enables more secure, efficient, and scalable data sharing. Box 4 finds empirical evidence that CDI helps improve banks' access to SME borrowers' consented data for credit assessment, which in turn enable banks to offer more favourable loan terms to SME borrowers.

The latest available financial information suggests signs of improvement in the financial health of listed corporates. The debt servicing ability of non-financial corporates listed in Hong Kong, as indicated by the weighted average interest coverage ratio (ICR), increased in the first half of 2025 (Chart 5.15). Meanwhile, corporate leverage, as indicated by the weighted average debt-to-equity ratio, remained broadly stable (Chart 5.16).

<sup>55</sup> For more information, see the press release "HKMA, CEDB and IPD launch IP Financing Sandbox" on 22 December 2025 (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/12/20251222-6/>).

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**Chart 5.15**  
Interest coverage ratio of listed non-financial corporates in Hong Kong

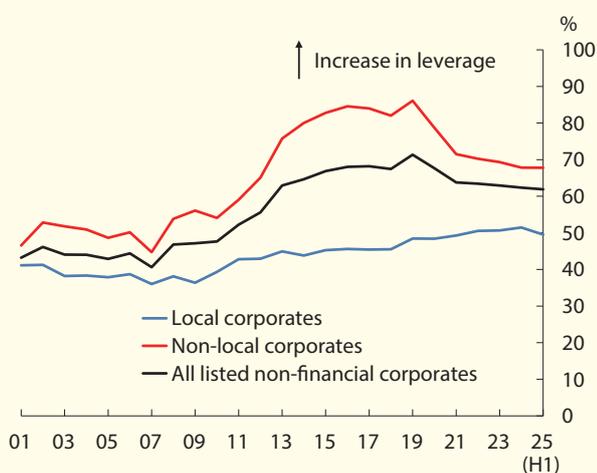


**Notes:**

1. Weighted average figures.
2. The ICR is calculated by dividing the earnings before interest and tax by total interest expenses. A lower value indicates a deterioration in debt servicing ability.
3. All non-financial corporates listed on the Hong Kong Stock Exchange are selected. Local and non-local corporates refer to listed firms that are domiciled in and outside Hong Kong, respectively.
4. Figures are calculated based on information up to early February 2026.

Source: HKMA staff estimates based on data from Bloomberg.

**Chart 5.16**  
Leverage ratio of listed non-financial corporates in Hong Kong



**Notes:**

1. Weighted average figures.
2. The leverage ratio is defined as the ratio of debt to equity. A higher value indicates higher leverage.
3. All non-financial corporates listed on the Hong Kong Stock Exchange are selected. Local and non-local corporates refer to listed firms that are domiciled in and outside Hong Kong, respectively.
4. Figures are calculated based on information up to early February 2026.

Source: HKMA staff estimates based on data from Bloomberg.

### Mainland-related lending

The banking sector's total Mainland-related lending decreased by 1.5% to HK\$3,963 billion (11.5% of total assets) at the end of 2025, from HK\$4,024 billion (12.0% of total assets) at the end of June 2025 (Table 5.D). The gross CLR of Mainland-related lending of all AIs<sup>56</sup> lowered further to 1.94% at the end of 2025 from 2.16% six months earlier.

**Table 5.D**  
Mainland-related lending

HK\$ bn	Jun 2025	Sep 2025	Dec 2025
Mainland-related loans	4,024	3,966	3,963
Mainland-related loans excluding trade finance	3,802	3,751	3,733
Trade finance	222	214	230

Note: Figures may not add up to the total due to rounding.

Source: HKMA.

### Macro stress testing of credit risk<sup>57</sup>

Results of the latest macro stress testing on retail banks' credit exposure suggest the Hong Kong banking sector remains resilient and should be able to withstand severe macroeconomic and corporate shocks. Table 5.E presents a simulated future credit loss rate of retail banks in the fourth quarter of 2027 under four specific macroeconomic shocks<sup>58</sup> and one corporate shock using information up to the fourth quarter of 2025. In stressed scenarios, the average expected credit losses two years after different shocks are estimated to be moderate, ranging from 0.85% (Property price shock and Interest rate shock) to 1.24% (Hong Kong GDP shock).

