4. Monetary and financial conditions

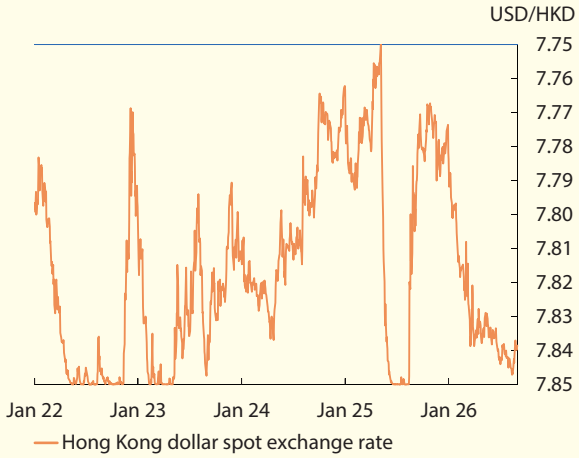
4.1 Exchange rate and capital flows

The Hong Kong dollar (HKD) traded within a range between 7.8080 and 7.8471 during the review period (Chart 4.1). In early March 2026, uncertainty stemming from the Middle East conflict prompted investors to unwind short HKD positions, temporarily driving the HKD stronger. Nonetheless, carry trade activities incentivised by HKD interest rates moving lower than their US dollar (USD) counterparts, subsequently drove the HKD weaker. Market fluctuations were largely driven by flows related to Southbound Stock Connect and other capital market activities.

As the Convertibility Undertakings (CUs) were not triggered during the review period, the Aggregate Balance of the banking system remained largely unchanged at around HK$54.2 billion at the end of August 2026. Day-to-day interbank operations and settlement activities among banks continued to operate in a smooth and orderly manner (Chart 4.2).

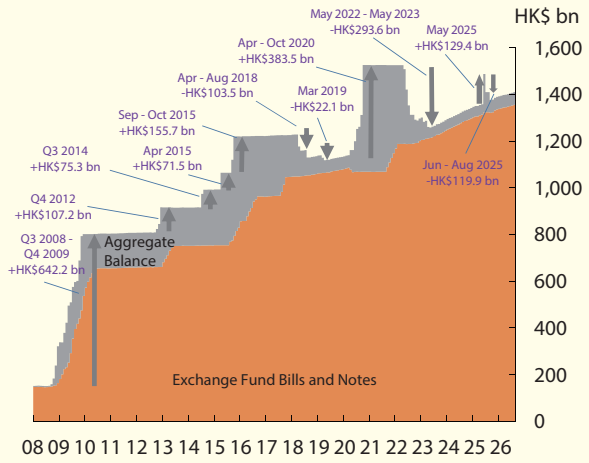
Looking ahead, heightened geopolitical risks, the ongoing military conflict in the Middle East, uncertainty over the US trade policy, and concerns about the sustainability of the A.I. investment boom may increase the volatility of fund flows. However, Hong Kong's ample foreign reserves and resilient 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

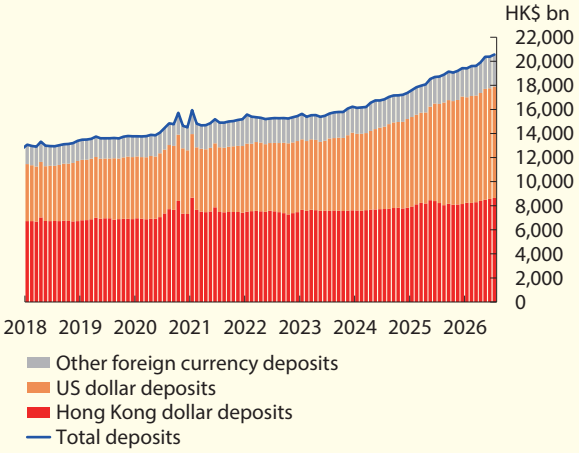
4.2 Monetary environment and interest rates

Hong Kong's monetary environment stayed accommodative during the review period. The HKD Monetary Base remained sizeable and broadly stable at HK$2,080.3 billion as of end-August 2026.

In the first seven months of 2026, total deposits with authorized institutions (AIs) increased by 5.8%. Of this, HKD deposits and foreign currency deposits increased by 6.2% and 5.5% respectively (Chart 4.3). As monetary statistics are subject to volatility from transient factors, such as seasonal funding demand as well as business and investment related activities, it is more appropriate to observe the longer-term trends.

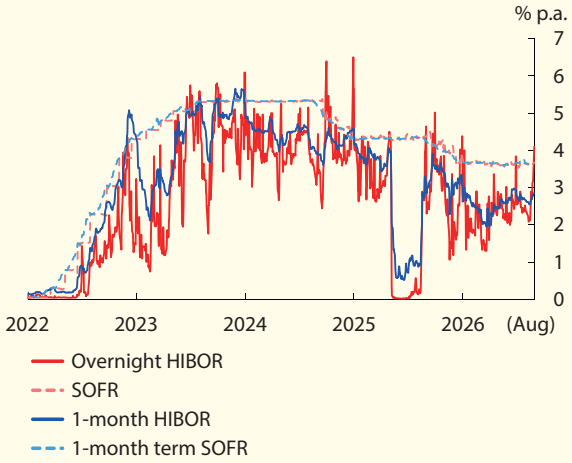
Overall, Hong Kong's interbank market continued to trade in a smooth and orderly manner. In accordance with the expectation and the design of the Linked Exchange Rate System, HKD interbank interest rates generally track their USD counterparts[23] while short-term rates are also influenced by local supply of and demand for HKD funding. Reflecting shifts in seasonal and capital market-related funding demand, short-term Hong Kong Interbank Offered Rates (HIBORs) eased in early March before generally firming thereafter (Chart 4.4).

Chart 4.3
Deposits with authorized institutions (AIs) by currency



Source: HKMA.

Chart 4.4
Hong Kong Interbank Offered Rates (HIBORs) and US dollar Secured Overnight Financing Rates (SOFRs)



Sources: Bloomberg and HKMA.

On the retail front, local banks kept their best lending rates unchanged in the range of 5.00% to 5.50% during the review period, even after the US Federal Reserve's (Fed) rate hike in September 2026. Meanwhile, the average lending rate for new mortgages remained unchanged at 3.26% from January to July 2026. 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, prevailing interest rate levels, and their individual funding cost structures.

