



HONG KONG MONETARY AUTHORITY
香港金融管理局

HALF-YEARLY MONETARY AND FINANCIAL STABILITY REPORT

March 2026

This Report reviews statistical information between the end of August 2025 and the end of February 2026.

Half-Yearly Monetary and Financial Stability Report

March 2026

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Glossary of terms

Abbreviation

1. Summary and overview

In the period under review, the global economy demonstrated resilience, driven by the accelerating artificial intelligence boom and sustained demand for technology products, particularly in the Asia-Pacific (APAC) region. The recovery, however, reflected a pronounced “K-shaped” divergence across households and sectors. Looking ahead, the economic outlook for 2026 remains uncertain. The US and global economies are expected to continue benefiting from structural tailwinds driven by technological innovation, though the A.I. surge has also introduced new risks, including stretched valuations in A.I.-related equities and concerns about the sustainability of heavy capital expenditures. Compounding these challenges are ongoing geopolitical tensions, evolving trade policies, and fiscal sustainability challenges in major advanced economies, all of which contribute to an uncertain outlook.

Hong Kong’s exchange rate and money markets continued to trade in a smooth and orderly manner. The local equity market delivered its strongest annual performance in eight years in 2025, reflecting improved investor confidence. The local debt market expanded with the introduction of key policy initiatives and several milestone bond issuances. The residential property market continued to recover, supported by improving market sentiment, robust transaction activity, and further stabilisation in housing prices. Meanwhile, the commercial real estate (CRE) market remained under pressure. In 2025, bank loans recorded positive growth, reversing the decline observed in the previous year. The overall asset quality of the banking sector was manageable, and provisions set aside by banks proved adequate to address potential risks.

The US economy demonstrated resilient growth in 2025, though the underlying development was characterised by a “K-shaped” divergence across households and sectors amid the A.I. boom. Looking ahead, the US economy is poised to continue benefiting from structural tailwinds driven by tech innovation. However, the military conflict in the Middle East could cloud the US inflation outlook and the path of US interest rates. Meanwhile, US trade policy remains highly uncertain, with continued signals of tariffs in pursuit of geoeconomic objectives.

Globally, economic performance has remained stable, though the economic outlook appears bifurcated. On the upside, the A.I. boom continues to be a source of strength for the global trade and financial markets. On the downside, risks persist, spanning trade policy uncertainty, the sustainability of the A.I. boom, evolving geopolitical tensions, and fiscal sustainability challenges in major advanced economies. For corporates, these uncertainties translate into pressure on their financial performance, though operational flexibility can help mitigate this adverse effect as highlighted in Box 1.

Summary and overview

APAC economies finished 2025 on a strong note, buoyed by solid growth and vibrant financial markets. This performance was supported by exports diversification, concerted monetary easing and the surge in demand for the region's tech products driven by the A.I. boom. However, the military conflict in the Middle East has heightened the region's vulnerability to higher inflation and slower growth. Meanwhile, the region remains exposed to potential shocks, particularly from the sustainability of the A.I. boom, persistent uncertainty in US and global trade policies, and evolving geopolitical tensions.

In the Chinese Mainland, year-on-year real Gross Domestic Product (GDP) growth moderated in the second half of 2025. Domestic demand growth moderated, although merchandise exports remained resilient. For 2025 as a whole, the economy expanded by 5.0%, in line with the official target. 2026 marks the first year of the 15th Five-Year Plan, which emphasises the development of a modern industrial system, technological self-reliance, the cultivation of new quality productive forces, and the expansion of domestic demand — particularly consumption. The economic outlook for 2026 is cautiously optimistic. While persistent external headwinds and domestic structural challenges, particularly in the property sector and weak consumer confidence, continue to weigh on economic performance, sustained innovation, industrial upgrading, and continued policy support are expected to underpin stable growth.

In Hong Kong, the economy recorded solid growth in the second half of 2025, supported by a sustained recovery in domestic demand and a robust expansion in exports. Looking ahead, the economy is expected to grow at a moderate pace, with goods exports likely to remain strong due to sustained demand for high-tech products fueled by the A.I. boom. On the domestic front, private investment is expected to benefit from improved business sentiment. However, the labour market remains soft, with the labour force participation rate (LFPR) continuing its downward trend – a

trend driven not only by population ageing but also by rising educational attainment among youth, as detailed in Box 3. The outlook for the Hong Kong economy is subject to external uncertainties, particularly concerning the ongoing geopolitical tensions, the sustainability of the A.I. boom, evolving global trade policies, as well as the US policy rate path.

The Hong Kong dollar (HKD) exchange and money markets continued to trade in a smooth and orderly manner. The HKD traded on the strong side of the Convertibility Zone initially, before shifting to the weaker side of the Convertibility Zone toward the end of the review period, with the movements largely affected by HKD interbank rates and equity-related demand.

While Hong Kong Interbank Offered Rates (HIBORs) generally track their US dollar (USD) counterparts under the Linked Exchange Rate System, shorter-tenor rates are also influenced by local supply of and demand for HKD funding. In September 2025, short-term HIBORs advanced higher, partly reflecting corporate funding needs by the quarter-end, before easing in October and November amid reduced equity-related demand. Short-term HIBORs firmed up again towards the 2025 year-end on seasonal factors, and then softened in early 2026 as seasonal liquidity pressures eased.

Going forward, heightened geopolitical risks and the military conflict in the Middle East, together with elevated uncertainty over the US trade policy and the sustainability of the A.I. boom, may increase fund flow volatility. Nonetheless, with its ample foreign exchange reserves and robust financial system, Hong Kong is well positioned to withstand the volatilities in fund flows without undermining financial stability.

Global equity markets recorded gains during the review period, though volatility intensified amid concerns over stretched valuations in A.I.-related firms and rising geopolitical tensions. The Hong Kong equity market posted its best annual

Summary and overview

performance in eight years in 2025. However, uncertainties in the external environment have increased volatility in the Hong Kong equity market during the review period. Despite the 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.

Looking ahead, global market sentiment will hinge on trade policy developments, geopolitical risks, and the trajectory of US interest rates. A potentially prolonged military conflict in the Middle East could dampen investor confidence and increase volatility in oil prices, which could cloud the US inflation outlook and the path of US interest rates. Concerns about the valuations of A.I.-related firms and the sustainability of their heavy capital investment could fuel volatility in the global equity markets. Shifts in global capital flows, stemming from investors' pursuit of diversification amid elevated uncertainties, could also add to market volatility. Particular attention should be paid to risks associated with non-bank financial institutions, particularly private credit. As Box 2 suggests, the deep cross-border linkages between hedge funds and prime brokers could amplify contagion risks during periods of stress. In addition, expectations about the Renminbi (RMB) exchange rate could play a significant role in shaping Hong Kong's equity market dynamics.

The issuance of HKD-denominated debt securities rose by 16.6% year on year in 2025, primarily driven by issuers outside Hong Kong. Issuance of offshore Renminbi (CNH)-denominated debt securities in Hong Kong also expanded during the year. Looking ahead, the strong momentum in HKD debt securities issuance is expected to continue in the near term, while improved market depth could boost demand from both issuers and investors over the longer term. CNH debt securities issuance would be influenced by the movements in USD and RMB interest rates, while rising diversification

needs among global investors are expected to support the long-term development of Hong Kong's CNH debt market. During the review period, several policy initiatives were introduced to develop Hong Kong's debt market. Several milestone bond issuances also took place, which solidified Hong Kong's status as a global leader in sustainable finance, Asia's leading international bond issuance hub, and a premier offshore RMB business centre.

The residential property market continued to recover, supported by improving market sentiment, robust transaction activity, and further stabilisation in housing prices. In the near term, although the housing market remains subject to a range of uncertainties, the Government's ongoing efforts to attract talents, investors and students are expected to provide sustained support to housing demand. Meanwhile, the CRE market continued to face headwinds, although Grade A offices have begun to show signs of improvement.

The aggregate pre-tax operating profit of retail banks grew by 1.4% in the second half of 2025, driven by higher net interest income and increased fees and commissions. This growth was partially offset by the decline in income from foreign exchange and derivatives operations. Total loans and advances of all authorized institutions (AIs) edged down by 0.2% in the second half of 2025. Nonetheless, for 2025 as a whole, total loan growth recorded a positive growth of 2.3%, reversing the 2.8% decline recorded in 2024. While the classified loan ratio edged up in the second half of 2025, the overall asset quality of the banking sector was manageable and provisions set aside by banks remained sufficient.

Overall, the Hong Kong banking sector remains liquid and well-capitalised. The average Liquidity Coverage Ratio of category 1 institutions reached 165.6% in the fourth quarter of 2025, well above the statutory minimum requirement of 100%. The total capital ratio of

Summary and overview

locally incorporated AIs stood at 25.1% at the end of 2025, significantly exceeding the international minimum requirement of 8%.

The HKMA and the banking sector have continued to support small and medium-sized enterprises (SMEs) to cope with the changing business environment. More sufficient and timely financial data can facilitate SMEs in obtaining bank credit. To address this, the HKMA launched Commercial Data Interchange (CDI) in October 2022 as part of its “Fintech 2025” Initiatives. As Box 4 demonstrates, CDI helps improve banks’ access to consented SME data for credit assessments, thereby enabling banks to offer more favourable loan terms to SME borrowers.

Looking ahead, several downside risks, including uncertainties surrounding global trade tensions, future US interest rate movement, and subdued performance of certain local sectors, could continue to pose challenges to the Hong Kong banking sector. The recent Middle East conflicts also warrant close monitoring. Although the direct impact on the Hong Kong banking sector should be manageable, given its relatively modest cross-border exposures to the region, a prolonged conflict could disrupt global energy commodity supply chains and potentially weigh on global economic growth. Banks should stay vigilant in assessing the impacts of these risk factors on the asset quality of their loan portfolios.

The Half-yearly Report on Monetary and Financial Stability is prepared by the staff of the Research Department of the Hong Kong Monetary Authority

2. Global setting and outlook

2.1 External environment

In the US, economic growth remained robust in 2025, though the underlying development was “K-shaped”. In particular, consumption was mainly driven by higher-income households benefiting from the equity “wealth effect”, while lower-income households faced cost-of-living pressures amid persistent inflation and tariff-induced increases in goods prices. In the corporate sector, A.I.-related tech firms continued to scale up capital expenditures, whereas traditional industries curtailed investment amid heightened policy uncertainty, elevated input costs and uncertain demand.

Across the Atlantic, the Euro area grew at a steady pace in the second half of 2025 underpinned by solid domestic demand, with inflation staying close to the 2% target. Meanwhile, the Japanese economy saw moderated growth with sustained inflationary pressure.

On the monetary policy front, the US Federal Reserve (Fed) delivered a cumulative 75 basis points interest rate cuts during 2025 in response to a weakening labour market, before pausing at the January and March meetings. At the start of 2026, the market had initially expected continued interest rate cuts amid the upcoming transition in US Federal Reserve leadership and a weak labour market. However, the path of US interest rates turned uncertain following the outbreak of military conflict in the Middle East, which cast a cloud on the US inflation outlook.

The China–US trade truce and trade agreements between the US and its other trading partners helped ease market jitters. Yet, US trade policy remained highly uncertain (Chart 2.1), as the US continued to signal other economies with tariffs

in pursuit of geoeconomic objectives¹. Moreover, following the US Supreme Court’s ruling on tariffs under the International Emergency Economic Powers Act on 20 February 2026, the US administration swiftly invoked Section 122 as a temporary measure to introduce 10% tariffs², while more enduring tariff measures are expected to be implemented under other Sections (e.g. Section 301). Box 1 illustrates how corporate operational flexibility could serve as a crucial buffer to bolster financial health amid heightened uncertainty.

Chart 2.1
US trade policy uncertainty index



Source: Economic Policy Uncertainty.

¹ On 12 January 2026, the US President vowed a 25% tariff on goods from countries “doing business” with Iran immediately. On 17 January 2026, he further threatened to impose 10% tariffs on France, Germany, the United Kingdom, the Netherlands, Denmark, Norway, Sweden and Finland starting from February, unless these countries agree to support his Greenland plan. However, on 21 January 2026, the US President announced to suspend these tariffs after reaching a “framework” agreement with North Atlantic Treaty Organization regarding the territory.

² After the US Supreme Court struck down the “reciprocal tariffs” on 20 February 2026, the US administration announced a new flat 10% tariff under Section 122. Tariffs under Section 122 will automatically expire in 150 days unless approved by the US Congress.

Global setting and outlook

The global economic outlook stays cautiously optimistic, yet risks remain two-sided. On the upside, the A.I. boom can be a source of strength for the global trade and financial markets through driving consumption and boosting productivity. In the US, the economy will also benefit from tax cuts and extensive deregulation.

On the downside, beyond trade policy uncertainty, the global economy also faced downside risks from the military conflict in the Middle East, the A.I. investment boom, evolving geopolitical developments, and fiscal sustainability challenges in major advanced economies.

The ongoing A.I. boom has helped lift the global economy, but has also triggered additional concerns. Tech firms have increasingly turned to debt financing instead of relying on cash flows. If expected returns from these investments do not materialise, then some tech firms may encounter financing difficulties given their massive borrowings from the bond markets and private credit markets. There is also a risk of further spillovers to other tech firms due to circular financing within the A.I. ecosystem.

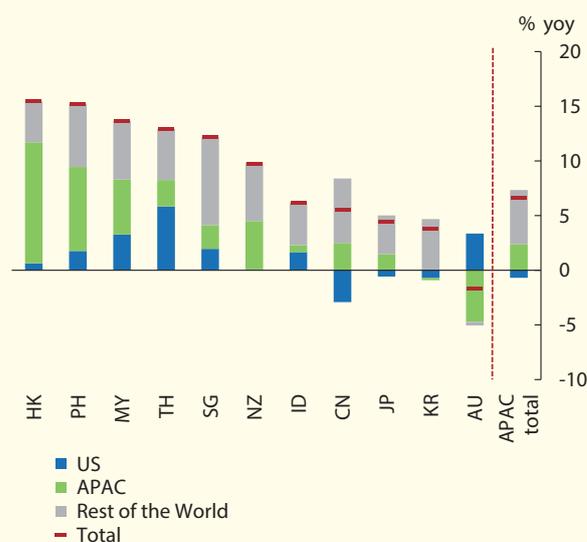
Geopolitical risks remain elevated, given the split of the US society triggered by the fatal actions of US Immigration and Customs Enforcement officers, the US capture of Venezuelan President Nicolas Maduro, the escalated rhetoric surrounding a US takeover of Greenland, and the conflict in the Middle East which has boosted energy prices and thus adding uncertainty to monetary policy paths across multiple regions. Energy-importing economies, particularly in Europe and Asia, faced greater exposure to these shocks. In a downside scenario, adverse developments may trigger market volatility and disrupt fund flows.

Finally, major advanced economies continued to face fiscal sustainability risks, given higher

government debt levels and a lack of fiscal consolidation. A sharp repricing of sovereign risk could lead to wider market turbulence. Hedge funds have also increasingly sought leverage from prime brokers for arbitrage trading in sovereign bond markets. Box 2 analyses the potential contagion risks associated with these linkages.

In APAC, regional economies defied earlier expectations of a sharp tariff-induced slowdown, finishing 2025 on a strong note after a year of solid economic growth and buoyant financial markets. Notably, concerted monetary easing supported domestic demand and equity markets. Meanwhile, the A.I. boom and strong performance of tech exports, delayed rollout of US reciprocal tariffs, and efforts to diversify trade, had all combined to lift the region's exports. While repeated tariff postponements alleviated the downward pressure on exports to the US, it was in fact shipments to the rest of the world, including to other Asian markets, that accounted for the majority of export growth for many economies as regional corporates continued to diversify their trading partners (Chart 2.2).