<sup>56</sup> Figures cover AIs' Hong Kong offices and Mainland branches and subsidiaries.

<sup>57</sup> Macro stress testing refers to a range of techniques used to assess the vulnerability of a financial system to "exceptional but plausible" macroeconomic shocks. The credit loss estimates presented in this report are obtained based on a revised framework presented in Box 4 of the *Half-Yearly Monetary and Financial Stability Report* published in September 2023. Estimates in the current report are not strictly comparable to estimates from previous reports.

<sup>58</sup> These shocks are calibrated by referencing the extreme episodes observed in the past. For instance, the Hong Kong GDP shock scenario replicates the severe economic downturn recorded between the third quarter of 2019 and the second quarter of 2020.

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Taking into account tail risk, the value-at-risk (VaR) at 99% confidence level (CL) of bank credit loss would increase in all five stressed scenarios, ranging from 2.23% (Property price shock) to 3.10% (Hong Kong GDP shock).

**Table 5.E**  
The mean and value-at-risk statistics of simulated credit loss distributions<sup>1</sup>

Scenario	Estimated credit loss (% of the loan portfolio)	
	Mean	VaR at 99% CL
Baseline <sup>2</sup>	0.66	1.75
<b>Stressed scenarios<sup>3</sup></b>		
Hong Kong GDP shock	1.24	3.10
Property price shock	0.85	2.23
Interest rate shock	0.85	2.25
Chinese Mainland GDP shock	1.05	2.61
Corporate Shock	1.19	2.90

Notes:

- The assessments assume the economic conditions in 2025 Q4 as the current environment. The Monte Carlo simulation method is adopted to generate the credit loss distribution for each scenario.
- Baseline scenario: no shock throughout the two-year period.
- Stressed scenarios:
  - Hong Kong GDP shock:** Reductions in Hong Kong's real GDP by 3.2%, 3.6%, 9.3% and 9.4% respectively in each of the four consecutive quarters starting from 2026 Q1.
  - Property price shock:** Reductions in Hong Kong's real property prices by an average of 12% in each of the four consecutive quarters starting from 2026 Q1.
  - Interest rate shock:** A rise in real interest rates by 0.1, 0.9, 1.8 and 3.2 percentage points respectively in each of the four consecutive quarters starting from 2026 Q1.
  - Chinese Mainland GDP shock:** An average year-on-year real GDP growth rate of 2% for the four consecutive quarters starting from 2026 Q1.
  - Corporate shock:** Liquidity and earning shocks on listed corporates in Hong Kong are assumed such that all short-term debts of the corporates could not be rolled over together with a reduction in revenue for the corporates by 50% year-on-year in the first year of the stressed period. The impact of these shocks on the median default probability of corporates is estimated to serve as an input for the stress-testing exercise.

Source: HKMA staff estimates.

## 5.4 Risks and resilience

As shown in the previous sections, the Hong Kong banking sector remained resilient during the review period. However, several downside risk factors, including uncertainties surrounding global trade tensions, future US interest rate movements, geopolitical risks and local economic development, could continue to pose challenges to the Hong Kong banking sector.

First, heightened trade tensions and tariff policy uncertainties would continue to weigh on global economic outlook. Specifically, while the US Supreme Court's has ruled against the imposition of IEEPA-based tariffs, the US administration swiftly responded by imposing a 15% global tariff rate under Section 122 for up to 150 days. Moreover, the US administration has various alternative authorized rules that may maintain the average effective tariff rate at a similar level. However, as this tariff shift would lead to a significant change in country- and sector-specific tariff structure, it would introduce new sources of trade policy uncertainty for the global economy, including those in Asia.

Secondly, the pace of future US interest rate cuts remains uncertain. In addition to the US labor market conditions and inflation risks, it remains to be seen whether the upcoming changes in the member composition of the Federal Open Markets Committee may affect the US monetary policy framework and the pace of interest rate cuts. Further US interest rate cuts are likely to transmit to HKD interest rates to varying degrees, which could cast a shadow on banks' NIM outlook. Specifically, while HKD BLRs would not adjust to the same extent as US interest rate declines given that BLRs are typically adjusted in parallel with HKD savings deposit rates and the latter have now remained near the zero bound, there will likely be a stronger pass-through to HIBOR, especially for shorter tenors.