The HKMA continues to closely engage with banks, reminding them to properly manage liquidity. This includes maintaining close contact with large clients to understand their HKD funding plans, thereby helping banks to plan effectively and avoid hoarding HKD. The HKMA has also advised banks not to be deterred by the perceived "stigma effect" of tapping into its liquidity facilities; banks should feel free to use the HKMA's various liquidity facilities whenever required.

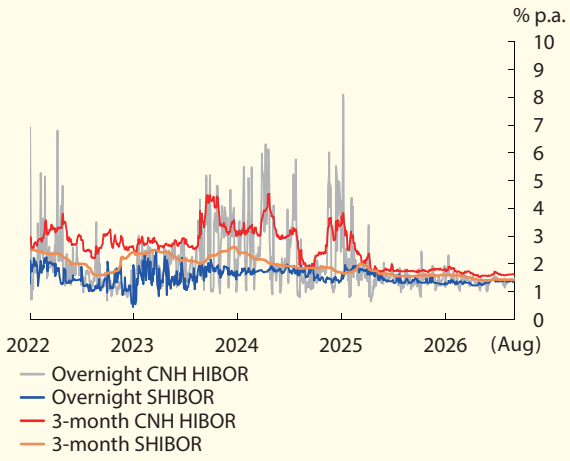
[23] The USD London Interbank Offered Rate (LIBOR) has been discontinued since 1 July 2023 and replaced by the Secured Overnight Financing Rate (SOFR) as its alternative reference rate.

Additionally, improvements in financial infrastructure can enhance the operational efficiency and resilience of the HKD interbank market. Box 2 examines how Fast Interface for New Issuance (FINI) has reduced initial public offering (IPO)-related interbank transfers, dampening the impact of large IPO subscriptions on overnight HIBOR.

Offshore RMB banking business

The offshore renminbi (CNH) interbank market continued to function normally during the review period.[24] The three-month CNH HIBOR has remained below 2% since April 2025. While the overnight CNH HIBOR experienced some fluctuations, it mostly traded below 2% (Chart 4.5). Liquidity conditions in the CNH interbank market remained broadly stable.

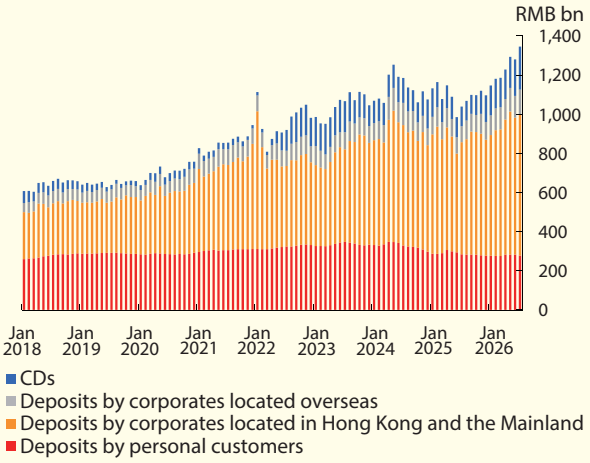
Chart 4.5
Overnight and 3-month offshore renminbi (CNH) HIBOR fixings



Sources: CEIC and Treasury Markets Association.

Hong Kong's CNH liquidity pool expanded during the first seven months of 2026. The total outstanding amount of renminbi (RMB) customer deposits and certificates of deposit (CDs) increased by 22.7% to RMB1,345.2 billion at the end of July 2026 (Chart 4.6 and Table 4.A). Among the total, RMB customer deposits grew by 17.2%, mainly led by corporate customers' deposits. Meanwhile, the outstanding amount of RMB CDs expanded, increasing by 60.8% during the same period.

Chart 4.6
Renminbi customer deposits and certificates of deposit (CDs) in Hong Kong



Source: HKMA.

Table 4.A
Offshore renminbi banking statistics

	Dec 2025	Jul 2026
Renminbi deposits & CDs (RMB bn)	1,096.8	1,345.2
Of which:		
Renminbi deposits (RMB bn)	960.1	1,125.4
Share of renminbi deposits in total deposits (%)	5.5	6.4
Renminbi CDs (RMB bn)	136.7	219.8
Renminbi outstanding loans (RMB bn)	935.0	1,077.8
Number of participating banks in Hong Kong's renminbi clearing platform	210	208
Amount due to overseas banks (RMB bn)	134.5	179.0
Amount due from overseas banks (RMB bn)	134.8	172.8
	Jan - Jul 2026	
Renminbi trade settlement in Hong Kong (RMB bn)	8,178.5	
Of which:		
Inward remittances to Hong Kong (RMB bn)	2,648.0	
Outward remittances to Chinese Mainland (RMB bn)	4,740.1	
Turnover in Hong Kong's RMB Real Time Gross Settlement (RTGS) system (Daily average during the period; RMB bn)	2,471.4	

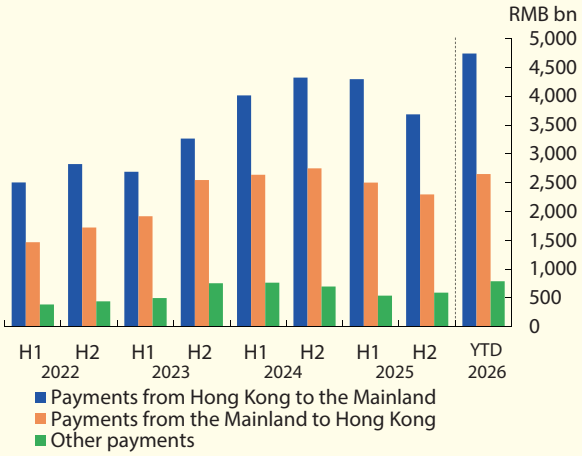
Source: HKMA.

As for other renminbi business, the outstanding aggregate amount of RMB loans expanded by 15.3% in the first seven months of 2026. Renminbi trade settlement handled by banks in Hong Kong amounted to RMB8,178.5 billion in the first seven months of 2026 (Chart 4.7), down by 4.5% compared with RMB8,568.0 billion during the same period in 2025. Nonetheless, the deep RMB liquidity pool in Hong Kong and the

[24] See section 2.3 of Chapter 2 for developments in offshore and onshore renminbi exchange rates.

capabilities and extensive networks of Hong Kong banks continued to support large volumes of RMB payments and financing transactions. During the first seven months of 2026, the average daily turnover of the RMB Real Time Gross Settlement (RTGS) system stayed high at RMB2,471.4 billion, compared with RMB2,759.7 billion recorded in the same period in 2025.

Chart 4.7
Flows of renminbi trade settlement payments



Source HKMA.