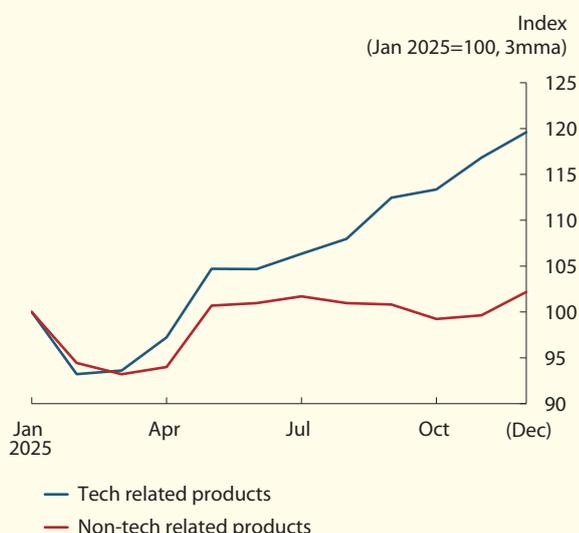
Chart 2.2
Asia Pacific: Exports growth in 2025 by destination



Sources: CEIC and HKMA staff calculation.

The region’s external sector strength was particularly evident in the tech industry, where the global A.I. boom fuelled a surge in demand for tech equipment. While both tech and non-tech goods exports grew strongly in the first half of 2025, the former greatly outpaced the latter in the second half of the year (Chart 2.3). This phenomenon was mirrored in regional financial markets, where tech companies have outperformed in regional equity markets in 2025.

Chart 2.3
Asia Pacific: Tech and non-tech exports



Note: “Asia Pacific” includes AU, CN, HK, ID, JP, KR, MY, NZ, PH, SG, and TH. “Tech- related” products refer to products falling under Harmonized System codes 8419, 8470-8473 and 85.
Sources: CEIC, International Trade Center and HKMA staff calculation.

Despite the importance of A.I. as a source of resilience for the region, its long-term sustainability remains subject to significant uncertainty as mentioned in the earlier paragraphs. Furthermore, the region’s tech industry features deeply integrated supply chains and a relatively high share of foreign value added, pointing to disproportionate exposure to the US “transshipment tariffs”. Taken together with the still heightened uncertainty surrounding US and global trade policy, these factors leave the region vulnerable to a potential deterioration in economic prospects and financial market volatility.

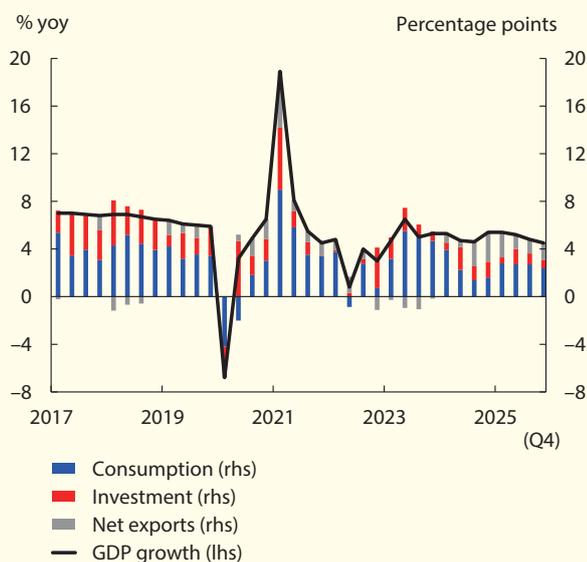
Additionally, the energy shock stemming from the military conflict in the Middle East would weigh on regional economies, as most are net energy importers with significant reliance on oil supplies from the Middle East via the Strait of Hormuz. However, given the region’s relatively benign starting points on inflation and oil consumption burdens, the direct impact on inflation and economic growth appears manageable so far. That said, the ultimate severity would depend critically on the duration and the scope of the conflict, the magnitude and persistence of the energy price spike, as well as the policy responses and structural characteristics of individual economies. Meanwhile, the high trade exposure of Asia also leaves the region vulnerable to the indirect effect of potential trade disruptions and a broader slowdown in global growth.

2.2 Chinese Mainland

Economic performance and policy responses

The Chinese Mainland’s year-on-year real gross domestic product (GDP) growth moderated to 4.5% in the fourth quarter of 2025 from 4.8% in the third quarter (Chart 2.4), as domestic demand growth weakened due to fading consumption trade-in programme support, continued housing market weakness and anti-involution push. In particular, the decline in fixed investment widened in the second half of 2025, not only due to a contraction in real estate investment but also remarkable decreases in manufacturing and infrastructure investments. However, merchandise exports remained resilient amid the China-US trade truce, the tech up-cycle, increased competitiveness of Mainland’s products, and Mainland’s market diversification efforts. In particular, increased exports to non-US economies effectively offset the decline in the US market. For 2025 as a whole, real economic growth remained at 5.0%, meeting the official growth target. With strong exports and stable imports, merchandise trade surplus reached a record high of almost US dollar (USD) 1.2 trillion in 2025.

Chart 2.4
Chinese Mainland: Contribution to GDP growth by demand component



Sources: National Bureau of Statistics of China (NBS), CEIC, and HKMA staff estimates.

Looking ahead, the Mainland economy is expected to maintain relatively stable growth momentum in 2026 alongside continued policy support.³ The contraction in fixed investment, especially in manufacturing and infrastructure investments, will likely be reversed. The new economy sectors will continue to outperform, and the outlook of exports is cautiously optimistic amid China-US tariff truce.

Under the 15th Five-Year Plan, the authorities will prioritise building a modern industrial system, advancing technological self-reliance and new quality productive forces, expanding domestic demand (especially consumption) and

building a robust domestic market⁴. Key challenges include a profoundly complex external environment, and the domestic imbalance between strong supply and relatively weak demand. Indeed, this year's economic outlook faces both upside and downside risks stemming from geopolitics (for example, the military conflict in the Middle East) and trade, A.I. and technology, the domestic property market and macro policy. At the Two Sessions held in March 2026⁵, the authorities set the growth target at 4.5–5.0%, while the latest market consensus forecasts predict a 4.6% expansion for the year.

Inflation dynamics improved somewhat between July 2025 and February 2026, though deflation pressure remained. The headline consumer price index (CPI) inflation edged up, driven, in part, by higher food prices. The pickup in core CPI inflation, which excludes food and energy prices, was supported by higher prices in gold, jewellery and selected services (e.g. medical). That said, declines in producer price index and GDP deflator continued, albeit at a narrower pace, partly due to some improvement in anti-involution-focused sectors⁶. The headline unemployment rate edged up to 5.3% in February 2026, with the youth unemployment rates for 16–24 and 25–29 age groups standing at 16.1% and 7.2%, respectively.

⁴ In particular, the Chinese Mainland will keep its economic growth within an appropriate range, notably increase household consumption share in GDP and ensure labour remuneration keeps pace with labour productivity growth. On anti-involution, China will advance the development of a unified national market. Over the longer run, the Chinese Mainland reaffirms the 2035 modernisation goal, which aims to lift GDP per capita to the level of mid-level developed (or moderately advanced) economies. The Central Economic Work Conference in December 2025 also emphasised that expanding domestic demand will be the top priority in 2026. Policies will be rolled out to boost consumption through both the supply and demand sides.

⁵ In the Government Work Report for 2026, the official budget deficit target is kept at an elevated 4% of GDP. Additional supportive measures include (i) a RMB100 billion special fiscal-financial coordination fund to facilitate domestic demand expansion, and (ii) an expansion of funding for new policy-backed financing tools to RMB800 billion to support investment.

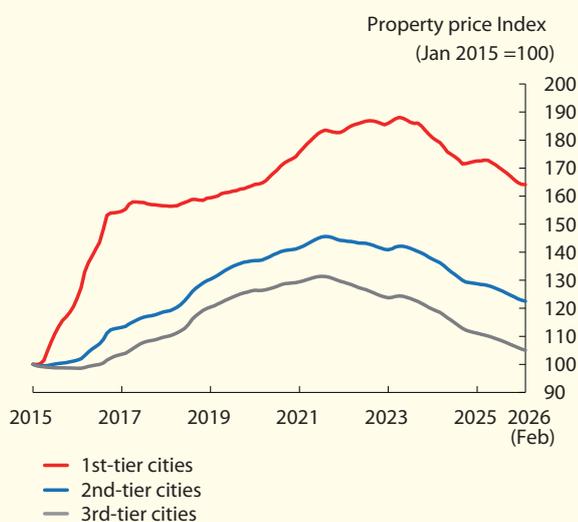
⁶ The People's Bank of China also reiterated that promoting a modest increase in prices remains a key monetary policy objective.

³ Recent policies include enhanced implementation of large-scale equipment renewal and consumer goods trade-in programme, and interest rate cuts on structural monetary policy tools.

Property and credit markets

The Mainland housing market remained weak in the second half of 2025 and early 2026. Housing prices continued to decline sequentially across all city tiers (Chart 2.5), and property market activities such as sales, investment and construction remained depressed (Chart 2.6). In response, the authorities maintained a supportive policy stance⁷ and continued to stress property market stabilisation, with a strategy of controlling new supply, reducing housing inventory, and optimising the supply structure. The government has also promoted the high-quality development of the real estate sector from the perspective of improving people’s livelihood, encompassing initiatives such as high-quality urban renewal, quality houses and affordable housing.

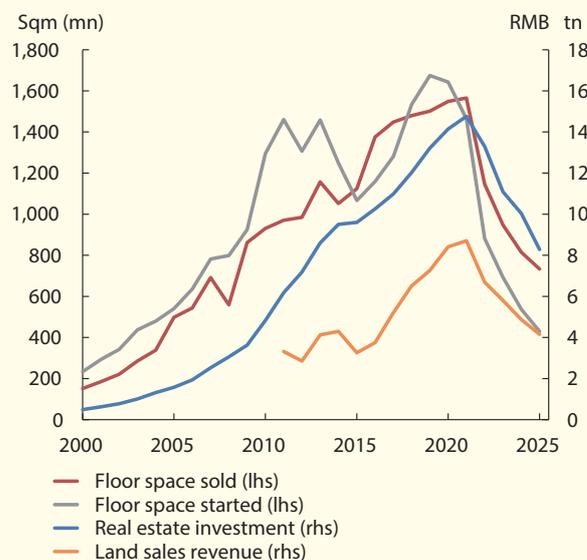
Chart 2.5
Chinese Mainland: Residential property prices by tier of cities



Sources: CEIC and HKMA staff estimates.

⁷ Specific policies include facilitating property purchases by overseas individuals, lowering housing transaction costs, and reducing the minimum down payment ratio for commercial property mortgages. At the local level, city-specific measures include destocking and supply control, housing purchase subsidies, housing voucher-based resettlement schemes and increased policy support for housing provident funds. Top-tier cities such as Beijing and Shanghai also further relaxed their home purchase restrictions.

Chart 2.6
Chinese Mainland: Property market activities



Sources: CEIC and HKMA staff calculations.

In the near term, the housing market is likely to remain soft, although the market expects the drag on GDP growth to be smaller for 2026. The stabilisation of the property market will hinge on the overall economic situation and the authorities’ policy response.

On the credit front, both outstanding loans and total aggregate financing generally recorded slower growth towards the end of 2025 compared with a year ago, in part owing to weak private credit demand. Overall risk in the Mainland banking sector remained under control in the second half of 2025, with non-performing loan ratios hovering at low levels.

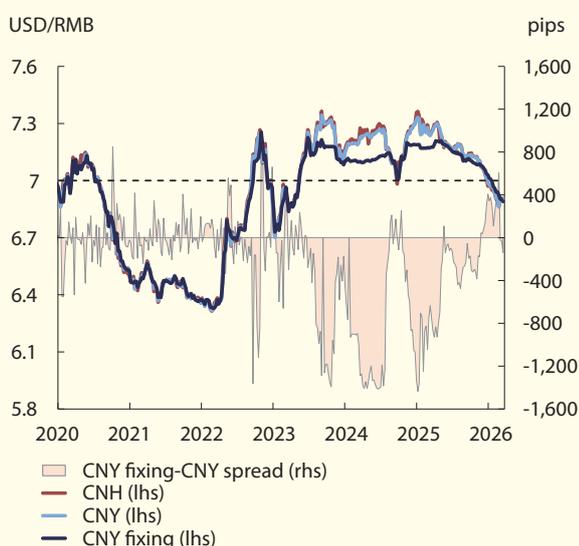
Exchange rate and bond flow indicators

Both the official fixing and market renminbi (RMB) exchange rates strengthened further against the USD in recent months, and broke the 7 per USD threshold (Chart 2.7). The strengthening trend partly reflected broad USD weakness, easing China-US trade tensions, the Mainland’s record-high trade surplus, and seasonal demand for foreign exchange settlements. With the fixing rate turning slightly weaker than the spot rate since late November

Global setting and outlook

2025, markets now generally expect measured RMB appreciation by the end of 2026. However, the People’s Bank of China (PBoC) reiterated its commitment to keeping the RMB basically stable⁸, while also noting that corporates have lower sensitivity to exchange rate volatility. As to bond flows, amid improved equity market sentiment, the onshore Mainland bond market recorded more moderate combined net inflows under different schemes in the second half of 2025 (Table 2.A).

Chart 2.7
Chinese Mainland: Onshore and offshore RMB exchange rates against the USD



Sources: Bloomberg and HKMA staff estimates.

Table 2.A
Chinese Mainland: Cross-border bond flow indicators

(RMB bn)	H1 2025	H2 2025	Sep 25	Oct 25	Nov 25	Dec 25	Jan 26
Northbound Bond Connect	296	-63	-5	14	-1	7	-13
CIBM Direct and QFI	853	199	64	58	24	29	35
Change in foreign holdings in the interbank market	71	-770	-45	-54	-117	-151	-108

Notes: Bond flows are measured by net buying flows for the Northbound Bond Connect and the China Interbank Bond Market Direct Scheme (CIBM Direct) and Qualified Foreign Investor Scheme (QFI).

Sources: Wind, CFETS and HKMA staff estimates.

⁸ The PBoC announced a cut in the foreign exchange (FX) risk reserve ratio for forward FX sales to 0% from 20%, effective on 2 March 2026, supporting enterprises in managing exchange rate risks.

Box 1

Corporate operational flexibility as a buffer against economic policy uncertainty: Global evidence and policy implications

Introduction⁹

Global economic policy uncertainty can undermine firms' financial performance via two main channels: (1) Inducing a "wait-and-see" mindset that delays investment and innovation, thereby compressing profitability; and (2) tightening financing conditions by raising perceived risk, widening credit spreads, and increasing borrowing costs.

Firms with limited operational flexibility may be more vulnerable to uncertainty, as rigid cost structures and funding constraints can hinder timely adjustment. However, there is limited evidence on the extent to which flexibility can mitigate these effects. This study addresses this gap by utilising broad firm-level data to quantify the impacts, analyse the determinants of operational flexibility, and explore the associated policy implications.

Data and measurement

1) Global economic policy uncertainty

We measure economic policy uncertainty using the Global Economic Policy Uncertainty (GEPU) index (Davis, 2016), a widely used indicator of global policy-related uncertainty¹⁰.

