

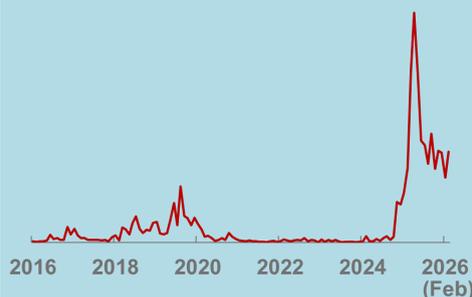


Highlights

External Environment

- While the artificial intelligence boom bolsters the US economy, amid a weak labour market and uncertainties about US inflation and economic outlook, the path of US interest rates remains quite uncertain
- The global economic outlook remains bifurcated, with the artificial intelligence sector performing strongly, while geopolitical tensions, fiscal pressures and US trade policy uncertainty pose downside risks

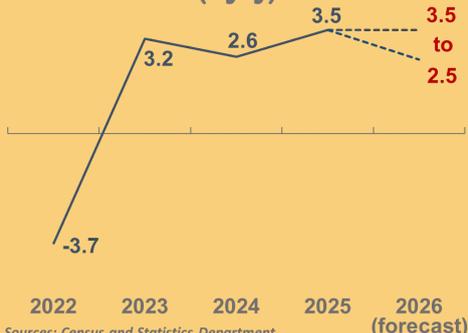
US trade policy uncertainty index



Domestic Economy

- Hong Kong's real GDP expanded solidly in 2H 2025, driven by robust export growth and a recovery in domestic demand
- Hong Kong's economy is expected to grow moderately in 2026, with sustained goods export growth amid ongoing artificial intelligence investment boom, and further strengthening in domestic demand

Hong Kong real GDP growth (%yoy)



Property Markets

- Housing market continued to recover, supported by improving market sentiment, with housing prices further stabilising
- Commercial real estate prices and rents remained under pressure

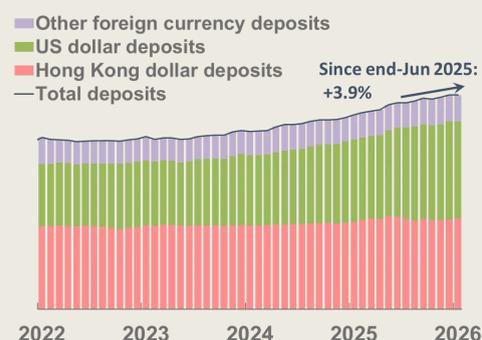
Housing prices and transaction volume



Monetary Environment and Interest Rates

- The US Fed cut its policy rate three times (25 bps each) in 2H 2025. HKD interest rates were also influenced by the local supply and demand of HKD funding
- Total deposits have increased by 3.9% since end-Jun 2025, reflecting investor confidence in Hong Kong

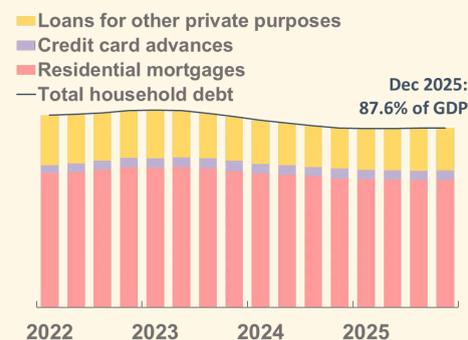
Deposits with authorized institutions by currency (HKD)



Credit Risk - Household Debt

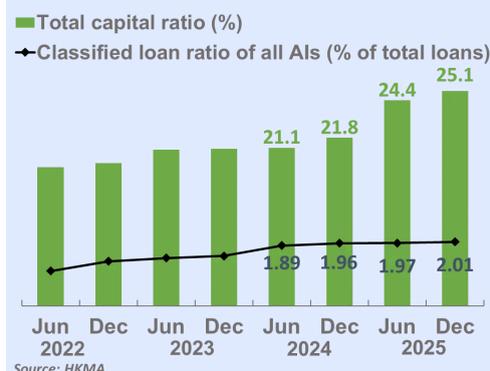
- Hong Kong's households remained financially sound, and the household debt-to-GDP ratio edged up by 0.2 percentage point to 87.6% in 2H 2025

Household debt-to-GDP and its components



Banking Sector Performance

- While the classified loan ratio edged up in 2H 2025, the overall asset quality remained manageable with sufficient bank provisions
 - The banking sector remained resilient and well-capitalised, but it may face challenges from uncertainties over global trade tensions, future US interest rate movements, geopolitical risk, and headwinds in certain local economic sectors
- #### Capital adequacy ratio and asset quality of the Hong Kong banking sector



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