Moving forward, the continued development of Hong Kong's CNH ecosystem will further reinforce Hong Kong's role as the leading CNH business hub. To support the wider use of RMB in real economic activities, the size of the HKMA's RMB Business Facility was increased from RMB200 billion to RMB500 billion, and new tenors of 9-month, 2-year and 3-year were introduced in July 2026. The continued upgrading and expansion of the RMB Business Facility aims to provide timely and sufficient RMB liquidity to meet market development needs, assist banks to enhance their RMB business, support the wider use of RMB in the real economy, and radiate offshore RMB funds globally.

The HKMA will explore the introduction of a tendering mechanism of a 7-day offshore RMB liquidity to add a new channel to support banks' short-term RMB funding needs. It will also explore the issuance of offshore RMB short-term debt instruments to support the building of the offshore RMB yield curve, and promote the development of a bilateral currency transaction framework between Indonesian Rupiah and offshore RMB.

In terms of products, continuous efforts to upgrade and expand the family of Connect schemes between the Chinese Mainland and Hong Kong[25] will widen the spectrum of RMB products and tools available for asset allocation as well as liquidity and risk management. This will facilitate greater two-way traffic between the two markets.

As for financial infrastructure, the collaboration between the China Foreign Exchange Trade System (CFETS) and Hong Kong Exchanges and Clearing Limited (HKEX) to develop an electronic fixed income and currency trading platform (the FIC Trading Platform) in Hong Kong will further strengthen the financial cooperation between Hong Kong and the Chinese Mainland. This initiative reinforces Hong Kong's position as an international financial centre and an offshore RMB business hub.[26]

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 cooperation.

[25] The HKMA, the People's Bank of China (PBoC) and the Securities and Futures Commission (SFC) announced a series of new measures to support the development of Hong Kong's fixed income and currency market and offshore RMB business on 7 July 2026. For details, see the press release "New Measures to Support the Development of Hong Kong's Fixed Income and Currency Market and Offshore RMB Business" on 7 July 2026.

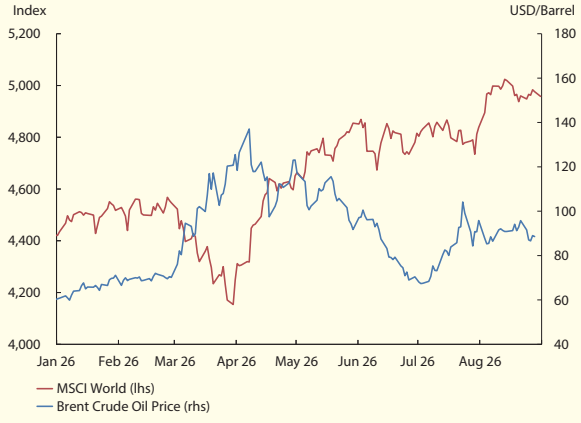
[26] For more details, see the press release "PBOC, HKMA and SFC's joint announcement on developing trading platform in Hong Kong" on 7 July 2026.

Asset markets

4.3 Equity market

Global equity markets experienced significant volatilities during the review period (Chart 4.8). The MSCI World Index fell sharply in March 2026 when the military conflict in the Middle East triggered a surge in oil prices, raising concerns over rising inflationary pressure and a deteriorating global economic outlook. Subsequently, markets rebounded as signs of easing tensions alleviated fears of prolonged energy supply disruptions. This recovery was further supported by strong US corporate earnings and sustained optimism over artificial intelligence (A.I.) developments. Nevertheless, concerns over the sustainability of massive A.I. capital expenditure triggered a sell-off in A.I.-related hardware and infrastructure companies in July 2026, contributing to renewed volatility in global equity markets.

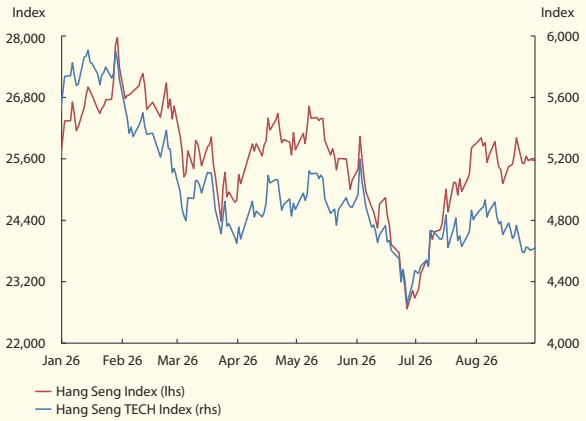
Chart 4.8
MSCI World Index and oil price



Source: Bloomberg and U.S. Energy Information Administration.

In comparison, the Hong Kong equity market recorded weaker performance in the second quarter, reflecting mainly the underperformance of the technology sector,[27] which weighed on market sentiment (Chart 4.9). There was a notable rebound in the local equity market in July, though the divergence in performance remained stark. Overall, the MSCI World Index rose by 9.0% from the end of February to the end of August 2026, while the Hang Seng Index declined by 4.0% during the same period.

Chart 4.9
The Hang Seng Index and Hang Seng TECH Index

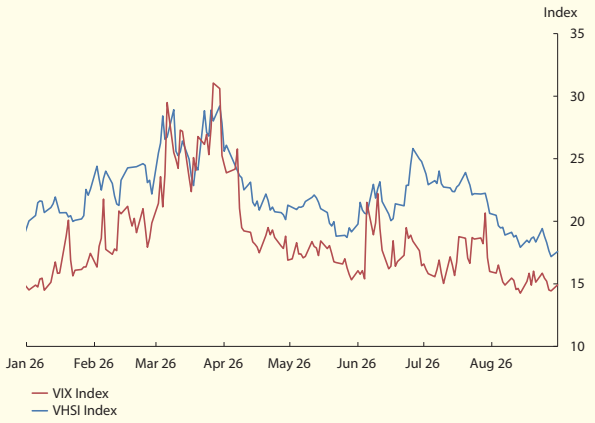


Source: Bloomberg.

Option-implied volatilities for both the S&P 500 and the Hang Seng Indices fluctuated during the review period, driven by heightened uncertainties surrounding the Middle East conflict and the trajectory of A.I. capital expenditure (Chart 4.10).

[27] The Hang Seng TECH Index dropped by 3.8% in the second quarter of 2026. During the same period, the MSCI World Information Technology Index increased by 33.5%. Note that the Hang Seng TECH Index is heavily weighted towards leading Chinese internet platform companies, with a small share of A.I. hardware and semiconductor companies. By contrast, the MSCI World Information Technology Index is dominated by semiconductor, A.I. infrastructure, and hardware companies across developed markets.