2) Corporate financial health

Corporate financial performance is proxied by Altman's Z-score (Altman, 1968), constructed as a weighted sum of standard profitability, liquidity, leverage and activity ratios (including working capital, retained earnings, EBIT and sales, scaled

by assets, plus market capitalisation scaled by liabilities)¹¹. A lower Z-score indicates weaker financial performance and a higher likelihood of distress.

3) Operational flexibility

Operational flexibility is proxied by a firm-level index following Gu et al. (2018), intended to capture a firm's inability to adjust operating costs in response to profitability shocks¹². The index is constructed as the historical range of a firm's operating costs-to-sales ratio, scaled by the volatility of its sales growth over the same window. A higher value of the index indicates lower operational flexibility, in that it is harder to realign operating costs with its sales performance.

Although the operational inflexibility index is based on the notion of cost "stickiness", it can also reflect the underlying managerial and operational adaptability. For example, firms with more adaptable operations may reconfigure activities or shift geographical focus to flexibly adjust their production to match fluctuations in cost and demand, resulting in a lower value of the inflexibility index.

Non-financial listed firms across 10 sectors¹³ and 72 economies are included in the index compilation, starting from the fourth quarter of 2002 to the first quarter of 2025. The analysis of

⁹ For details, please refer to Tam and Wong (forthcoming): "Corporate operational flexibility as a buffer against economic policy uncertainty: Global evidence and policy implications", *HKMA Research Memorandum*.

¹⁰ Davis, S. J. (2016). An index of global economic policy uncertainty. *NBER Working Paper No. 22740*. The updated GEPU index is downloaded from the website of Economic Policy Uncertainty.

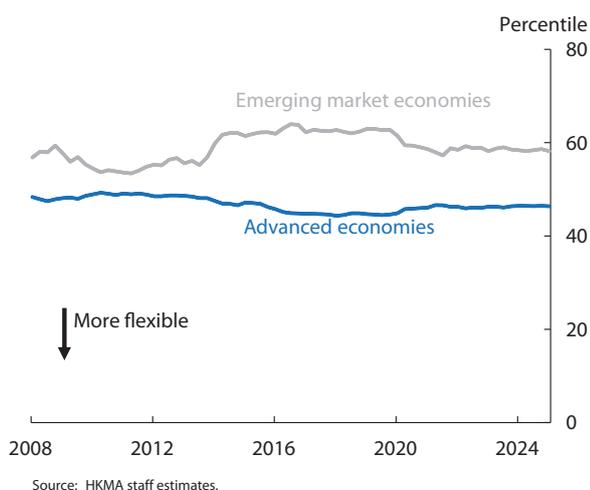
¹¹ Altman, E. I. (1968). Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The Journal of Finance*, 23(4), 589–609.

¹² Gu, L., Hackbarth, D., & Johnson, T. (2018). Inflexibility and stock returns. *The Review of Financial Studies*, 31(1), 278–321.

¹³ These non-financial firms are divided into 10 sectors according to the Global Industry Classification Standard, including energy, materials, industrials, consumer discretionary, consumer staples, health care, information technology, communication services, utilities and real estate.

the determinants of operational flexibility uses an annual panel from 2004 to 2024. To ensure comparability across business sectors, we compute each firm's percentile rank within its sector and quarter. Notably, firms in advanced economies generally exhibit greater flexibility than their peers in emerging markets (Chart B1.1).

Chart B1.1 Sector-adjusted inflexibility index



Empirical analysis

We first examine how the economic policy uncertainty affects firms' financial performance and whether operational flexibility can mitigate the impact. Then we explore which firms' characteristics are associated with greater operational flexibility, and how these links vary with financial market stress.

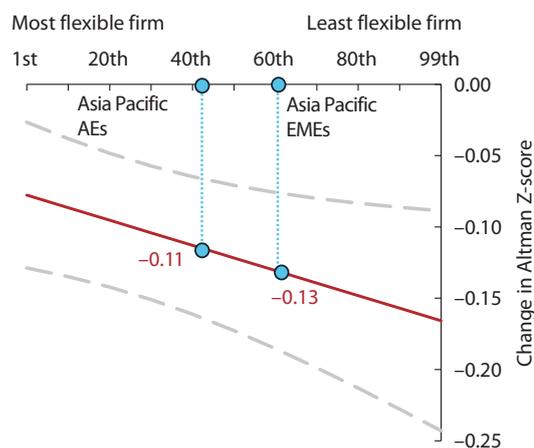
1) *GEPU, operational flexibility and corporate financial performance*

We estimate a firm-level fixed effects regression. Our model uses Altman's Z-score as the measure of financial health and examines how it is influenced by the GEPU index from the previous quarter, while allowing this effect to vary based on a firm's degree of operational inflexibility.

The estimation results indicate that a higher GEPU index is associated with weaker corporate financial performance, consistent with

uncertainty weighing on firms through softer activity and tighter financing conditions. However, operational flexibility can significantly alleviate this effect: the analysis shows that the negative impact of rising uncertainty is amplified by inflexibility, which experiences a larger decline in Z-scores. Conversely, flexible firms exhibit a smaller deterioration in financial performance as the GEPU index increases. This suggests that firms' operational flexibility can serve as a buffer during periods of uncertainty (Chart B1.2).

Chart B1.2 Marginal effects of GEPU index on Altman Z-score with respect to operational flexibility ranking



Note: The blue dot lines mark the median flexibility ranking and the corresponding marginal effects on firms in Asia Pacific advanced economies (AEs) and emerging market economies (EMEs), respectively. The red line shows the estimated marginal effect (full sample period) of one standard deviation increase in the GEPU index (about 80 units) on firms' Altman Z-score. The dashed lines represent the 95% confidence interval of the marginal effect of the GEPU index.

2) *Determinants of operational flexibility*

To understand the determinants of a firm's operational flexibility, we estimate another firm-level fixed effects regression in which the dependent variable is the firm's operational inflexibility measure. The regression model relates inflexibility to a set of the firms' lagged characteristics, including the debt-to-capital ratio, the short-term debt-to-total debt ratio, the cash-to-assets ratio, the intangibles-to-assets ratio and the raw materials-to-inventory ratio, and also controls for the broader financial

environment using the Financial Stress Index (FSI)¹⁴. The estimation results suggest that operational flexibility is driven by a few factors:

(1) *Capital structure*: Firms with higher leverage and a greater reliance on short-term debt tend to be more inflexible, consistent with debt servicing and refinancing pressures limiting the room for cost adjustment; and

(2) *Buffers and asset structure*: Firms with larger cash buffers are generally more flexible, suggesting that internal liquidity could support adjustment. Firms with a higher share of intangible assets also tend to be more flexible, consistent with more reconfigurable business models.

Conclusion and policy implications

Our empirical analysis highlights that heightened global economic policy uncertainty is associated with weaker corporate financial performance, and that operational flexibility could help mitigate this adverse effect. These findings carry several policy implications for financial stability. First, maintaining clear and consistent policy communication can reduce uncertainty and its impact on corporate investments and funding conditions. Secondly, uncertainty indicators, including the GEPU index, may inform macro stress testing and financial stability monitoring. Finally, policies that enhance liquidity or support investment in intangibles (e.g. intellectual property, digital and knowledge-based capacity) can strengthen corporate longer-term operational agility and resilience.

¹⁴ The FSI is downloaded from the US Office of Financial Research.

Box 2

Assessing the linkages between hedge funds and prime brokers in sovereign bond markets: Evidence from commercial data

Introduction¹⁵

In recent years, hedge funds have increasingly sought leverage from prime brokers for arbitrage trading in sovereign bond markets¹⁶. While this may enhance market liquidity under normal conditions, a shock could trigger hedge funds' rapid unwinding of their leveraged positions, potentially amplifying market stress in sovereign bond markets. Hedge funds' losses could also lead to large counterparty losses for their prime brokers, propagating the risks to the broader financial system.

This leverage is primarily provided by prime brokers, either locally or across borders¹⁷. The latter presents particularly significant challenges for effective global oversight, as such cross-border linkages often fall outside the regulatory purview of individual jurisdictions. In principle, more comprehensive data sharing across jurisdictions can facilitate the surveillance of these linkages. In practice, however, such data sharing is often hindered by legal and operational constraints, creating substantial blind spots for monitoring the potential contagion risks at the global level. In an attempt to address these data gaps, this analysis draws on commercial databases to map these interconnections and evaluate the underlying contagion risks.

Overview of commercial databases

Our data on hedge funds are sourced and consolidated from Preqin Pro, Morningstar Direct¹⁸ and Bloomberg Finance, L.P. We selected only those hedge funds that are more likely to employ leveraged trading strategies in sovereign bond markets¹⁹, resulting in a sample of 2,024 hedge funds.

These datasets contain information on each hedge fund's domicile and prime brokers. A total of 134 prime brokers are identified serving the sampled funds. The domicile of each broker is determined by cross-referencing with information from S&P Capital IQ. In this study, a linkage between a fund and a broker is classified as domestic if both entities share the same domicile, and cross-border otherwise.

It is important to note that our databases provide limited visibility into the amount of funding provided by individual prime brokers to specific hedge funds. Nevertheless, they still provide adequate information that allows us to conduct a network analysis between the funds and brokers.

Network analysis

Using this sample, our network analysis reveals three risk areas in the linkages between hedge funds and prime brokers.

1) **Prevalent use of foreign prime brokerage services by hedge funds**

First, hedge funds prevalently employ prime brokers domiciled abroad. Around 60% of hedge

¹⁵ For details, please refer to Leung et al. (2025) "Assessing the linkages between hedge funds and prime brokers in sovereign bond markets: Evidence from commercial data", *HKMA Research Memorandum – 2025/10*.

¹⁶ Please refer to Bassi et al. (2024) "Financial stability risks from basis trades in the US Treasury and euro area government bond markets" for euro area government bonds and Glicoes et al. (2024) "Quantifying Treasury cash-futures basis trades" for US Treasuries.

¹⁷ For instance, nearly half of the US-registered hedge funds' secured leverage was prime brokerage borrowing, based on the US Securities and Exchange Commission.

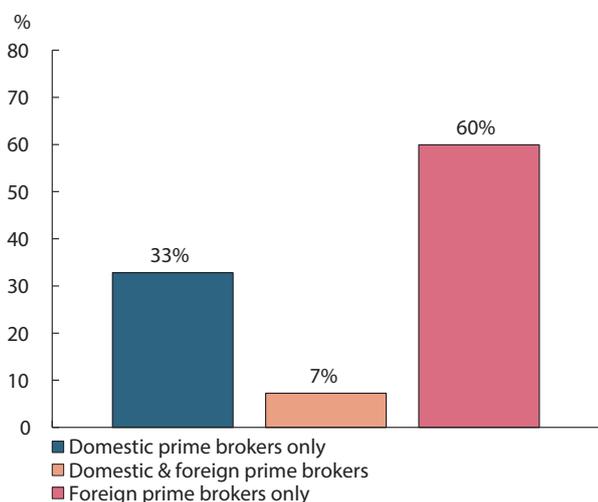
¹⁸ Morningstar Direct's data providers do not guarantee the accuracy, completeness or timeliness of any information provided by them and shall have no liability for their use.

¹⁹ Our sample includes hedge funds whose primary investment strategies are either relative value or fixed income. This sample selection largely mirrors the approach of Kruttli et al. (2021) "Hedge fund Treasury trading and funding fragility: Evidence from the COVID-19 crisis" in identifying hedge funds that are likely to trade in the US Treasury market.

funds in our sample rely entirely on foreign prime brokers; and 7% employ both domestic and foreign brokers (Chart B2.1).

Prime brokers are a key source of leverage for hedge funds. If prime brokers provide sizable leverage to offshore hedge funds, such cross-border linkages may add to contagion risks across jurisdictions, as investment losses from hedge funds in one jurisdiction could transmit to prime brokers in another via these linkages.

Chart B2.1
Proportion of hedge funds using domestic and foreign prime brokerage services



Note: Figures are expressed in percentages of the total number of hedge funds in our sample.
Source: HKMA staff estimates.

2) Higher risks of contagion between North America and Europe

Secondly, cross-border linkages are highly concentrated in North America and Europe. Specifically, over 90% of cross-border connections involve hedge funds and prime brokers domiciled in North America or Europe (Table B2.1).

This geographic concentration implies comparatively higher spillover risks from hedge funds to prime brokers in these regions. By contrast, contagion risks involving the APAC region remain relatively contained.

Table B2.1
Proportion of cross-border linkages by hedge fund and prime broker domiciles

		Prime broker domicile			
		North America	Europe	Asia Pacific	Others
Hedge fund domicile	North America	41.6%	27.2%	2.1%	0.8%
	Europe	11.8%	12.7%	0%	0.4%
	Asia Pacific	1.3%	0.5%	0.05%	0%
	Others	0.9%	0.6%	0.2%	0%

Note: Figures are expressed in percentages of the total number of cross-border linkages between hedge funds and prime brokers in our sample. The sum of these figures does not equal 1 due to rounding.

Source: HKMA staff estimates.

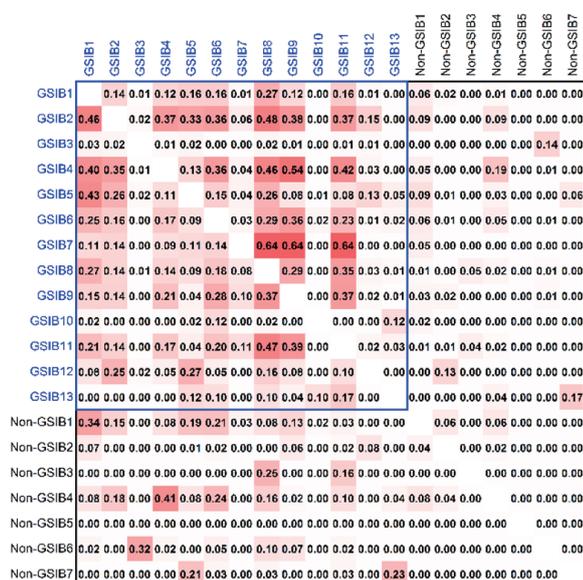
3) Concentrated exposures among global systematically important banks

Third, a handful of prime brokers dominate the provision of prime brokerage services, with the 20 major prime brokers collectively serving 77% of hedge funds in our sample. Of these, 13 are found to be global systematically important banks (G-SIBs), which together serve 66% of the funds.

Furthermore, G-SIBs exhibit substantially higher common exposure to the same hedge funds than non-G-SIB brokers. For each pair of major prime brokers, common exposure is quantified as the number of funds jointly served by the paired brokers divided by the number of funds served by one of the brokers. Chart B2.2 presents these ratios for each broker pair, with G-SIB pairs highlighted by blue borders. This heatmap shows generally higher ratios (i.e. darker red cells) among G-SIB pairs compared to non-G-SIB pairs.

This pattern suggests that investment losses at hedge funds could simultaneously propagate stress to a multiple of G-SIB prime brokers through their common exposures, thereby amplifying contagion risks across the G-SIB prime brokers.

Chart B2.2
Common exposures of the 20 major prime brokers to hedge funds



Note: For illustration, the figure in the row for G-SIB4 and the column for G-SIB9 shows a value of 0.54, suggesting that 54% of the hedge funds served by G-SIB4 are also served by G-SIB9. Diagonal values are equal to one and hidden for brevity.
 Source: HKMA staff estimates.

Conclusion and policy implications

In conclusion, this network analysis identifies three key risk areas: (1) prevalent use of foreign prime brokerage services by hedge funds, which heightens the potential for cross-jurisdictional contagion; (2) higher risks of contagion between North America and Europe; and (3) concentrated exposures among G-SIBs to hedge funds.