Given that a sizeable share of banks' loan portfolios is priced with reference to HIBOR, a sharper-than-expected cut in US policy rates and the resulting pass-through to HIBOR could affect banks' net interest income and their profitability.

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Geopolitical risks, particularly the recent military conflicts in the Middle East, also warrant close monitoring. While the direct impact on the Hong Kong banking sector should be manageable given its relatively modest cross-border exposures to the region<sup>59</sup>, a prolonged conflict could disrupt global energy supply chains and potentially weigh on global economic growth.

On the domestic front, while the overall Hong Kong economic growth remained solid in 2025, certain sectors continued to face challenges that could weigh on the loan repayment ability of corporate borrowers. For instance, the CRE market continues to face challenges due to high vacancy rates, while the pace of recovery in the retail sector remained slow despite signs of improvement in retail sales in recent months. Banks should therefore stay alert in their credit risk management and closely monitor the financial fundamentals of corporate borrowers in these sectors.

Nonetheless, given the robust capital and liquidity positions, combined with sufficient provisions, the Hong Kong banking sector is well positioned to withstand shocks arising from these downside risk factors.

### *The countercyclical capital buffer (CCyB) for Hong Kong*

The CCyB is part of the internationally agreed Basel III standards and is designed to enhance the resilience of the banking sector against system-wide risks. This buffer can be reduced in times of a downturn, allowing banks to continue providing credit to support the real economy. The latest applicable jurisdictional CCyB for Hong Kong, announced on 18 October 2024, is 0.5%<sup>60</sup>.

<sup>59</sup> The Hong Kong banking sector's external claims on Middle East jurisdictions amounted to HK\$793 billion, accounting for 4.4% of total external claims at the end of December 2025.

<sup>60</sup> For details, see the Announcement of the CCyB to AIs in October 2024 (<https://www.hkma.gov.hk/eng/key-functions/banking/banking-legislation-policies-and-standards-implementation/countercyclical-capital-buffer-ccyb/>).

In setting the CCyB, the Monetary Authority considered a series of indicators (Table 5.F), including an “indicative buffer guide” produced by the Initial Reference Calculator (IRC). The IRC is a metric that provides a guide for the CCyB by combining information from the gap between the ratio of credit-to-GDP and its long-term trend, the gap between the ratio of residential property prices to rentals and its long term trend, and the Positive Neutral CCyB<sup>61</sup>. The setting of the CCyB for Hong Kong is, however, not a mechanical exercise. The Monetary Authority will consider a broad range of reference indicators (“Comprehensive Reference Indicators”) and all relevant information available in addition to the indicative buffer guide produced by the IRC<sup>62</sup>.

In the latest assessment based on the fourth quarter data of 2025 and the Positive Neutral CCyB according to the revised IRC formula<sup>63</sup>, the IRC signalled a CCyB of 1%. The projection based on all available data at the decision date suggested that the IRC would likely signal a CCyB of 1% when all relevant data for the first quarter of 2026 become available.

<sup>61</sup> The Positive Neutral CCyB, currently at 1% in Hong Kong effective from 1 April 2024, is a floor for the IRC and helps ensure the availability of sufficient buffer against possible exogenous system-wide shocks. Under the Positive Neutral CCyB approach, authorities aim for a positive CCyB when risks are judged to be neither subdued nor elevated. For more information, see [https://www.bis.org/publ/bcbns\\_n130.htm](https://www.bis.org/publ/bcbns_n130.htm) for more information.

<sup>62</sup> These include measures of bank, corporate and household leverage; debt servicing capacity; profitability, asset quality and funding conditions within the banking sector and macroeconomic imbalances.

<sup>63</sup> Under the new CCyB framework effective from 1 April 2024, the IRC will be the higher of two constituent components: a Composite CCyB Guide based on the credit-to-GDP gap and the property price-to-rent gap, and a Positive Neutral CCyB that sets a floor for the IRC.