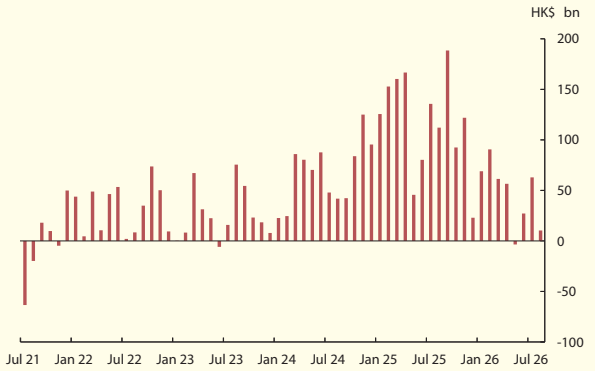
Chart 4.10
Option-implied volatilities of the Hang Seng Index (VHSI Index) and the S&P 500 Index (VIX Index)



Source: Bloomberg.

Inflows into the local equity market through Southbound Stock Connect continued during the review period. Net purchases by Chinese Mainland investors amounted to HK$214.7 billion between the end of February and the end of August 2026 (Chart 4.11).

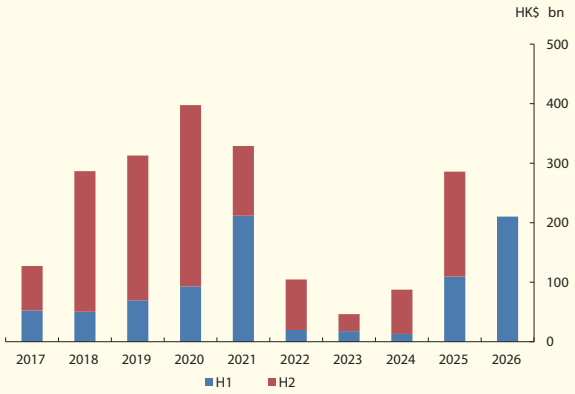
Chart 4.11
Net buying through Southbound Stock Connect



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.

Initial public offering (IPO) activities in Hong Kong remained buoyant. The total funds raised through IPOs in the first half of 2026 reached HK$210.2 billion, increasing by 92.1% from the same period of 2025 (Chart 4.12). This marked the second-highest first half IPO volume to date, supported by a diverse range of companies coming to market.

Chart 4.12
IPO market in Hong Kong



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

Looking ahead, the outlook for global equity markets remains highly uncertain and will depend on several factors.

First, the Middle East conflict remains a key source of risk, as the outcome remains uncertain. Any adverse developments could reignite concerns over global energy supply shocks, clouding the inflation outlook and global economic prospects. This, in turn, could weigh on market sentiment and alter interest rate expectations, thereby putting pressure on global equity markets.

Second, although market sentiment continues to be buoyed by A.I. prospects, it remains unclear whether corporate earnings can justify the high valuations of A.I.-related firms, particularly given their substantial capital expenditure. If revenues fail to meet market expectations, these firms may face the risk of an abrupt price correction, which could trigger broader market volatility. Increasing reliance on debt financing could further amplify such vulnerabilities, especially if financing conditions tighten.

Third, despite recent rate hikes by the US Federal Reserve (Fed) and the European Central Bank (ECB) to combat inflationary pressures, uncertainty over the future interest rate paths remains. This uncertainty is further heightened by the reassessment of monetary policy frameworks by the Fed and the ECB, particularly

the de-emphasis of forward guidance. Greater uncertainty over the interest rate paths may increase volatility in equity valuations.

Fourth, persistent geopolitical and trade tensions could continue to drive a shift in global capital flows as investors seek diversification, potentially amplifying volatility.

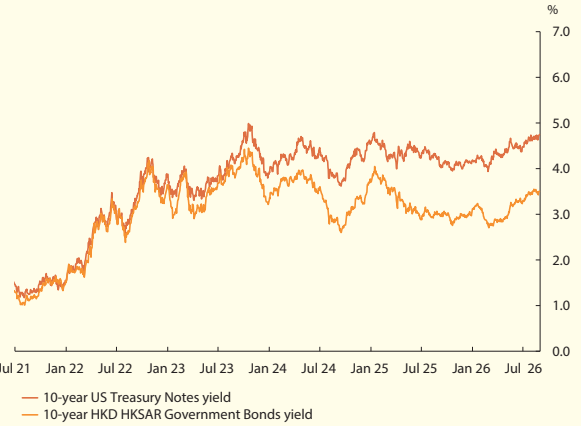
For Hong Kong specifically, market sentiment will also be shaped by the economic growth and technological developments in the Chinese Mainland, given the significant presence of Mainland firms in Hong Kong's equity market.

4.4 Debt market[28]

During the review period, yields on long-term US Treasury Notes increased (Chart 4.13). This increase was driven by rising inflation concerns stemming from oil price volatility amid the military conflicts in the Middle East, alongside upward pressure from risks to long-term US fiscal sustainability due to rising government debt and deficits.

In Hong Kong, the yield on 10-year Hong Kong dollar (HKD) Hong Kong Special Administrative Region (HKSAR) Government Bonds also rose, though it remained well below the yield on 10-year US Treasury Notes. The average yield on HKD corporate bonds also moved up (Chart 4.14). Nevertheless, it was still lower than the yield on USD corporate bonds of similar maturity.

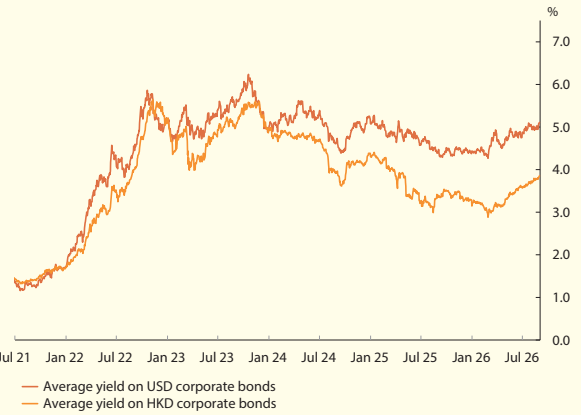
Chart 4.13
Yields on US 10-year Treasury Notes and 10-year HKD HKSAR Government Bonds



Note: Starting from 15 January 2025, the yield on the 10-year HKD HKSAR Government Bonds refers to the yield of the benchmark 10-year HKD bonds issued under the Infrastructure Bond Programme and Government Sustainable Bond Programme. Prior to this date, it refers to the benchmark 10-year HKD bonds issued under the Government Bond Programme.