These findings carry two key policy implications for financial stability. First, stronger international co-operation is needed to address the regulatory blind spot. While full-scale regulatory data sharing remains constrained by legal or operational barriers, a mechanism to facilitate the sharing of “red flags” should be developed to monitor this contagion risk. Secondly, regulators may consider collecting more frequent and granular information from G-SIBs on counterparties to which they hold sizable exposure. In this regard, the International Data Hub may serve as a platform to facilitate effective global monitoring of such exposure.

3. Domestic economy

3.1 Real activities

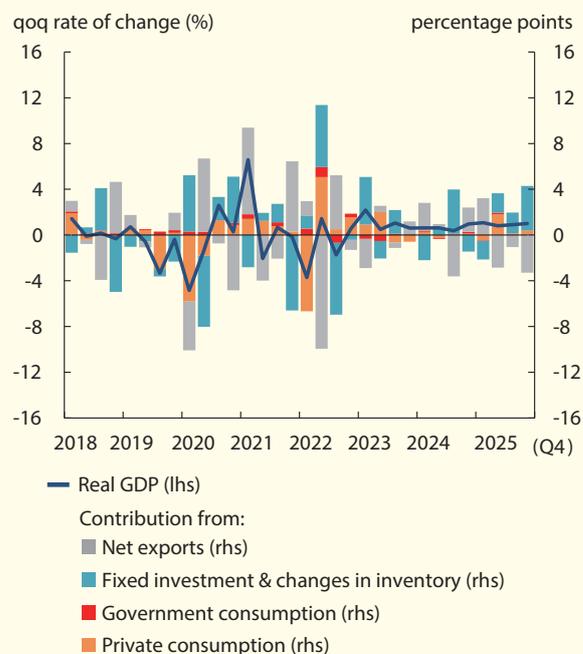
The Hong Kong economy continued to grow at a robust pace in the second half of 2025, with real GDP growing by 3.7% year on year in the third quarter and 3.8% in the fourth quarter (Table 3.A). On a seasonally adjusted quarter-on-quarter basis, real GDP growth edged up to 0.9% in the third quarter, and rose further to 1.0% in the fourth quarter. For the full year 2025, real GDP expanded by 3.5%, marking a notable acceleration from the 2.6% growth recorded in 2024.

Table 3.A
Real GDP growth

		Year-on-year growth rate (%)	Seasonally adjusted quarter-on-quarter growth rate (%)
2024	Q1	+2.9	+0.6
	Q2	+3.0	+0.6
	Q3	+2.1	+0.4
	Q4	+2.5	+1.0
2025	Q1	+3.1	+1.1
	Q2	+3.2	+0.8
	Q3	+3.7	+0.9
	Q4	+3.8	+1.0

Source: Census and Statistics Department (C&SD).

Chart 3.1
Real GDP growth and contribution by major expenditure component



Note: Growth rates are seasonally adjusted.
Sources: C&SD and HKMA staff estimates.

Domestic economy

During the review period, economic growth was supported by robust export expansion and a recovery in domestic demand (Chart 3.1). Externally, goods exports rose significantly on the back of strong demand for tech products amid the ongoing A.I. investment boom (Chart 3.2). Exports of services demonstrated resilience, underpinned by vibrant cross-border financial market activities and steady growth in inbound tourism²⁰. Domestically, private consumption continued to pick up, as consumer confidence improved alongside rising asset prices. Meanwhile, investment spending strengthened notably amid easing trade tensions and improving financial conditions.

Chart 3.2
Export and import volume



Note: The data are seasonally adjusted.
Source: C&SD.

Looking ahead, the Hong Kong economy is expected to expand moderately in 2026. Merchandise exports²¹ are expected to benefit from the ongoing A.I. investment boom, and the China-US trade truce. Meanwhile, inbound tourism is poised for steady growth, driven by the continued hosting of mega events and the Government's various initiatives to revitalise the tourism sector. These developments, along with strong financial market activities, are likely to further strengthen services exports. Domestic demand is also expected to pick up. Specifically, private investment²² is likely to gain momentum amid improved business sentiment following the China-US trade truce, while private consumption may stabilise further as increased asset prices may help boost consumer sentiment.

For 2026 as a whole, the Government projects real GDP growth in the range of 2.5% to 3.5%²³. However, this growth outlook is subject to various risks and uncertainties as discussed in the previous chapters, particularly those related to the ongoing geopolitical tensions, the sustainability of the A.I. investment boom, evolving global trade policies and the US policy rate path. Specifically, the direct impact of the energy shock triggered by the military conflict in the Middle East is expected to be manageable, given Hong Kong's service-oriented nature, low oil-intensity structure, and relatively low weight of energy components in the consumer price index basket. However, the ultimate impact hinges on the duration and scope of the conflict. A prolonged conflict could heighten financial market volatility and potentially disrupt global growth and trade, posing headwinds to the Hong Kong economy.

²⁰ Visitor arrivals into Hong Kong reached 49.9 million persons in 2025, equivalent to 89% of the 2019 level.

²¹ For the first two months of 2026 combined, the value of merchandise exports increased by 29.6% year on year.

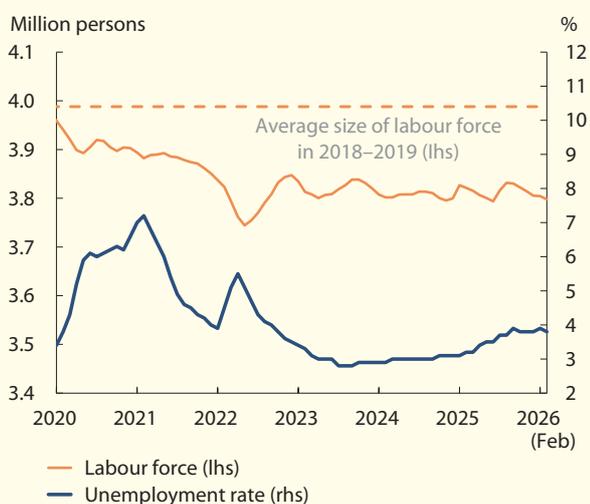
²² The Purchasing Managers' Index has remained in the expansionary zone (above 50) for seven consecutive months since August 2025.

²³ The latest private-sector analysts' consensus forecast on Hong Kong's real GDP growth for 2026 averaged at 2.8%.

3.2 Labour market conditions

The labour market remained relatively soft, with the unemployment rate holding steady at 3.8–3.9% since September 2025, up from the range of 3.1–3.2% in early 2025. The size of the labour force remained below its pre-pandemic level and has declined marginally from its recent peak in August 2025 (Chart 3.3). Notably, the LFPR has declined in recent years, particularly among the youth. Box 3 examines the potential drivers behind this trend. Looking ahead, labour demand is expected to remain broadly stable. However, structural shifts in the economy may continue to pose challenges for certain sectors. The Government will continue to strengthen Hong Kong’s talent pool through a range of initiatives to support ongoing economic transformation and address labour shortages in targeted industries.

Chart 3.3
Labour market conditions



Note: The unemployment rate is seasonally adjusted.
Source: C&SD.

3.3 Inflation

Consumer price inflation has remained modest over the past few months. On a year-on-year basis, the underlying composite consumer price index rose by approximately 1.0% in the third quarter and 1.1% in the fourth quarter of 2025, and by 1.3% in the first two months of 2026²⁴ (Chart 3.4). Looking ahead, the increase in housing rentals in previous quarters will gradually feed through to inflation, while the energy shock triggered by the military conflict in the Middle East could pose upward pressure on import prices. However, overall inflation is expected to remain contained, as energy components account for a relatively small share of the consumer price index basket, while other domestic cost pressures are anticipated to remain mild, supporting a stable inflation outlook. The Government projects the underlying and headline inflation rates to be 1.7% and 1.8%, respectively in 2026²⁵.

Chart 3.4
Underlying consumer price inflation and its drivers



Sources: C&SD and HKMA staff estimates.

²⁴ Data for the first two months are averaged to remove the year-on-year change fluctuation due to the different timing of the Chinese New Year.

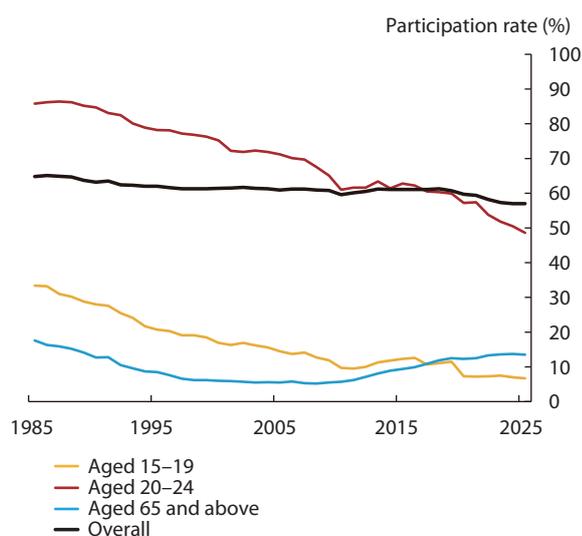
²⁵ The market consensus forecasts for the headline inflation rate for 2026 is 1.7%.

Box 3 Understanding the evolution of youth labour force participation rate in Hong Kong

Introduction

The LFPR, defined as the proportion of the working-age population who are either employed or actively seeking employment, is a key indicator for tracking the labour market conditions from a supply-side perspective. In Hong Kong, despite occasional short-term fluctuations, the overall LFPR²⁶ has generally shown a downward trend over the past four decades, with the decline accelerating in recent years (Chart B3.1).

Chart B3.1
Overall LFPR and LFPRs among selected age groups in Hong Kong



Source: C&SD.

This long-term decline reflects primarily local structural demographic changes, including population aging and persistently low birth rates. However, a closer examination of the data reveals divergent trends across age groups. The LFPR of the elderly (i.e. aged 65 and above) has bottomed out in the early 2000s and has persistently increased since 2008, contributing positively to

²⁶ Refers to the LFPR including foreign domestic helpers. The trend remains consistent with that of the LFPR excluding foreign domestic helpers at both aggregate and disaggregate levels.

the overall LFPR. In contrast, the LFPRs among the youth aged 15–19 and 20–24 have dropped significantly. Between 1985 and 2005, participation among those aged 15–19 and 20–24 declined by 18.9 percentage points (ppts) and 14.6 ppts, respectively. Over the subsequent two decades, from 2005 to 2025, these declines continued, with further reduction of 7.8 ppts and 22.6 ppts, bringing the LFPR for these age groups to 6.7% and 48.6% respectively by 2025. Notably, the decline in the 20–24 age group has accelerated in recent years. This downward trend in youth LFPR is not unique to Hong Kong, as similar trends have also been observed in other economies, such as Singapore and South Korea.

This box explores the potential factors underlying the decline in youth LFPR²⁷ in Hong Kong using a cohort-based model developed by Fallick and Pingle (2007)²⁸. As detailed in the next section, the model breaks down the evolution of age-specific LFPR into effects from observed time-varying determinants and other unobserved influences captured by age and cohort effects. This approach enables a clear understanding of life-cycle labour force behaviour and how participation patterns have shifted across generations and over time.

Methodology and data

The cohort-based model captures age effects by assuming that an individual's propensity to participate in the labour force varies systematically across the life cycle. Participation tends to be higher during prime working ages, while it is relatively lower among younger individuals and those approaching retirement. Apart from age effects, the model also assumes

²⁷ Since most individuals aged 15–19 are engaged in education, this study focuses on youth aged 20–24.

²⁸ For details, please see Fallick, B., & Pingle, J. F. (2007). A cohort-based model of labor force participation. *Finance and Economics Discussion Series*, Board of Governors of the Federal Reserve System.

the existence of cohort effects, which capture unobserved factors influencing the propensity to participate among individuals in the same birth cohort. For example, men born in 1976 may on average exhibit a higher likelihood to work than those born in 2004. Beyond age and cohort effects, three additional time-varying factors are included in our model as independent variables to capture the following effects: business cycle²⁹, educational attainment³⁰ and fertility³¹.

Following Balleer et al. (2009)³², we use the log odds of LFPR as the dependent variable. This measure captures the relative likelihood of labour force participation versus non-participation, and allows meaningful comparison of the estimated results across different age and gender groups on a consistent scale.

The demographic data are obtained from the General Household Survey and the Demographic Statistics Section of the C&SD. Given the constraints on degrees of freedom and the focus of this study on younger generations, the model covers only cohorts born between 1976 and 2004. These groups correspond to seven five-year age groups, covering individuals aged 15 to 49.

Model estimation

Following the literature, we estimate the model using the seemingly unrelated regression (SUR) approach³³. The main empirical results are presented in Chart B3.2. Panel A shows an inverted U-shaped relationship between age and LFPR, with notable differences by gender. For males, LFPR remains relatively high after the age of 20. In contrast, female LFPR peaks at the age of 30–34 and declines notably thereafter, stabilising from the age of 40 onward.

Panel B displays the cohort effects, which show a persistent decline in the propensity to participate in the labour force across successive birth cohorts for both males and females. This suggests that younger generations are increasingly less willing to enter or remain in the labour market. According to the literature, this shift can be attributed to factors such as evolving social norms, changing cultural attitudes toward work, and increasing household wealth.

Panel C highlights the significant negative impact of educational attainment on youth LFPR, suggesting that higher educational attainment significantly drags down the likelihood of youth entering the labour force, except for females aged 25–29. The adverse effect of educational attainment on the odds of LFPR is notably more pronounced among males. Our findings align with the C&SD's survey results, which indicate a substantial increase in the share of youth aged 20–24 enrolled in full-time education in recent years. In tandem, among youth in the same age group who are not in full-time education, LFPR has remained high. This suggests that factors other than pursuing education have had a relatively limited influence on youth labour force participation.

²⁹ The business cycle is measured by the contemporaneous value and the two lags of the output gap. In particular, the output gap is estimated by the HKMA based on four methods, namely (1) the production function approach; (2) the Hodrick-Prescott filter; (3) the Kalman filter; and (4) the IMF multivariate filter. For details, refer to Cheng, M., L. Chung and I. Yu (2011), "On the Estimation of the Output Gap of Hong Kong", *HKMA Occasional Paper* 03/2011.