## Banking sector performance

When the information drawn from the series of Comprehensive Reference Indicators and all relevant information available at the time of the decision in March 2026 was also taken into account, the quantitative indicators suggested that the risk of economic overheating in the local economy is well contained. However, taking into account the recent trends of the two substantially negative primary gap indicators, the Monetary Authority considered it appropriate to maintain the CCyB at its current level.

**Table 5.F**  
**Information related to the Hong Kong jurisdictional countercyclical capital buffer**

	18-Oct-24	Q4-2025	Q1-2026
Announced CCyB	0.5%		
Date effective	18-Oct-24		
Initial Reference Calibrator	1.00%	1.00%	1.00%
Basel Common Reference Guide	0.00%	0.00%	0.00%
Property Buffer Guide	0.00%	0.00%	0.00%
Composite CCyB Guide	0.00%	0.00%	0.00%
Positive Neutral CCyB	1.00%	1.00%	1.00%
<i>Primary gap indicators</i>			
Credit/GDP gap	-35.2%	-42.4%	-43.7%
Property price/rent gap	-25.6%	-26.8%	-24.8%

Notes:

- The values of all CCyB guides and their respective input variables are based on public data available prior to the corresponding review/announcement date, and may not be the most recently available as of each quarter end (refer to SPM CA-B-1 for explanations of the variables). If there is a CCyB announcement, the date of the announcement is shown at the top of the respective column. Otherwise, the quarter in which a CCyB review takes place (normally close to quarter end) is shown at the top of the column.
- Following the revised CCyB framework effective from 1 April 2024, the 2.5% cap is applied on the Composite CCyB Guide instead of the Basel Common Reference Guide and Property Buffer Guide (refer to SPM CA-B-1 for details of the formula and explanation).

Source: HKMA.

Key performance indicators of the banking sector are provided in Table 5.G.

**Table 5.G**  
**Key Performance Indicators of Banking Sector<sup>1</sup> (%)**

	Dec 2024	Sep 2025	Dec 2025
<b>Interest rates</b>			
1-month HIBOR fixing <sup>2</sup> (quarterly average)	4.32	2.07	3.19
3-month HIBOR fixing (quarterly average)	4.34	2.47	3.32
BLR <sup>3</sup> and 1-month HIBOR fixing spread (quarterly average)	1.16	3.16	1.85
BLR and 3-month HIBOR fixing spread (quarterly average)	1.13	2.77	1.72
Composite interest rate <sup>4</sup>	2.24	1.19	1.36
<b>All AIs</b>			
<b>Balance sheet developments<sup>5</sup></b>			
Total deposits	+1.2	+2.4	+1.5
Hong Kong dollar	+0.4	-2.7	-0.3
Foreign currency	+1.9	+6.5	+2.8
Total loans	-0.7	-0.9	+0.7
Domestic lending <sup>6</sup>	-0.1	-0.4	+0.2
Loans for use outside Hong Kong <sup>7</sup>	-2.3	-2.3	+2.0
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	+2.4	-6.3	+13.4
Negotiable debt instruments held (excluding NCDs)	+1.4	+1.1	+0.9
<b>Asset quality</b>			
As a percentage of total loans <sup>8</sup>			
Pass loans	95.88	95.85	95.87
Special mention loans	2.15	2.17	2.12
Classified loans <sup>9</sup> (gross)	1.96	1.98	2.01
Classified loans (net) <sup>10</sup>	1.21	1.25	1.30
Overdue > 3 months and rescheduled loans	1.55	1.60	1.54
Classified loan ratio (gross) of Mainland related lending <sup>11</sup>	2.37	1.99	1.94
<b>Liquidity ratios (consolidated)</b>			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	178.4	171.2	165.6
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	67.0	66.7	68.3
Net Stable Funding Ratio — applicable to category 1 institutions	143.4	142.6	141.0
Core Funding Ratio — applicable to category 2A institutions	186.7	195.3	189.5
<b>Retail banks</b>			
<b>Profitability</b>			
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.22	0.18	0.21
Net interest margin (year-to-date annualised)	1.52	1.47	1.52
Cost-to-income ratio (year-to-date)	38.2	37.1	38.3
<b>Surveyed institutions</b>			
<b>Asset quality</b>			
Delinquency ratio of residential mortgage loans	0.11	0.13	0.14
Credit card lending			
Delinquency ratio	0.35	0.39	0.35
Charge-off ratio — quarterly annualised	2.30	2.57	2.50
— year-to-date annualised	2.18	2.46	2.37
<b>All locally incorporated AIs</b>			
<b>Capital adequacy (consolidated)</b>			
Common Equity Tier 1 capital ratio	17.9	20.1	20.7
Tier 1 capital ratio	19.9	22.4	23.0
Total capital ratio	21.8	24.4	25.1
Leverage ratio	8.0	7.9	8.0