Sources: Bloomberg and HKMA.

Chart 4.14
Average yields on USD and HKD corporate bonds



Notes: 1. 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. 2. The average yield on USD corporate bonds is represented by the ICE BofA 3–5 Year US Broad Market Non-Sovereign Index, which covers USD bonds issued by corporate and quasi-government entities issued in the US with remaining maturities of between 3 and 5 years. 3. The average effective durations of the two indices were 3.6 years and 3.5 years, respectively, as of the end of August 2026.

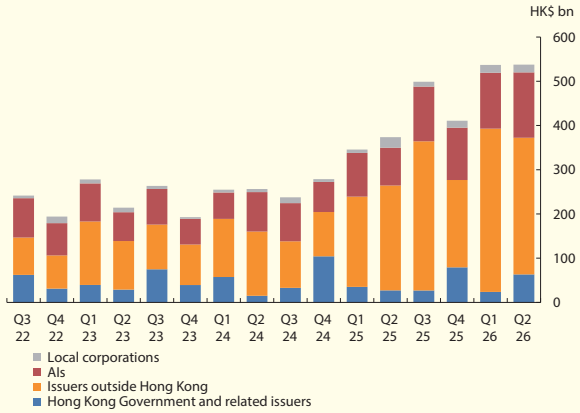
Sources: ICE Data Indices and Bloomberg.

A puzzling development in the global bond market is that the average spread for high-yield (HY) bonds has remained tight, staying below the historical average despite volatile global financial markets. Box 3 explores this phenomenon by linking it to the rapid growth of the private credit (PC) market, and discusses its implications for financial stability.

[28] Debt securities statistics reported in this section include bills, bonds, notes, negotiable certificates of deposit, commercial papers, 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.

In the first half of 2026, total issuance of HKD-denominated debt securities increased by 11.6% year on year to HK$3,156.9 billion. This growth was driven mainly by non-Exchange Fund Bills and Notes (EFBNs), with issuers outside Hong Kong being the main contributor to the increase. Specifically, issuance of non-EFBN HKD debt securities surged by 49.4% year on year to HK$1,074.6 billion (Chart 4.15).

Chart 4.15
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" refers 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 outstanding amount of HKD debt securities increased by 22.7% year on year to HK$3,694.1 billion at the end of June 2026 (Chart 4.16), of which the outstanding amount of non-EFBN HKD debt securities rose by 38.7% year on year to HK$2,337.6 billion.

Chart 4.16
Outstanding HKD debt securities by issuer

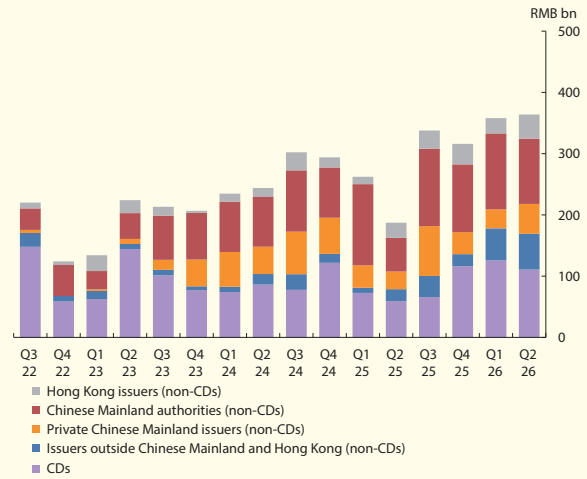


Notes: 1. Issuers outside Hong Kong include, among others, entities such as multilateral development banks, corporate and government issuers outside Hong Kong. 2. "Hong Kong Government and related issuers" refers to the Government of the HKSAR, statutory bodies and government-owned corporations in Hong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

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

Issuance of offshore Renminbi (CNH) debt securities in Hong Kong rose by 60.5% year on year to renminbi (RMB) 721.9 billion during the first half of 2026 (Chart 4.17), reflecting broad-based growth across issuer groups.

Chart 4.17
Issuance of CNH debt securities in Hong Kong



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

Looking ahead, the lower HKD interest rate relative to the USD could continue to support activity in the HKD debt market, although the sustainability of this trend depends on the USD interest rate path and HKD fund flows. Over the longer term, continued large-scale issuances in

the public market, combined with investors' demand for greater currency diversification amid persistent geopolitical tensions, could help deepen the HKD debt market and broaden the issuer and investor base.

For CNH debt securities, lower RMB financing costs are expected to persist in the near term, supported by the moderately loose monetary policy in the Chinese Mainland. Meanwhile, policy measures to promote RMB internationalisation, alongside sustained demand for diversification into RMB bonds due to their lower volatility would further support the 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. These initiatives cover green and sustainable finance, technological innovations, and market infrastructure improvement.

On 29 May 2026, the Ministry of Finance of the People's Republic of China (CMOF) completed its inaugural issuance of RMB sovereign green bonds in Hong Kong, totalling RMB6 billion. Warmly received by the market, the issuance enhances the yield curve for Hong Kong's offshore RMB bond market, provides a new investment benchmark for international capital, and attracts more cross-boundary RMB financing and trading activities to Hong Kong.

On 5 June 2026, the HKMA announced that it had convened a Tokenised Bond Expert Group, bringing together industry representatives with relevant experience and interest in Hong Kong's tokenised bond market development. The Group aims to drive further adoption and scalability of tokenised bonds in Hong Kong.

On 11 June 2026, the Hong Kong Mortgage Corporation Limited (HKMC) announced the successful pricing of its inaugural digital bonds, totalling approximately HK$12 billion equivalent, under its US$30 billion Medium Term Note Programme. The issuance marked the largest digital bond issuance globally at the time of issuance, underscoring deep market liquidity and accelerating adoption by institutional investors. In addition, the five-year HKD tranche represented the longest tenor for an HKD-denominated digital bond at the time of issuance, setting a new benchmark in the HKD bond market.

On 29 June 2026, the Financial Services and the Treasury Bureau and the HKMA jointly concluded the first phase of a review regarding the further adoption of distributed ledger technology (DLT) in Hong Kong's fixed income market. Findings in the review suggest that Hong Kong's legal and regulatory environment is already sufficiently flexible for tokenised bond issuances. In the next phase, a legislative review will be carried out to boost the more extensive use of DLT in the fixed income market and digital assets.