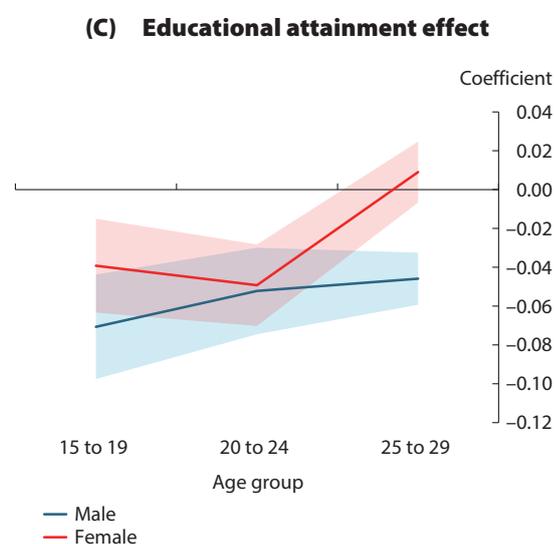
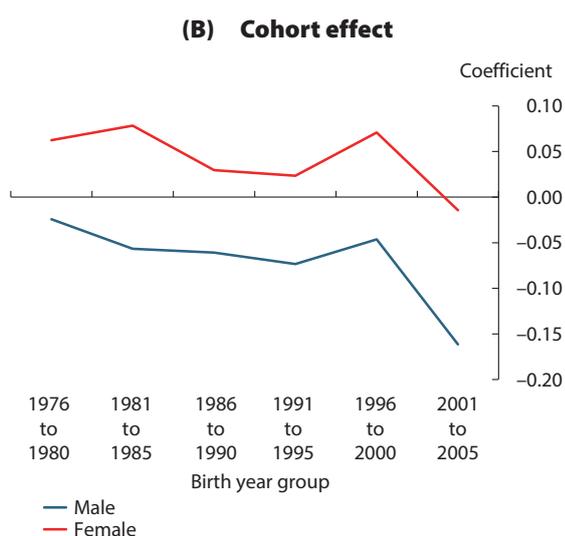
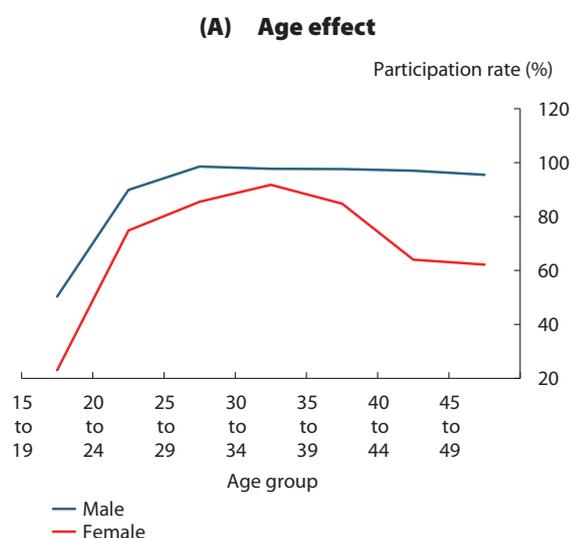
³⁰ Educational attainment is represented by the share of employed individuals aged 25 and above who have ever attained a post-secondary degree. This variable is only included in the equations for the three youngest age groups (i.e. 15–19, 20–24 and 25–29).

³¹ Fertility is captured by the total fertility rate, and is included only in the equations for females aged 20 to 39, the ages during which fertility is most likely to occur.

³² For details, see Balleer, A., Gómez-Salvador, R., & Turunen, J. (2009). Labour force participation in the euro area: a cohort based analysis (No. 1049). *ECB Working Paper*.

³³ In particular, we use the SUR approach to estimate the system of equations for seven age groups simultaneously, with separate models for males and females. The cohort effect is constrained to be identical across age groups within each generation.

Chart B3.2
Estimated effects for age, cohort and educational attainment



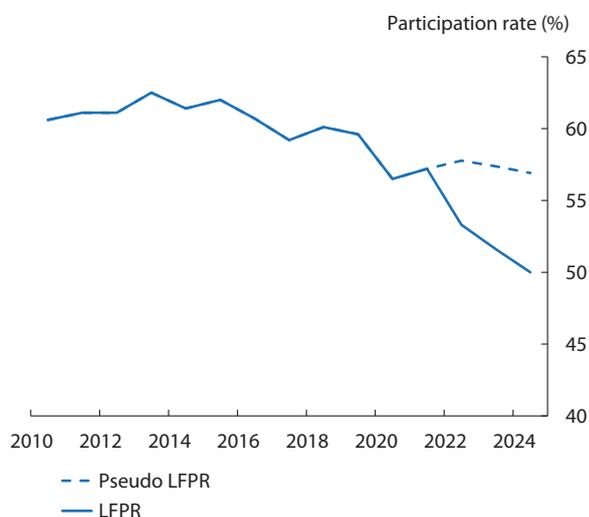
Sources: C&SD and HKMA staff estimates.

Counterfactual analysis on educational attainment

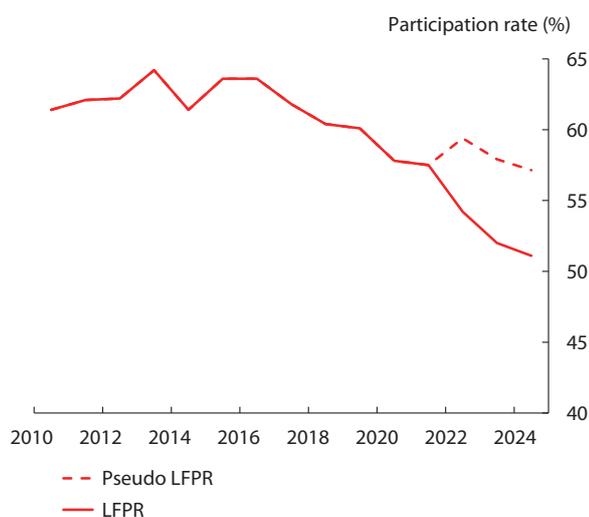
Building on the above findings, we conduct a counterfactual analysis to estimate the potential youth LFPR under a scenario in which educational attainment is held constant at its 2010–2021 average for the period 2022 and beyond. The results suggest that the LFPR among youth aged 20–24 during 2022–2024 would have been, on average, 5.7 percentage points higher for both males and females (Chart B3.3). This implies that rising educational attainment has been a key factor contributing to the observed decline in youth LFPR in recent years. Since full-time students are less likely to be employed or actively seeking work, pursuing higher education often postpones labour force entry. As a result, increasing educational attainment arithmetically leads to a decline in LFPR.

Chart B3.3
Counterfactual analysis on youth LFPR

(A) Male



(B) Female



Sources: C&SD and HKMA staff estimates.

The upward trend in youth pursuing higher education can be attributed to two factors. First, a shrinking youth population resulting from declining birth rates, combined with the increased availability of post-secondary education programmes, has increased access to higher education. Secondly, the growing propensity of youth to pursue higher education may reflect rising labour market demand for higher-skilled workers, and a shift in youth's career preferences toward higher-skilled and knowledge-intensive occupations.

Concluding remarks

To conclude, our analysis shows that an increasing share of young people remaining in or returning to education has been a key driver behind the recent decline in the LFPR among those aged 20–24. Looking ahead, while prolonged years in education may weigh on youth LFPR, the human capital accumulated through enhanced education should help improve local productivity, foster sustained economic growth, and support Hong Kong's ongoing transition towards a knowledge-based economy. In parallel, the Government's various talent admission and development programmes introduced in recent years could help strengthen the workforce and address skilled labour shortages in targeted industries. Yet, due to the limited number of available control variables, our model may not fully capture all factors influencing labour force participation. Nevertheless, a series of robustness checks and the evidence from the C&SD's surveys consistently reinforce the main findings of this study. Separately, given the rapid pace of technological advancement, the impact of A.I. on labour market also warrants close monitoring.

4. Monetary and financial conditions

4.1 Exchange rate and capital flows

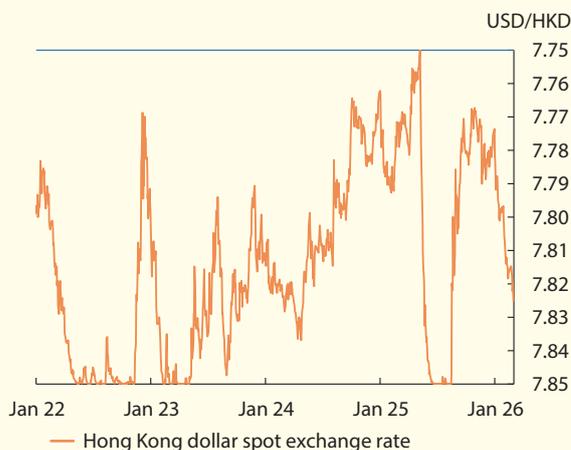
The Hong Kong dollar (HKD) traded within a range between 7.7673 and 7.8251 during the review period (Chart 4.1), with the movements primarily driven by HKD interbank rates and equity-related demand. It initially traded on the strong side of the Convertibility Zone, before shifting to the weaker side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

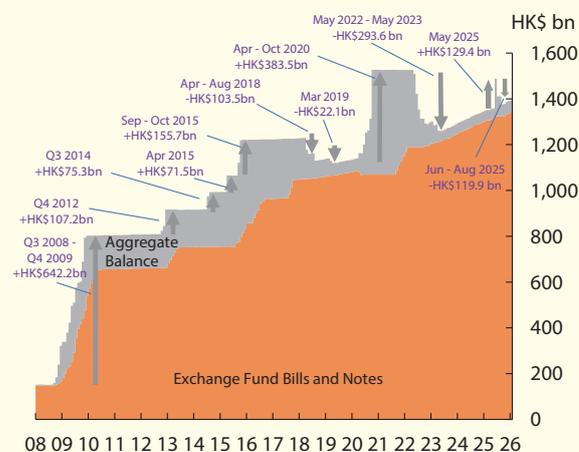
Looking ahead, heightened geopolitical risks and the military conflict in the Middle East, uncertainty over the US trade policy and concerns about the sustainability of the A.I. boom may increase the volatility of fund flows. However, Hong Kong's ample foreign reserves and resilient financial system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

Chart 4.1
Hong Kong dollar exchange rate



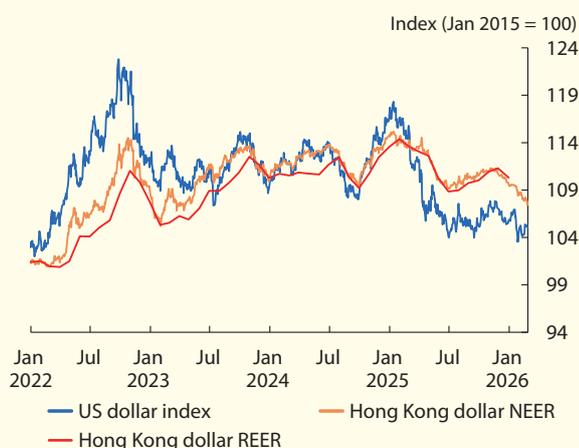
Source: HKMA.

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

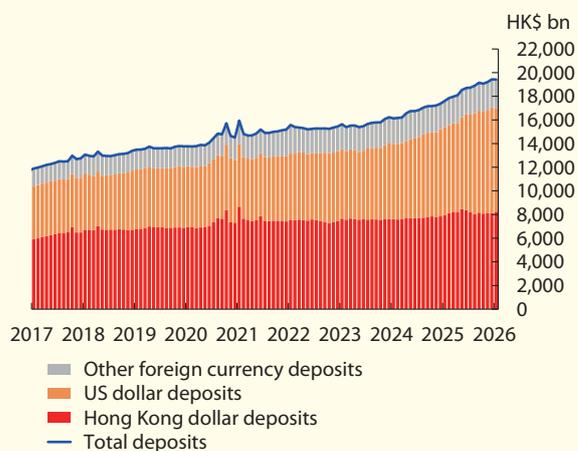
Hong Kong’s monetary environment stayed accommodative during the review period. The HKD Monetary Base remained sizeable and broadly stable at HK\$2,071.6 billion as of end-February 2026.

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 counterparts³⁴ while shorter-tenor rates are

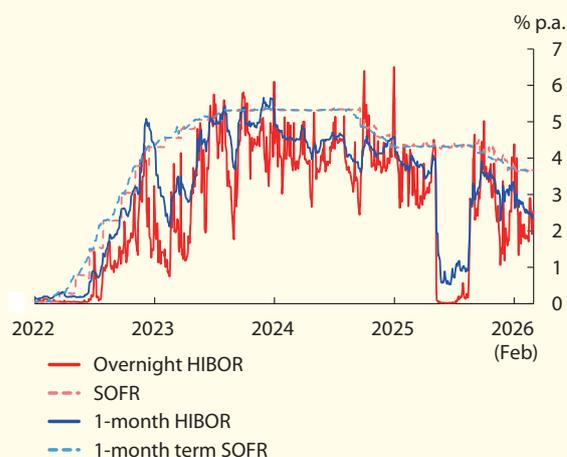
also influenced by local supply of and demand for HKD funding. Short-term Hong Kong Interbank Offered Rates (HIBORs) rose in September 2025, partly reflecting corporate funding needs ahead of quarter-end. They then eased in October and November as equity-related demand cooled. Short-term HIBORs firmed 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.

³⁴ 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.

Monetary and financial conditions

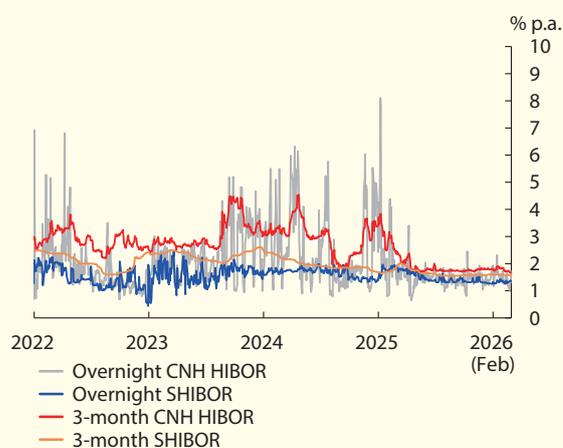
On the retail front, with three consecutive 25-basis points cuts in US policy rate (September, October and December 2025), many banks reduced their Best Lending Rates twice, by a total of 25.0 basis points between September and November 2025. By the end of the review period, the Best Lending Rates in 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.³⁵ 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



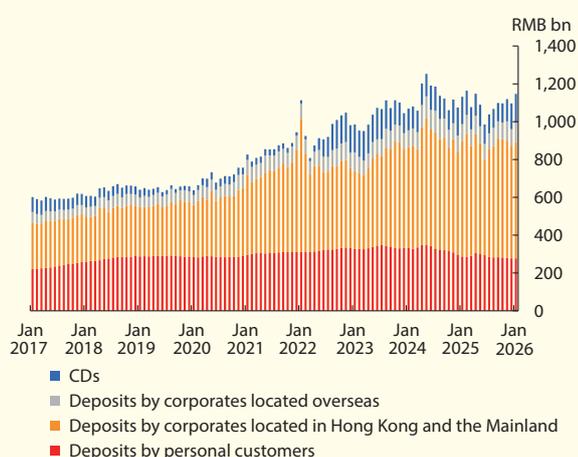
Sources: CEIC and Treasury Markets Association.

³⁵ 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.

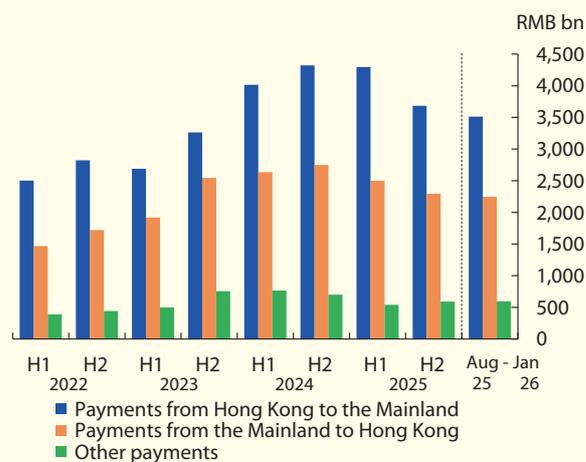
Table 4.A
Offshore renminbi banking statistics

	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
	2024	2025
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 2026³⁶.

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 services³⁷ 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 2025³⁸, 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.

³⁶ 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/>).

³⁷ 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.