## Notes:

- Figures are related to Hong Kong offices only except where otherwise stated.
- The Hong Kong Interbank Offered Rates are released by the Hong Kong Association of Banks.
- With reference to the rate quoted by The Hongkong and Shanghai Banking Corporation Limited.
- The composite interest rate is a weighted average interest rate of all Hong Kong dollar interest-rate-sensitive liabilities, which include deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments, and all other liabilities that do not involve any formal payment of interest but the values of which are sensitive to interest rate movements (such as Hong Kong dollar non-interest bearing demand deposits) on the books of banks. Further details can be found on the HKMA website.
- Quarterly change.
- Loans for use in Hong Kong plus trade finance.
- Including "others" (i.e. unallocated).
- Figures are related to all AIs' Hong Kong offices, as well as locally incorporated AI's branches and major subsidiaries outside Hong Kong.
- Classified loans are those loans graded as "substandard", "doubtful", or "loss".
- Net of specific provisions/individual impairment allowances.
- Figures are related to all AIs' Hong Kong offices, as well as locally incorporated AI's Mainland branches and subsidiaries.

## Box 4

### Assessing the effects of Commercial Data Interchange on loans to small and medium-sized enterprises in Hong Kong

#### Introduction<sup>64</sup>

One of the key barriers SMEs in obtaining bank credit is their lack of sufficient and timely financial data, hindering banks' ability to accurately assess SMEs' creditworthiness. This may result in higher interest rates and stricter collateral requirements for SME loans.

As part of the HKMA's "Fintech 2025" initiatives, the launch CDI in October 2022 has the potential to address this data limitation, thereby improving SMEs' access to bank credit. CDI is a consent-based platform that enables borrowers to share commercial and financial data (e.g. e-commerce sales, payment history, etc.) via their data providers with banks when applying for bank loans<sup>65</sup>. By improving banks' access to SME borrowers' data, CDI helps to reduce information gaps, which enables banks to assess borrower's creditworthiness more effectively, potentially leading them to offer more favourable loan terms.

Against this background, this box empirically examines the effects of CDI on SME loan terms, including the lending rate and the number of collaterals required, using a large sample of SME loans obtained from the HKMA's Granular Data Reporting database, along with data on individual banks' CDI usage.

#### Data and methodology

Our analysis focuses on a large sample of new SME loans denominated in Hong Kong dollars between January 2022 and March 2025<sup>66</sup>. To

better disentangle the effects of CDI from other policy measures, we exclude loans that are guaranteed under the SME Financing Guarantee Scheme or the SME Loan Guarantee Scheme. Also, we retain only those loans with available borrower financial data to control for borrowers' credit risk profiles in the analysis. Our final estimation sample contains around 80,000 loan observations from 16 retail banks over the sample period.

Since all banks in our sample are CDI participating banks, we first categorise them into two groups based on their CDI usage (measured by their cumulative number of Application Programming Interface (API) calls to the CDI platform since its launch). The first group of banks refers to the top six banks that more actively use CDI (denoted as "CDI-banks"), while the second group are the remaining banks in the sample.

To identify the effect of CDI, a regression model is employed to compare the differences in SME loan terms between the two groups of banks before and after the launch of CDI, controlling for relevant loan-, borrower-, and bank-level characteristics<sup>67</sup>. As key determinants of loan terms, such as borrowers' credit risk profiles and banks' balance sheet structures, have been taken into account, any cross-sectional differences in SME loan terms between the two groups of banks can be attributed to the effects of CDI.