On 7 July 2026, the HKMA, the People's Bank of China and the Securities and Futures Commission announced a series of new measures to support the development of Hong Kong's fixed income and currency (FIC) market and offshore RMB business.[29] On the same day, the three institutions jointly welcomed the collaboration between the China Foreign Exchange Trade System (CFETS) and Hong Kong Exchanges and Clearing Limited (HKEX) to develop an electronic FIC trading platform in Hong Kong. This initiative will further strengthen financial cooperation between Hong Kong and the Chinese Mainland, reinforcing Hong Kong's position as an international financial centre and an offshore RMB business hub.

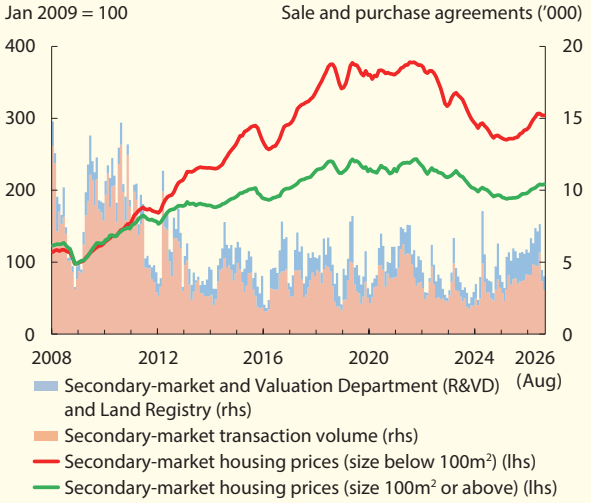
[29] These measures include i) supporting the collaboration of financial infrastructure institutions in Hong Kong and Chinese Mainland to develop a Hong Kong FIC electronic trading platform; ii) further enhancing and expanding the Southbound Bond Connect, iii) supporting the inclusion of onshore bonds issued by the Ministry of Finance and Mainland policy banks that are held under Northbound Bond Connect as eligible margin collateral at the HKFE Clearing Corporation and the SEHK Options Clearing House; iv) enhancing the Northbound Bond Connect operational arrangement, v) further enhancing the Swap Connect; and vi) supporting the launch of 5-Year China Government Bond Futures in Hong Kong. For details, please refer to https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/07/20260707-3/.

4.5 Property markets

Residential property market

The residential property market was buoyant in the first half of 2026, before stabilising in subsequent months. Supported by vibrant secondary market transactions and the brisk sales recorded in several new project launches by developers, average monthly housing transactions rose notably by 20.4% to 6,802 units in the first half of 2026, compared with 5,648 units in the second half of 2025 (Chart 4.18). Stepping into the third quarter, housing market activities consolidated, with transaction volume decreasing to 4,019 units in August.

Chart 4.18
Residential property prices and transaction volumes



Sources: Rating and Valuation Department (R&VD) and Land Registry.

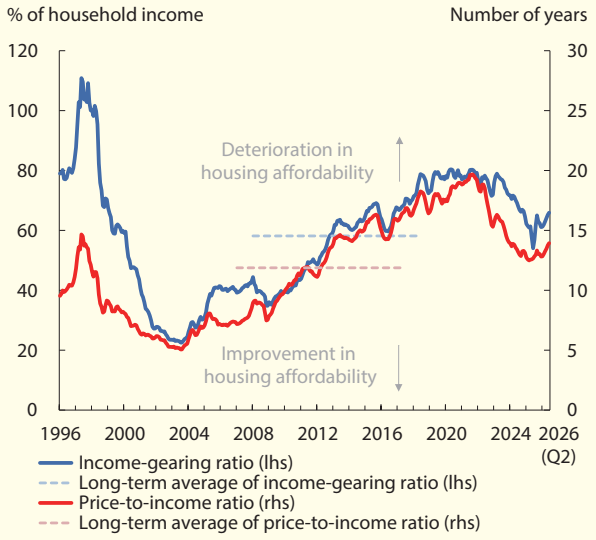
In response to favourable market reception and reduced unsold inventory,[30] developers have gradually reduced discounts on new launches. In tandem, secondary market housing prices accelerated, rising by 7.0% in the first eight months of 2026. Prices of small and medium-sized flats (with a saleable area of less than 100m^2) increased at a slightly faster pace than those for large flats (with a saleable area of 100m^2 or above) (Chart 4.18). More recent market data compiled by property agencies indicated that housing prices remained steady in early September.

In the first half of 2026, housing price growth outpaced household income growth, which reduced housing affordability. Specifically, the housing price-to-income ratio increased slightly from 13.0 years in the first quarter to 13.7 years in the second quarter. Similarly, the income-gearing ratio edged up to 65.1% (Chart 4.19).[31] On the leasing market front, housing rentals continued to increase at a steady pace of 4.9% in the first eight months of 2026, reaching a historical high (Chart 4.20). Residential rental yields remained modest at 3.0% in July.

[30] According to the Housing Bureau, there were around 19,000 unsold units in completed projects as at end-June 2026, compared with 23,000 units at end-December 2025.

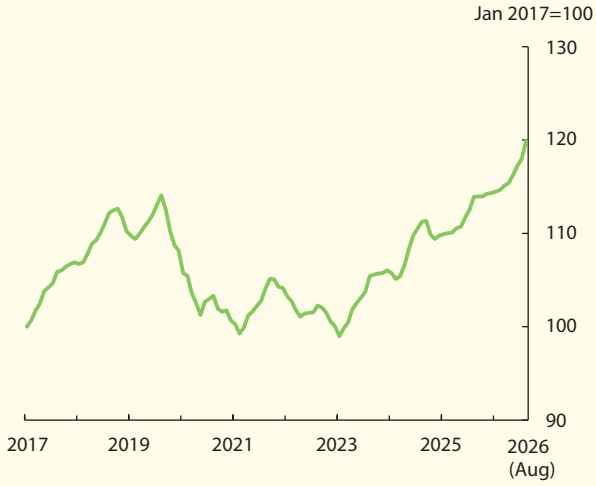
[31] The price-to-income ratio measures the average price of a typical 50m^2 flat relative to the median income of households living in private housing. The income-gearing ratio compares mortgage payment for a typical 50m^2 flat (under a 20-year mortgage scheme with a 70% loan-to-value (LTV) ratio) to the median income of households living in private housing. Note that the income-gearing ratio differs from a borrower's actual debt-servicing ratio (DSR), which is subject to a maximum cap under HKMA prudential measures.