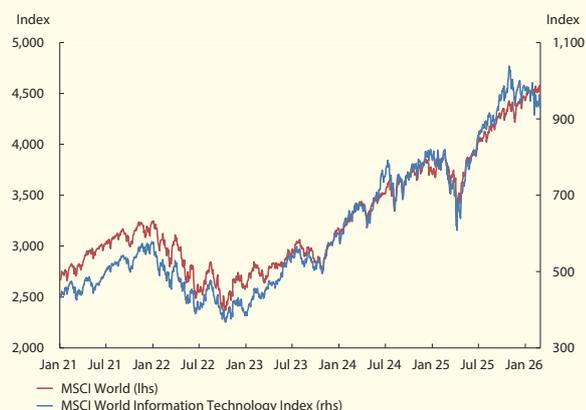
³⁸ In October 2025, the Exchange Fund managed by the HKMA established CMU OmniClear Holdings Limited with the intention to wholly own CMU OmniClear Limited (CMU OmniClear), which was established in 2024 to carry out the operations and business development activities of Hong Kong's central securities 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.

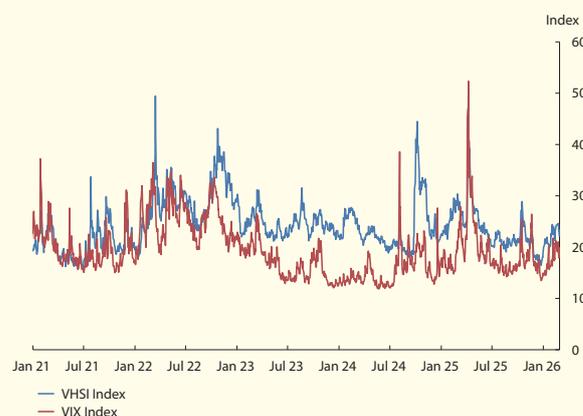
Chart 4.10
The Hang Seng Index



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)

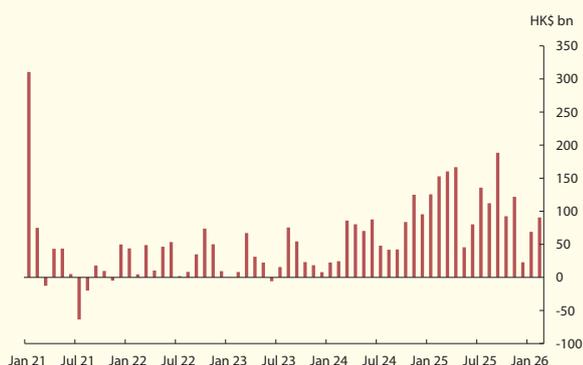


Source: Bloomberg.

Monetary and financial conditions

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).

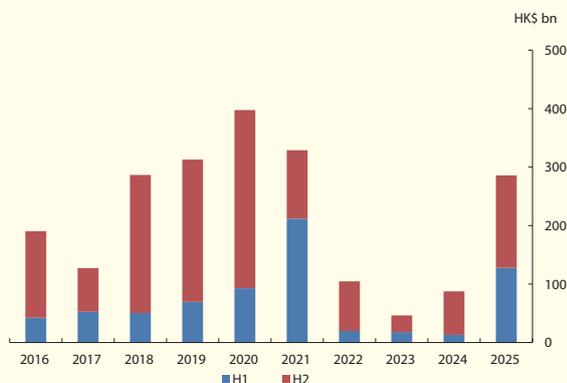
Chart 4.12
Net buying through Southbound Stock Connect over time



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 market³⁹

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.

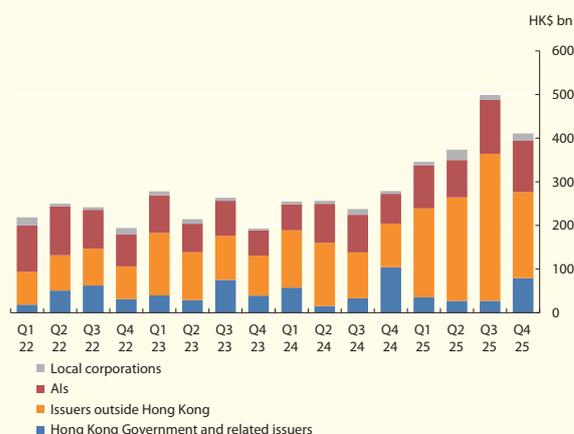
Chart 4.14
Yields of 10-year US Treasury Notes, 10-year HKD HKSAR Government Bond, and HKD corporate bonds



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



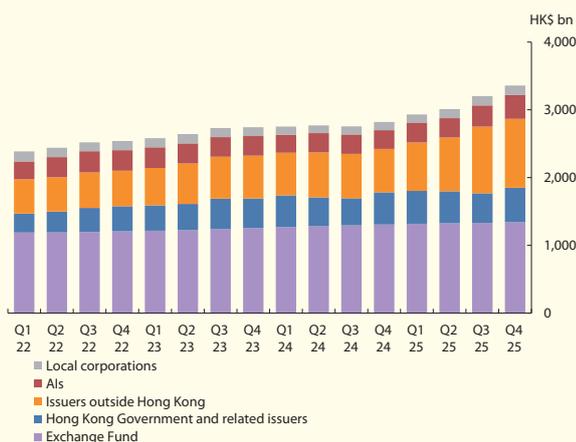
Notes: 1. Issuers outside Hong Kong include, among others, entities such as multilateral development banks, corporate and government issuers outside Hong Kong. 2. Hong Kong Government and related issuers refer to the Government of the HKSAR, statutory bodies and government-owned corporations in Hong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

³⁹ 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.

Monetary and financial conditions

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

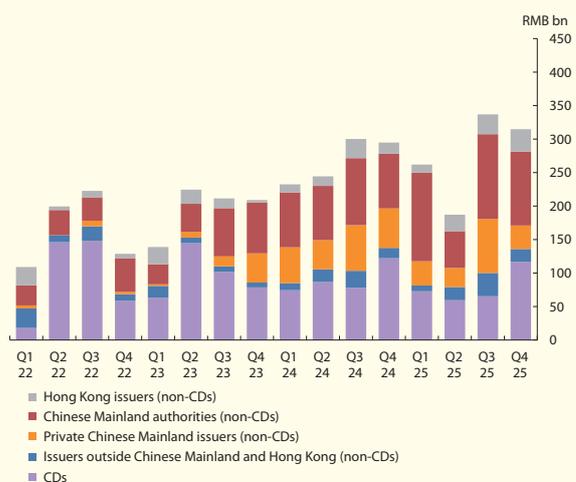


Notes: 1. Issuers outside Hong Kong include, among others, entities such as multilateral development banks, corporate and government issuers outside Hong Kong. 2. Hong Kong Government and related issuers refer to the Government of the HKSAR, statutory bodies and government-owned corporations in Hong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

Monetary and financial conditions

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.

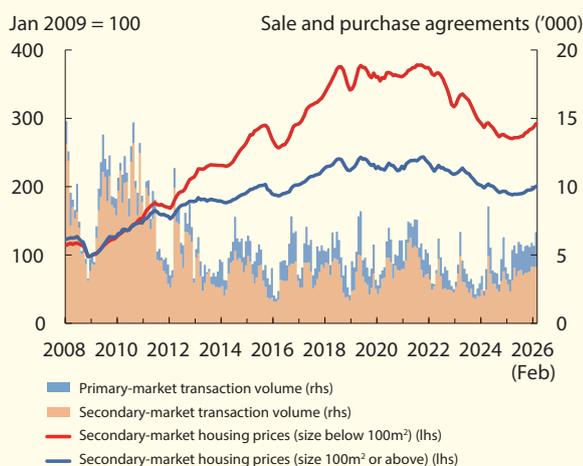
To further facilitate green and sustainable capital flow and support the region's transition to a low carbon economy, the HKMA published the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy) Phase 2A on 22 January 2026. Building on the foundational framework established in Phase 1 of the 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 100m²) and large flats (with a saleable area of 100m² 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)⁴⁰. 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.

⁴⁰ The price-to-income ratio measures the average price of a typical 50m² flat relative to the median income of households living in private housing. The income-gearing ratio compares mortgage payment for a typical 50m² 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



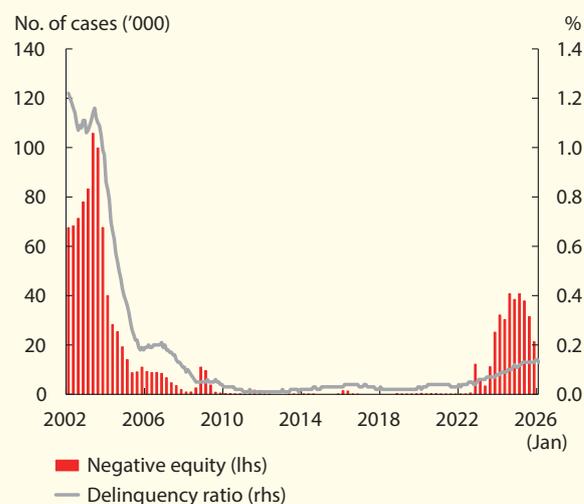
Source: R&VD.

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 2026⁴¹, 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.

⁴¹ 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 borrowers⁴².

Chart 4.21
Negative equity and mortgage delinquency ratio



Source: HKMA.

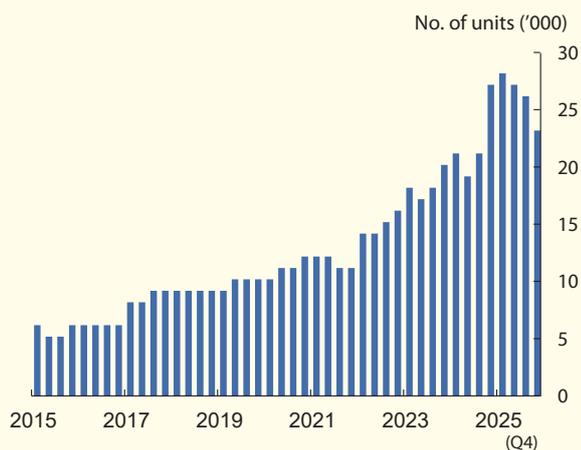
The HKMA continues to monitor market development closely and implement supervisory requirements on RMLs as appropriate to safeguard banking stability. In January 2026, the average LTV ratio and the debt service ratio (DSR) for newly approved mortgages remained steady at around 61% and 39%. The HKMA considers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

⁴² 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 market⁴³ (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 years⁴⁴.

Chart 4.22
Unsold units in completed projects

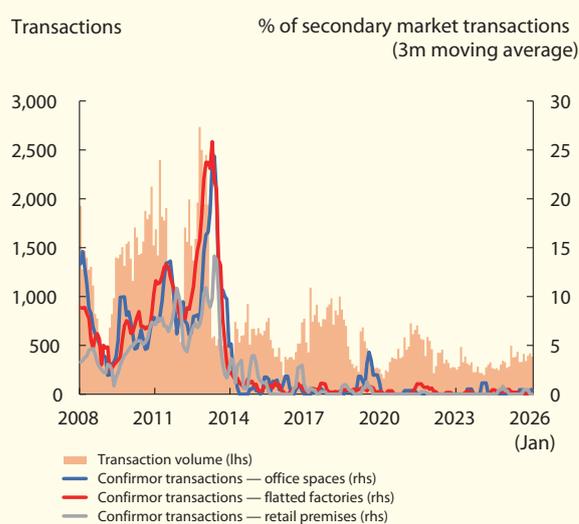


Source: Housing Bureau.

Commercial real estate (CRE) market⁴⁵

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



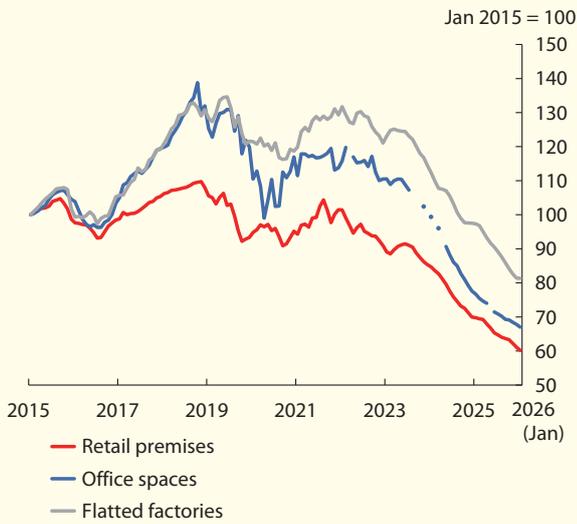
Sources: R&VD and Centaline Property Agency Limited.

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

⁴⁴ 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.

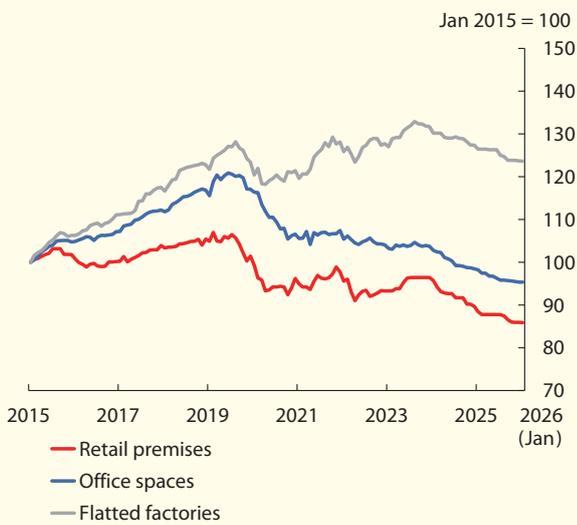
⁴⁵ CRE refers to office spaces, retail premises and flatted factories.

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 offices⁴⁶, 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^{47, 48}.

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

⁴⁷ 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.

⁴⁸ 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.

5. Banking sector performance

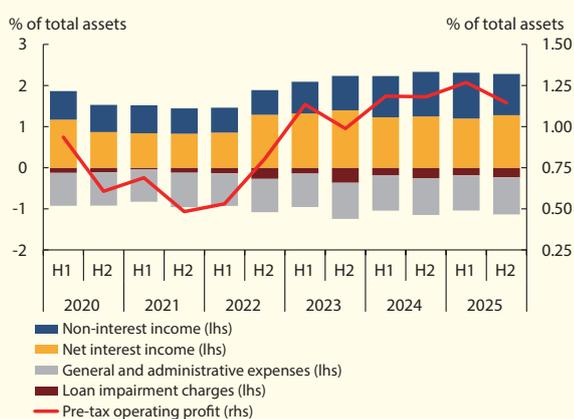
5.1 Profitability

Profitability

The aggregate pre-tax operating profit of retail banks⁴⁹ 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.

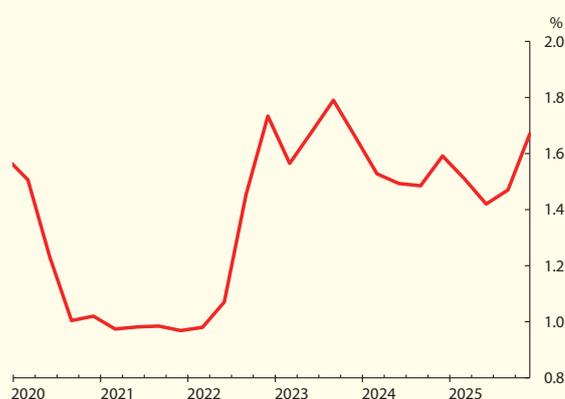
Chart 5.1
Profitability of retail banks



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 eased⁵⁰. 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).