<sup>64</sup> For details, see Ho et al. (2026): "Assessing the effects of Commercial Data Interchange on loans to small and medium-sized enterprise in Hong Kong", *HKMA Research Memorandum*, 01/2026.

<sup>65</sup> For details of CDI, see the dedicated website of CDI (<https://cdi.hkma.gov.hk>).

<sup>66</sup> To better identify the effects of CDI, we exclude loans that are less relevant to CDI use cases, such as credit card debt, overdrafts, and mortgage-related loans.

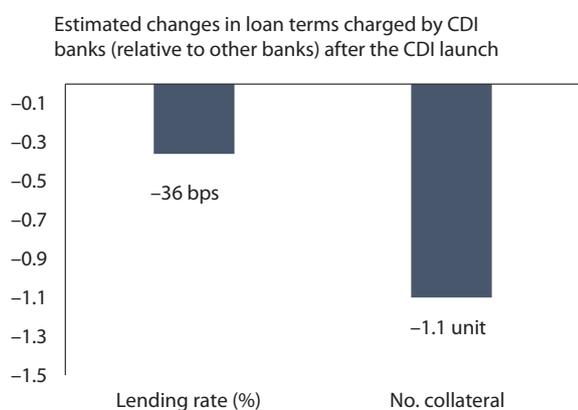
<sup>67</sup> Relevant bank balance sheet characteristics are controlled for in the analysis, which include the logarithm of bank assets, the deposits-to-assets ratio, the loans-to-assets ratio and the CET1 capital headroom. These variables are selected to reflect bank's size, funding structure, business model, and lending capacity, respectively. The relevant data are obtained from regulatory returns submitted to the HKMA by banks in Hong Kong.

## Empirical results

### Do CDI-banks offer better loan terms than other banks after the launch of CDI?

Chart B4.1 presents the estimation results. Overall, our results find evidence that better access to borrower data via CDI leads banks to offer more favourable loan terms to SME borrowers. Specifically, CDI-banks, on average, charge lower lending rates (by 36 basis points) and require fewer numbers of collaterals (by 1.1 units) for SME borrowers, compared to other banks after the launch of CDI. These effects are economically significant, as they are equivalent to a reduction of about 6% and 22% in the sample mean of interest rates and number of collaterals, respectively.

**Chart B4.1**  
Estimated effects of CDI on loan terms



Note: The estimates are statistically significant at 10% or below levels.

### Are the effects varied across types of SME borrowers?

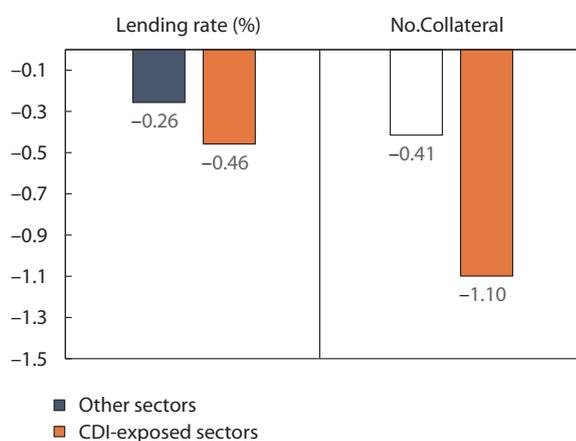
As mentioned, the improvement on loan terms may be attributable to the reduction in information gaps arising from banks' better access to SME borrowers' data. If this information channel is a key driver of the effects of CDI, we would expect the improvement on loan terms to be more significant for borrowers who are more capable of sharing various types of data from their business operations via their data providers. While our dataset does not have such information, based on successful use cases listed on the official CDI website, we observe that borrowers from some economic sectors would be easier to share such data (denoted as "CDI-exposed sectors"). These include retail trade, import & export, postal & courier, warehouse & support activities and food & accommodation sectors.