Chart 4.19
Indicators of housing affordability



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

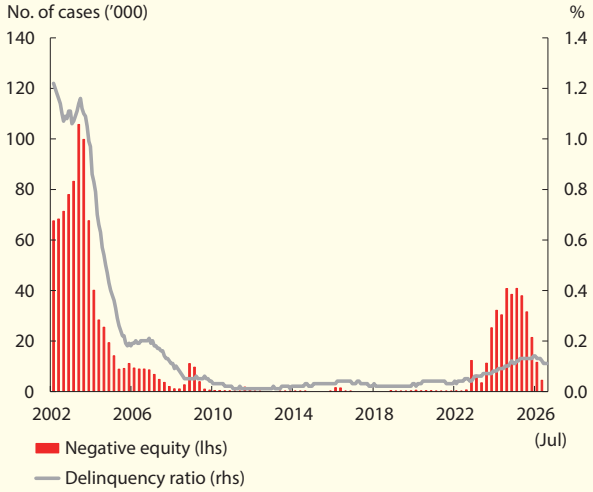
Chart 4.20
Residential property rental index



Source: R&VD.

The rise in housing prices led to a further decrease in the estimated number of residential mortgage loans (RMLs) in negative equity to 4,356 cases at end-June from 11,424 cases at end-March 2026 (Chart 4.21). These cases were mostly related to bank staff housing loans or RMLs under the Mortgage Insurance Programme (MIP), which generally have a higher loan-to-value (LTV) ratio. Meanwhile, the delinquency ratio of all outstanding RMLs eased to a very low level of 0.11% in July 2026,[32] suggesting that the systemic risks relating to banks' RMLs are properly managed on various fronts.

Chart 4.21
Negative equity and mortgage delinquency ratio

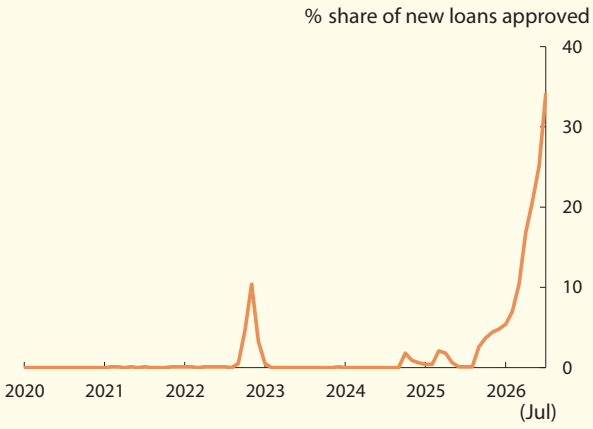


Source: HKMA.

The HKMA continues to monitor market development closely and formulate appropriate supervisory requirements on RMLs to safeguard banking stability. The average LTV ratio and debt-servicing ratio (DSR) for newly approved mortgages remained steady at 61% and 39% respectively in July 2026. On the other hand, reflecting market expectations of future interest rate dynamics, fixed-rate mortgage plans became more appealing to homebuyers as a tool to mitigate the risk of interest rate volatility, with their share increasing notably from 5.4% in January to 34.1% in July (Chart 4.22). The HKMA considers that the Hong Kong banking sector maintains ample buffers to withstand potential challenges stemming from the property market.

[32] The delinquency ratio of RMLs in negative equity increased to 1.25% at the end of June 2026, as the aggregate value of RMLs in negative equity fell at a faster pace than the aggregate value of delinquent RMLs in negative equity.

Chart 4.22
Share of fixed-rate mortgage plans



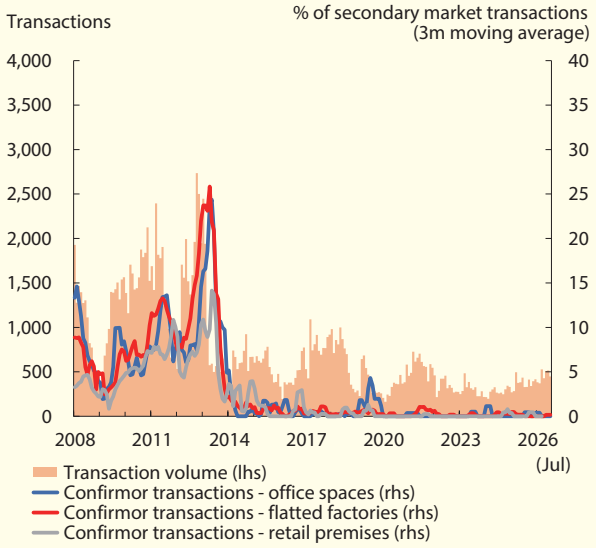
Source: HKMA.

The outlook of the residential property market remains subject to uncertainties, including those surrounding the US interest rate path, that may continue to weigh on housing market sentiment in the near term. On the other hand, the robust domestic economy, combined with the sustained net inflow of talent and overseas students, should continue to support housing demand. Over the longer term, the outlook for the housing market will depend on the supply-demand gap. The Government has identified sufficient land to meet the housing supply target in the next ten years, and will sell land prudently to ensure stable market development.[33]

Commercial real estate market

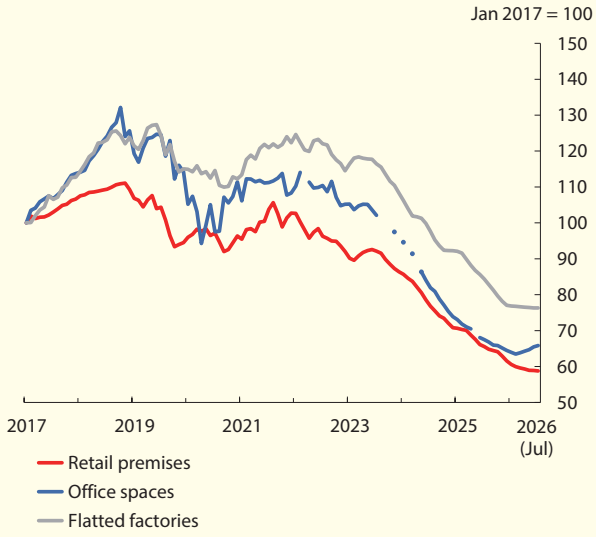
The commercial real estate (CRE)[34] market showed signs of stabilisation alongside improved occupancy rates. The average monthly transaction volume increased further to 455 units in the first seven months of 2026, with speculative activities remaining inactive as indicated by confirmor transactions (Chart 4.23). In tandem, prices of office spaces edged up in recent months, while price declines for retail premises and flatted factories narrowed (Chart 4.24). In the leasing market, office and factory rentals were broadly stable, whereas rentals of retail premises remained soft despite improving business receipts (Chart 4.25). Overall, rental yields across segments edged up to 3.9% – 4.4% in July.