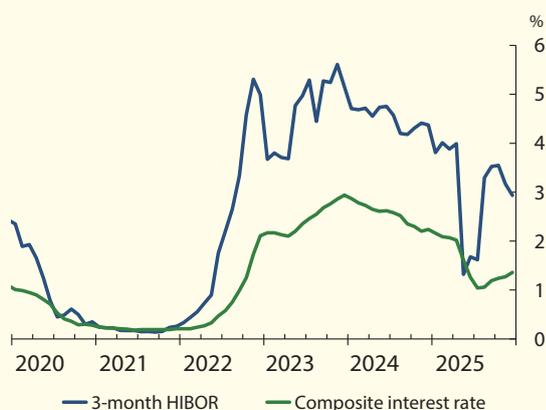
⁴⁹ Throughout this chapter, figures for the banking sector relate to Hong Kong offices only, unless otherwise stated.

⁵⁰ For details, see section 4.2.

Banking sector performance

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



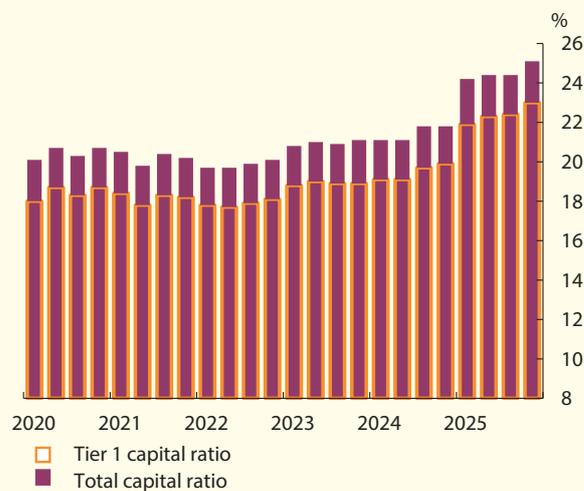
Note: End-of-period figures.
Sources: HKMA and staff estimates.

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%⁵¹. 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.

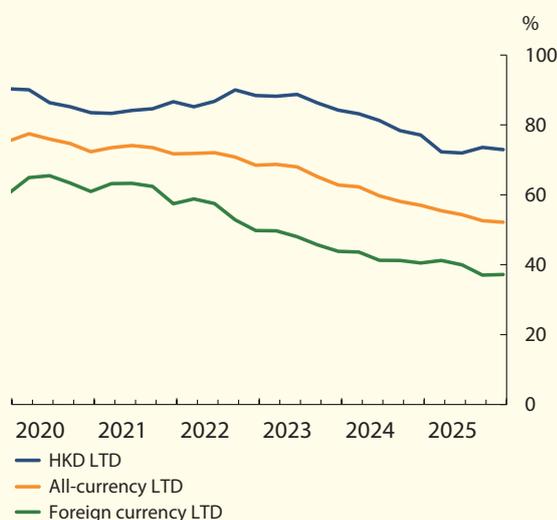
⁵¹ The Tier 1 capital ratio and the Common Equity Tier 1 (CET1) capital ratio were 23.0% and 20.7% respectively.

Banking sector performance

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.

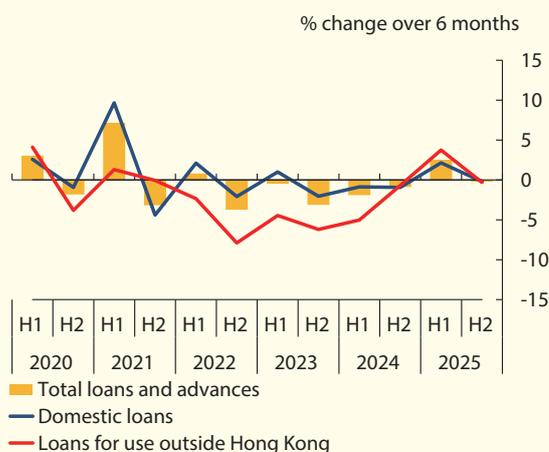
5.3 Credit risk

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.

Banking sector performance

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

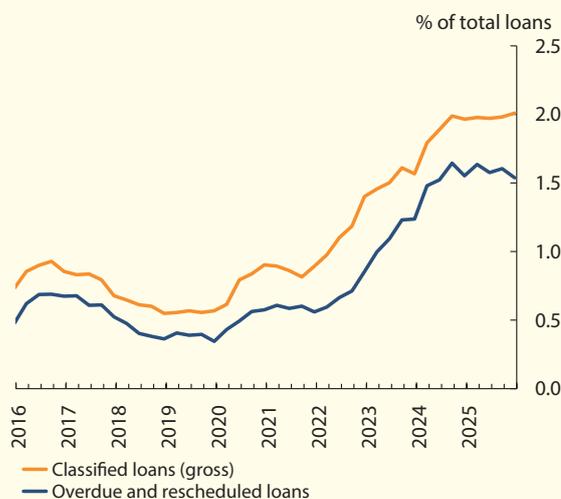
% of total respondents	Jun 2025	Sep 2025	Dec 2025
Considerably higher	0	0	0
Somewhat higher	17	19	26
Same	70	74	71
Somewhat lower	13	6	3
Considerably lower	0	0	0
Total	100	100	100

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 manageable⁵². 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 exposure⁵³

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.

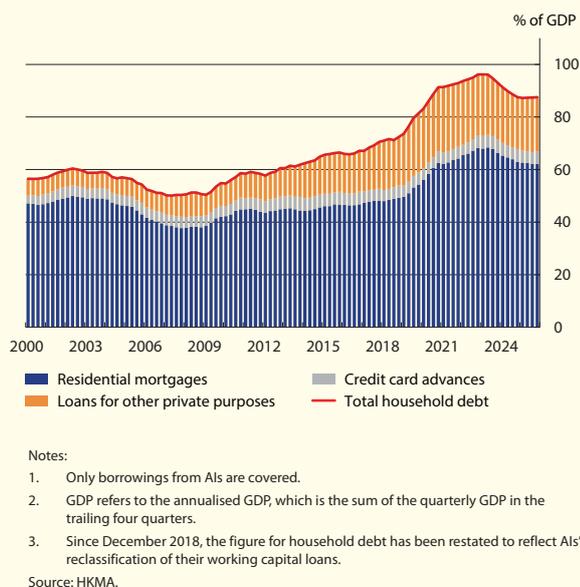
⁵² For details, see the inSight article "Credit risk management of commercial real estate exposures" issued on 13 August 2025 (<https://www.hkma.gov.hk/eng/news-and-media/insight/2025/08/20250813/>).

⁵³ 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.

Banking sector performance

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

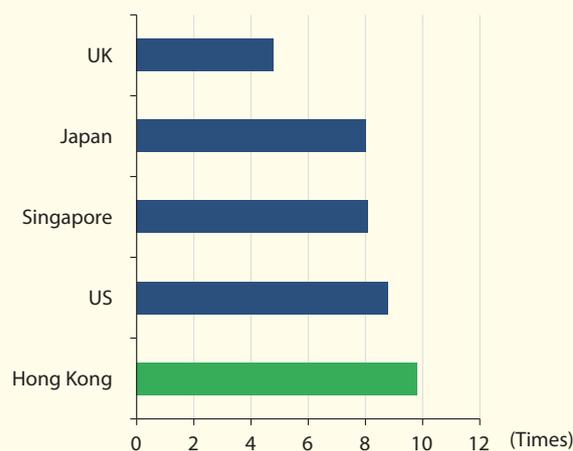


When interpreting the household debt-to-GDP ratio, it is important to take into account that the denominator of the ratio uses nominal GDP as a proxy for household income for ease of comparison across economies. Therefore, the household debt-to-GDP ratio does not reflect the actual debt servicing burden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

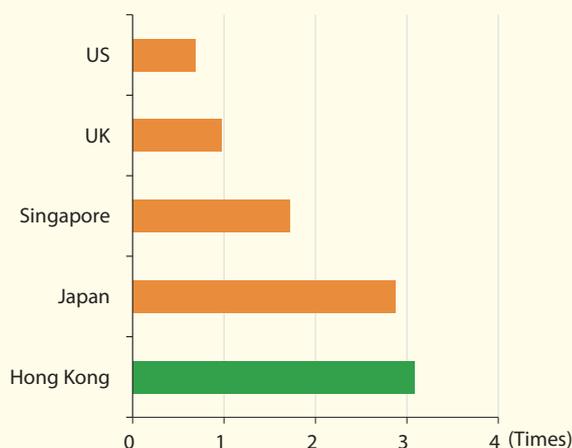
Chart 5.9
Household net worth-to-liabilities ratio for selected economies



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.

Banking sector performance

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

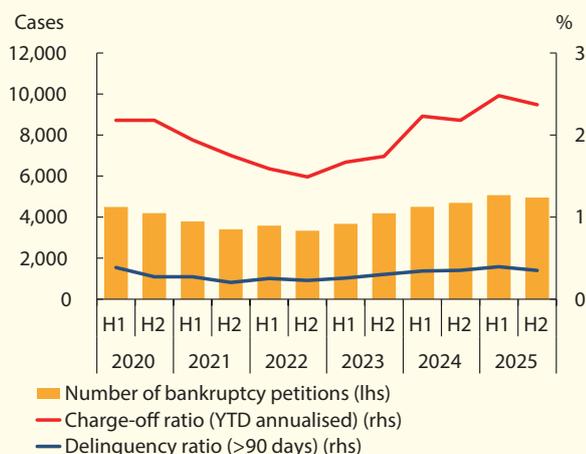


Note: Safe assets comprise deposits, as well as currencies if data is available. In the case of Hong Kong, safe assets refer to deposits only. Figures for Singapore and the US refer to end-2025 while figures for other economies (including Hong Kong) refer to end-2024.

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

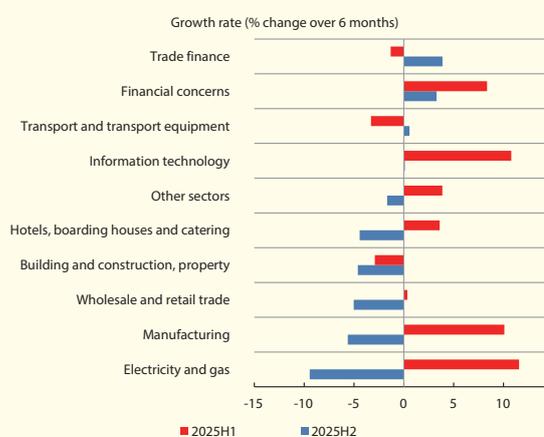


Sources: Official Receiver's Office and HKMA.

Corporate exposure⁵⁴

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.

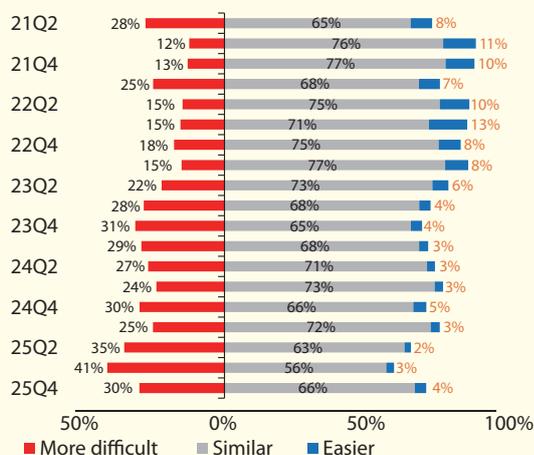
The demand-side survey on the credit conditions of SMEs showed that SMEs' credit conditions remained broadly stable. In the fourth quarter of 2025, the share of respondents perceiving more difficult credit approval dropped to 30% from 41% in the previous quarter (Chart 5.13).

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.

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

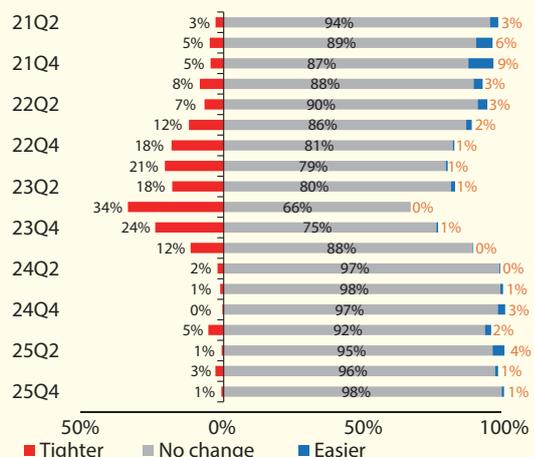
Banking sector performance

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 2025⁵⁵. 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.

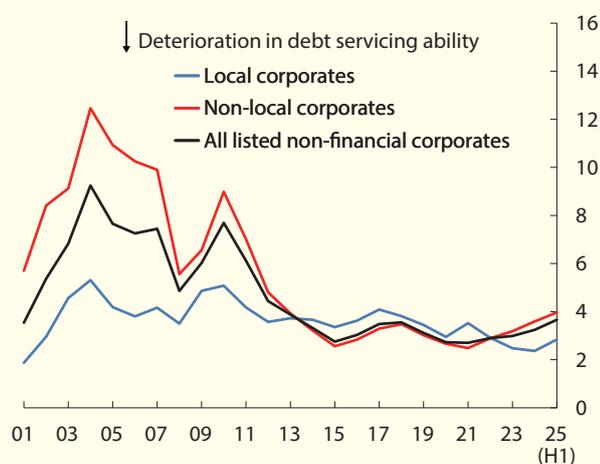
More sufficient and timely financial data can facilitate SMEs in obtaining bank credit. As part of the HKMA's "Fintech 2025" initiatives, the Commercial Data Interchange (CDI) — launched in October 2022 — enables more secure, efficient, and scalable data sharing. Box 4 finds empirical evidence that CDI 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).

⁵⁵ 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/>).

Banking sector performance

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

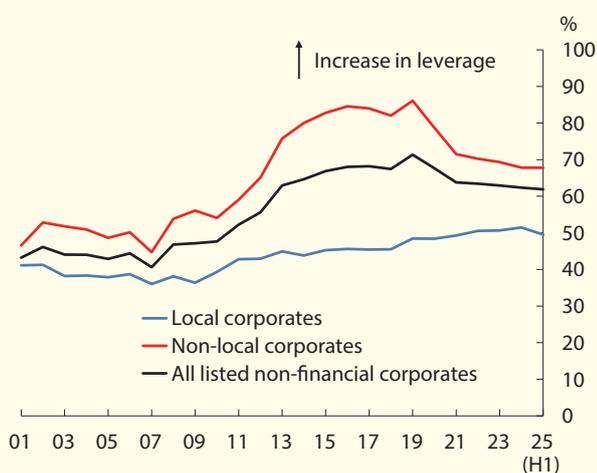


Notes:

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 AIs⁵⁶ 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 risk⁵⁷

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 shocks⁵⁸ 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).

⁵⁶ Figures cover AIs' Hong Kong offices and Mainland branches and subsidiaries.

⁵⁷ 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.

⁵⁸ 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.

Banking sector performance

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 distributions¹

Scenario	Estimated credit loss (% of the loan portfolio)	
	Mean	VaR at 99% CL
Baseline ²	0.66	1.75
Stressed scenarios³		
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.

Banking sector performance

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 region⁵⁹, 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%⁶⁰.

⁵⁹ 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.

⁶⁰ 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 CCyB⁶¹. 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 IRC⁶².

In the latest assessment based on the fourth quarter data of 2025 and the Positive Neutral CCyB according to the revised IRC formula⁶³, 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.

⁶¹ 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/bcbn130.htm> for more information.

⁶² 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.