To test our hypothesis, we re-run our regression analysis separately for the two sectors, namely loans to CDI-exposed sectors and those to other sectors. Chart B4.2 presents the estimation results. The estimated effects for loans to CDI-exposed sectors are shown in orange bars in the chart, while those for other sectors are represented by the blue bars.

Consistent with our conjecture, the estimated effects of CDI are stronger for borrowers in CDI-exposed sectors. For instance, the extent of reduction in lending rate is estimated to be about 20 basis points more for loans to CDI-exposed sectors relative to other sectors (i.e. the differences between the blue and orange bars in the left-hand panel). Likewise, the estimated impact on collateral requirements is also more significant for loans to CDI-exposed sectors, while the effects are statistically insignificant for other sectors.

**Chart B4.2**  
**Estimated effects of CDI on loan terms, by borrower sector**

Estimated changes in loan terms charged by CDI banks (relative to other banks) after the CDI launch

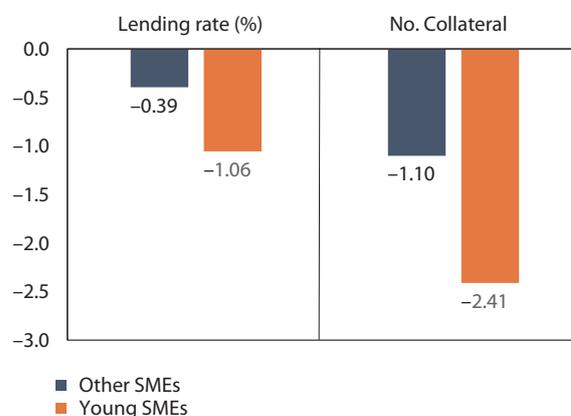


Note: Statistically significant results (at 10% or below levels) are shown in solid colours, while insignificant results are shown in unshaded bars.

In addition to borrower sector, further analysis finds evidence that the effects of CDI are more pronounced for young SME borrowers (i.e. defined as firms that were incorporated for less than five years) (see orange bars in Chart B4.3). This finding is consistent with the view that such firms typically have less historical financial information for banks to assess, so that the improved data access enabled by CDI can help reduce information gaps more effectively, resulting in a larger improvement on loan terms compared with their more established peers.

**Chart B4.3**  
**Estimated effects of CDI on loan terms, by firm age**

Estimated changes in loan terms charged by CDI banks (relative to other banks) after the CDI launch



Note: Statistically significant results (at 10% or below levels) are shown in solid colours, while insignificant results are shown in unshaded bars.

However, given that there is only a limited number of young SME borrowers in our dataset, these estimates should be interpreted with caution.

### Conclusion

Using a large sample of new SME loans between January 2022 and March 2025, combined with information on individual banks' CDI usage, this study finds evidence that the CDI effectively supports SME lending by reducing information gap facing banks, resulting in more favourable loan terms to SME borrowers.

Further analysis reveals that the estimated benefits are more pronounced for borrowers that are more capable of sharing data on the CDI platform and also for young SMEs, suggesting that wider adoption of CDI by both banks and SMEs can help address data limitations and support SME lending in Hong Kong. These findings also underscore the importance of further developing CDI data connections and collaborating closely with the banking industry to leverage the CDI platform to enhance data analytics capabilities and developing more practical use cases<sup>68</sup>.

Finally, it should be noted that there are various data limitations in our analysis, such as the reliance on a subset of SME loans<sup>69</sup>. Therefore, caution should be exercised when interpreting the findings, especially those concerning the quantitative estimates.

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<sup>68</sup> In April 2025, the HKMA established an Expert Panel on Project Cargo<sup>x</sup> a multi-year, public-private collaboration. It aims to leverage cargo data and CDI data infrastructure to support trade financing for SMEs. With these cargo and trade data, banks can gain insights into the trade value and business conditions of SMEs (via the CDI platform with their consent), thereby streamlining their trade finance approval process, compared with the use of traditional paper-based shipping documents.

<sup>69</sup> First, our sample covers only a subset of loans with available borrower financial data. Second, our identification of effects is based on comparing loan terms offered by banks that more actively use CDI with those offered by other banks, rather than on loan-level comparisons.