⁶³ 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 Sector¹ (%)

	Dec 2024	Sep 2025	Dec 2025
Interest rates			
1-month HIBOR fixing ² (quarterly average)	4.32	2.07	3.19
3-month HIBOR fixing (quarterly average)	4.34	2.47	3.32
BLR ³ 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 ⁴	2.24	1.19	1.36
All AIs			
Balance sheet developments⁵			
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 ⁶	-0.1	-0.4	+0.2
Loans for use outside Hong Kong ⁷	-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
Asset quality			
As a percentage of total loans ⁸			
Pass loans	95.88	95.85	95.87
Special mention loans	2.15	2.17	2.12
Classified loans ⁹ (gross)	1.96	1.98	2.01
Classified loans (net) ¹⁰	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 ¹¹	2.37	1.99	1.94
Liquidity ratios (consolidated)			
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
Retail banks			
Profitability			
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
Surveyed institutions			
Asset quality			
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
All locally incorporated AIs			
Capital adequacy (consolidated)			
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

Introduction⁶⁴

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 loans⁶⁵. 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 2025⁶⁶. 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 characteristics⁶⁷. 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.

⁶⁴ 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.

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

⁶⁶ 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.

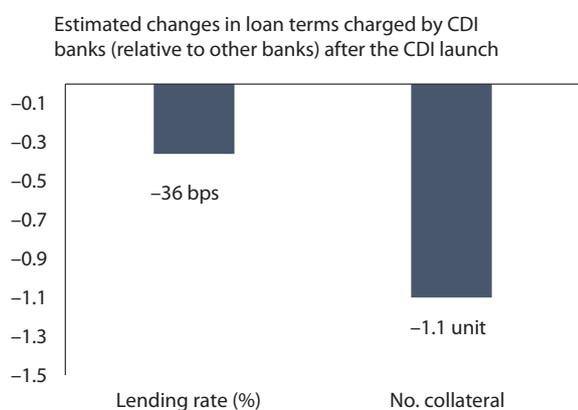
⁶⁷ Relevant bank balance sheet characteristics are controlled for in the analysis, which include the logarithm of bank assets, the deposits-to-assets ratio, the loans-to-assets ratio and the CET1 capital headroom. These variables are selected to reflect bank's size, funding structure, business model, 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?

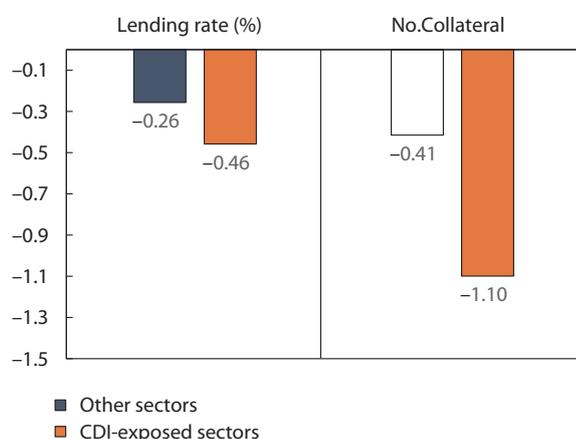
As mentioned, the improvement on loan terms may be attributable to the reduction in information gaps arising from banks' better access to SME borrowers' data. If this information channel is a key driver of the effects of CDI, we would expect the improvement on loan terms to be more significant for borrowers 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

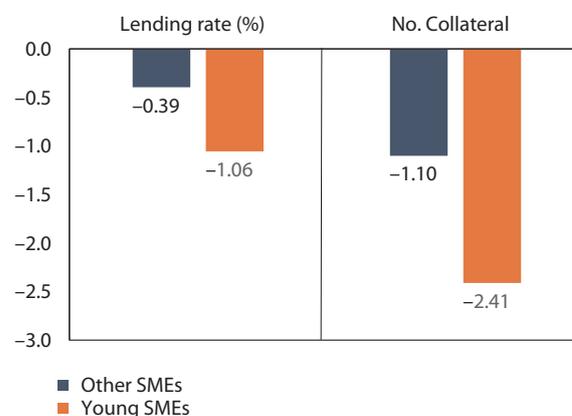


Note: Statistically significant results (at 10% or below levels) are shown in solid colours, while insignificant results are shown in unshaded bars.

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 cases⁶⁸.

Finally, it should be noted that there are various data limitations in our analysis, such as the reliance on a subset of SME loans⁶⁹. Therefore, caution should be exercised when interpreting the findings, especially those concerning the quantitative estimates.

⁶⁸ In April 2025, the HKMA established an Expert Panel on Project Cargo^x 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.

⁶⁹ 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.

Glossary of terms

Aggregate Balance

The sum of balances in the clearing accounts and reserve accounts kept with the central bank. In Hong Kong, this refers to the sum of the balances in the clearing accounts kept with the HKMA. The Aggregate Balance is a part of the Monetary Base.

Authorized Institution (AI)

An institution authorized under the Banking Ordinance to carry on the business of taking deposits. Hong Kong maintains a Three-tier Banking System, which comprises licensed banks, restricted licence banks and deposit-taking companies.

Best Lending Rate

A benchmark interest rate that banks use to price loans. In Hong Kong, the Best Lending Rate is used as a base for quoting interest rates on mortgage loans.

Certificates of Indebtedness (CIs)

Certificates issued by the Financial Secretary under the Exchange Fund Ordinance, to be held by note-issuing banks as cover for the banknotes they issue.

Composite Consumer Price Index

The main consumer price index (CPI) for Hong Kong. The Census and Statistics Department compiles three separate CPI series relating to households in different expenditure ranges. The CPI(A) relates to about 50% of households in the relatively low expenditure range; the CPI(B) relates to the next 30% of households in the medium expenditure range; and the CPI(C) relates to the next 10% of households in the relatively high expenditure range. The Composite CPI is compiled based on the aggregate expenditure pattern of all of the above households taken together.

Composite Interest Rate

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. Data from retail banks, which account for the majority of the Hong Kong dollar deposits in the banking sector, are used in the calculation. It should be noted that the composite interest rate represents only average interest expenses. There are various other costs involved in the making of a loan, such as operating costs (e.g. staff and rental expenses), credit cost and hedging cost, which are not covered by the composite interest rate.

Convertibility Undertaking (CU)

An undertaking by a central bank or Currency Board to convert domestic currency into foreign currency and vice versa at a fixed exchange rate. In Hong Kong, the HKMA operates Convertibility Undertakings on both the strong side and the weak side of the Linked Rate of 7.80. Under the strong-side Convertibility

Undertaking, the HKMA undertakes to buy US dollars from licensed banks at 7.75. Under the weak-side Convertibility Undertaking, the HKMA undertakes to sell US dollars at 7.85. Within the Convertibility Zone between 7.75 and 7.85, the HKMA may choose to conduct market operations consistent with Currency Board principles with the aim of promoting the smooth functioning of the money and foreign exchange markets.

Convertibility Zone

The Hong Kong dollar-US dollar exchange rate band, defined by the levels of the strong- and weak-side Convertibility Undertakings, within which the HKMA may choose to conduct market operations consistent with Currency Board principles.

Exchange Fund Bills and Notes (EFBNs)

Debt instruments issued by the HKMA for the account of the Exchange Fund. These instruments are fully backed by the foreign reserves. The HKMA has undertaken that new Exchange Fund paper will only be issued when there is an inflow of funds, thus enabling the additional paper to be fully backed by the foreign reserves. Since 1 April 1999, interest payments on Exchange Fund paper have been allowed to expand the Monetary Base. Additional Exchange Fund paper is issued to absorb such interest payments. This is consistent with the Currency Board discipline since interest payments on Exchange Fund paper are backed by interest income on the US dollar assets backing the Monetary Base.

Monetary Base

A part of the monetary liabilities of a central bank. The Monetary Base is defined, at the minimum, as the sum of the currency in circulation (banknotes and coins) and the balance of the banking system held with the central bank (the reserve balance or the clearing balance). In Hong Kong, the Monetary Base comprises Certificates of Indebtedness (for backing the banknotes issued by the note-issuing banks), government-issued currency in circulation, the sum of the balances of the clearing accounts kept with the HKMA (the Aggregate Balance), and Exchange Fund Bills and Notes.

Money supply

The total stock of money available in the economy. Hong Kong has three measures of money supply: Money Supply definition 1 (M1) is defined as the sum of legal tender notes and coins held by the public plus customers' demand deposits placed with licensed banks. Money Supply definition 2 (M2) is defined as M1 plus customers' savings and time deposits with licensed banks plus negotiable certificates of deposit (NCDs) issued by licensed banks held outside the banking sector. Money Supply definition 3 (M3) is defined as M2 plus customers' deposits with restricted licence banks and deposit-taking companies plus NCDs issued by these institutions held outside the banking sector.

Nominal and Real Effective Exchange Rate (NEER and REER)

An indicator of the overall exchange rate value of the Hong Kong dollar against a basket of currencies of Hong Kong's principal trading partners. The nominal effective exchange rate (NEER) is a weighted average of the exchange rates between Hong Kong and its principal trading partners. The real effective exchange rate (REER) is obtained by adjusting the NEER for relative movements in the seasonally adjusted consumer price indices of those selected trading partners.

Abbreviations

1m moving average	One-month moving average
3m moving average	Three-month moving average
3m-on-3m	Three-month-on-three-month
3mma	Three-month moving average
AB	Aggregate Balance
AEs	Advanced economies
A.I.	Artificial Intelligence
AIs	Authorized institutions
AMCM	Monetary Authority of Macao
APAC	Asia-Pacific
API	Application Programming Interface
ASEAN	Association of Southeast Asian Nations
AU	Australia
AUD	Australian dollar
AUM	Assets under Management
BAU	Business-as-usual
bn	Billion
BLR	Best Lending Rate
BoJ	Bank of Japan
bps	basis points
CAPEX	Capital expenditure
CAR	Capital Adequacy Ratio
CCPI	Composite Consumer Price Index
CCDC	China Central Depository & Clearing Co., Ltd.
CCyB	Countercyclical capital buffer
CDI	Commercial Data Interchange
CDs	Certificates of deposits
CET1	Common equity tier-one
CEWC	Central Economic Work Conference
CFETS	China Foreign Exchange Trade System
CFR	Core Funding Ratio

CIBM	China Interbank Bond Market
CIs	Certificates of Indebtedness
CL	Confidence Level
CLR	Classified Loan Ratio
CMBS	Commercial mortgage-backed securities
CMU	Central Moneymarkets Unit
CN	Chinese Mainland
CNH	Offshore renminbi in Hong Kong
CNY	Onshore renminbi
COVID	Coronavirus Disease
CPI	Consumer Price Index
CRE	Commercial real estate
C&SD	Census and Statistics Department
CU	Convertibility Undertaking
DaR	Debt-at-risk
DBGS	Digital Bond Grant Scheme
DI	Direct investment
DID	Difference-in-differences
DSR	Debt-servicing ratio
DW	Discount Window
EA	Euro area
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECB	European Central Bank
EFBNs	Exchange Fund Bills and Notes
EM	Emerging-market
EMEs	Emerging Market Economies
EPS	Earnings per share
ETFs	Exchange traded funds
EU	European Union

EUR	Euro
FDI	Foreign direct investment
Fed	Federal Reserve
FIC	Fixed Income and Currency
FOMC	Federal Open Market Committee
FPS	Faster Payment System
FX	Foreign exchange
GBA	Guangdong-Hong Kong-Macao Greater Bay Area (GBA)
GBP	British Pound Sterling
GDP	Gross Domestic Product
GDR	Granular Data Reporting
GEM	Growth Enterprise Market
GFC	Global Financial Crisis
GHG	Greenhouse gases
GICS	Global Industry Classification Standard
GVCs	Global value chains
G-SIBs	Global Systematically Important Banks
HIBOR	Hong Kong Interbank Offered Rate
HK	Hong Kong
HKD	Hong Kong dollar
HKEX	The Hong Kong Exchanges and Clearing Limited
HKFRS	Hong Kong Financial Reporting Standard
HKMA	Hong Kong Monetary Authority
HKMC	Hong Kong Mortgage Corporation Limited
HKPC	Hong Kong Productivity Council
HK\$M3	Hong Kong dollar broad money supply
HKSAR	Hong Kong Special Administrative Region
HS	Harmonized System
HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IBPS	Internet Banking Payment System

ICR	Interest Coverage Ratio
ICSD	International Central Securities Depository
ID	Indonesia
IDR	Indonesian Rupiahs
I/E	Import/Export
IEEPA	International Emergency Economic Powers Act
IFC	International Finance Corporation
IIF	Institute of International Finance
IMF	International Monetary Fund
IPO	Initial Public Offering
IRC	Initial Reference Calculator
IT	Information technology
JP	Japan
JPY	Japanese Yen
KH	Cambodia
KR	South Korea
KRW	South Korean Won
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
LEERS	Linked Exchange Rate System
LFPR	Labour Force Participation Rate
lhs	Left-hand side
LMR	Liquidity Maintenance Ratio
LPR	Loan Prime Rate
LR	Leverage Ratio
LTD	Loan-to-deposit
LTV	Loan-to-value
LWB	Labour and Welfare Bureau
mn	Million
MDBs	Multilateral Development Banks
ML	Machine Learning

MMFs	Money market funds
MVP	Minimum viable product
MIP	Mortgage Insurance Programme
MRF	Mutual Recognition of Funds
MY	Malaysia
MYR	Malaysian ringgit
MSCI	Morgan Stanley Capital International
NASDAQ	National Association of Securities Dealers Automated Quotations
NATO	North Atlantic Treaty Organisation
NBS	National Bureau of Statistics of China
NCD	Negotiable certificate of deposit
NEER	Nominal effective exchange rate
NFCs	Non-financial corporates
NFRA	National Financial Regulatory Administration
NIM	Net interest margin
NLP	Natural language processing
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio
NZ	New Zealand
NZD	New Zealand dollar
OECD	Organisation for Economic Corporation and Development
PH	The Philippines
PHP	Philippine Pesos
OIS	Overnight indexed swap
OTC	Over-the-counter
p.a.	Per annum
P2P	Peer-to-peer
PBoC	People's Bank of China
PD	Probability of default
PH	The Philippines

PMI	Purchasing Managers' Index
POEs	Private-owned enterprises
QFI	Qualified Foreign Investor
qoq	Quarter-on-quarter
qoqa	Quarter-on-quarter annualised
R&VD	Rating and Valuation Department
RBF	RMB Business Facility
REER	Real effective exchange rate
Repo	Repurchase operation
rhs	Right-hand side
RMB	Renminbi
RML	Residential mortgage loan
ROA	Return on assets
ROE	Return on equity
RRR	Required reserve ratio
RTGS	Real Time Gross Settlement
RWA	Risk-weighted assets
SAFE	State Administration of Foreign Exchange
SDR	Special Drawing Rights
SFC	The Securities and Futures Commission
SFGS	SME Financing Guarantee Scheme
SG	Singapore
SGD	Singapore dollar
SHIBOR	Shanghai Interbank Offered Rate
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises
SOFR	Secured Overnight Financing Rate
SPM	Supervisory Policy Manual
STCs	Specialist Technology Companies
SUR	Seemingly Unrelated Regression
S&P 500	Standard & Poor's 500 Index

TFP	Total factor productivity
TH	Thailand
THB	Thai Baht
th	Thousands
tn	trillion
TNA	Total net assets
TWI	Trade Weighted Index
UK	United Kingdom
UNCITRAL	United Nations Commission on International Trade Law
UNeDocs	United Nations electronic Trade Documents
US	United States
USD	US dollar
VAR	Vector Autoregression
VaR	Value-at-risk
VHSI	HSI Volatility Index
VIX	Chicago Board Options Exchange Market Volatility Index
VN	Vietnam
VND	Vietnamese dong
wk	Week
WMP	Wealth management product
yoy	Year-on-year

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