Chart 4.23
Transactions in commercial real estate



Sources: R&VD and Centaline Property Agency Limited.

Chart 4.24
Commercial real estate price indices

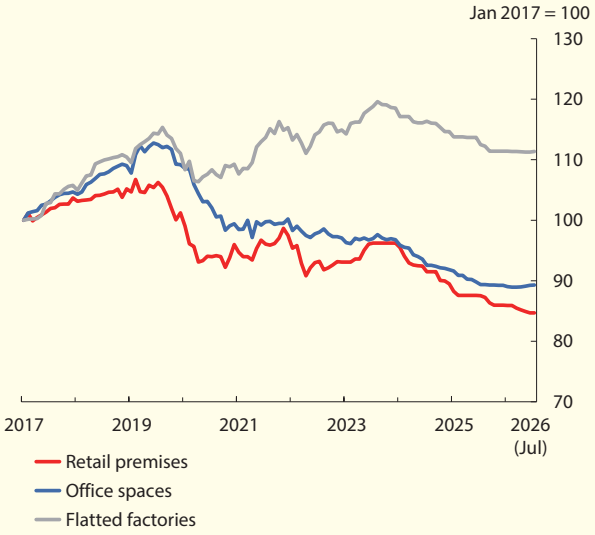


Note: The price index of office spaces could not be compiled in certain months due to insufficient transaction data for analysis.
Source: R&VD.

[33] According to the Long Term Housing Strategy Annual Progress Report 2025, the 10-year total housing supply target from 2026–27 to 2035–36 is 420,000 units, including 294,000 units for public housing and 126,000 units for private housing.

[34] CRE includes office spaces, retail premises and flatted factories.

Chart 4.25
Commercial real estate rental indices



Source: R&VD.

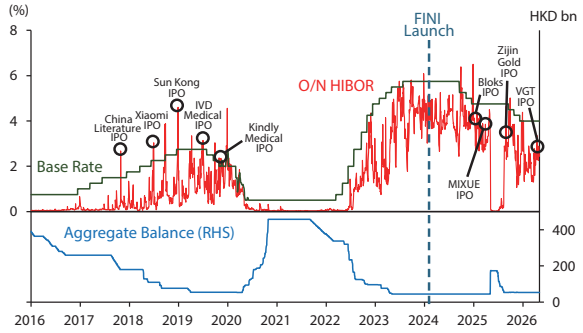
The near-term outlook for the CRE market is uneven. Grade A offices in core districts could see some stabilisation, driven by reviving leasing demand from the finance and insurance sectors, while office vacancy rates in some non-core locations may face ongoing pressure. Meanwhile, the retail segment may continue to face challenges from e-commerce competition and shifting consumption patterns. In response to these conditions, the Government has announced measures to bolster the commercial property market, including the suspension of general commercial land sales in 2026–27.

Box 2
Fast Interface for New Issuance and the Hong Kong Dollar Interbank Market during Initial Public Offerings

Introduction[35]

Large IPOs in Hong Kong have historically generated substantial short-term funding needs and, at times, exerted upward pressure on HKD interbank rates. Under the previous IPO settlement arrangement, banks acting for IPO subscribers (intermediary banks) were required to transfer the full subscription monies to banks collecting funds on behalf of issuers (receiving banks). For heavily oversubscribed IPOs, this process could generate large temporary interbank payment flows, tighten liquidity conditions, and contribute to spikes in the overnight HIBOR, as illustrated in Chart B2.1.

Chart B2.1:
Overnight HIBOR with IPO annotations



Sources: HKMA, HKEX, Bloomberg.

On 22 November 2023, HKEX launched FINI, a modernised digital platform for IPO settlement. FINI was designed to alleviate IPO-related liquidity pressures by reducing interbank transfers and minimising both the amount and duration of funds locked up. Using transaction-level data from the HKD RTGS system, alongside IPO and money market data, this box assesses whether FINI has mitigated the impact of IPO activity on the HKD interbank market.

How FINI changed the IPO settlement process

Before FINI, intermediary banks were required to transfer the full subscription amounts to receiving banks during the subscription period. Unused subscription monies were subsequently returned through another round of interbank transfers after allotment results were finalised. The liquidity implications of such round-trip transfers were particularly pronounced in Hong Kong, where IPOs are often heavily oversubscribed. For large IPOs, these payment flows could be substantial and remain locked up for several business days.

FINI changed the IPO settlement process in three important ways:

- **Reducing interbank transfers:** FINI removed the requirement for full interbank funding at the subscription stage. Under the new system, interbank transfers take place only after allotment results are finalised and are based on the actual allotment amounts. For heavily oversubscribed IPOs, these amounts are often orders of magnitude smaller than the initial subscription totals. This eliminates both the upfront transfer of the full subscription amount and the subsequent round of refund transfers.

- **Reducing the volume of locked-up funds:** Prior to FINI, interbank funding arrangement served to ensure that subscriptions were backed by sufficient funds. FINI introduced an intrabank pre-funding requirement instead. For heavily oversubscribed IPOs, this requirement is met on a compressed basis, significantly reducing the volume of funds locked up relative to the subscribed amount.

[35] For details, see Cheung et al. (2026). "Fast Interface for New Issuance (FINI) and the Hong Kong Dollar Interbank Market During IPOs". HKMA Research Memorandum, 04/2026

- **Shortening the settlement cycle:** By digitalising and streamlining the end-to-end IPO settlement process, FINI shortened the settlement cycle from typically three to six business days to just one business day.

Using daily IPO, RTGS, and money market data from January 2016 to December 2025, we examine whether FINI reduced IPO-related interbank transfers and reserve concentration, and whether it mitigated the impact of IPO subscriptions on interbank rates.

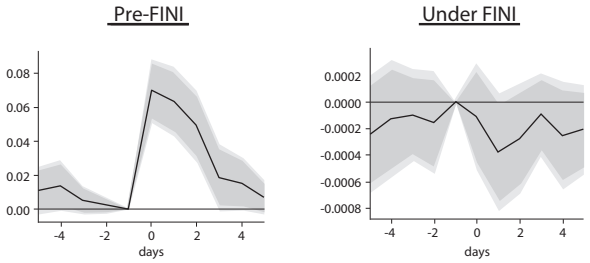
FINI reduced IPO-related interbank transfers

Transaction-level RTGS data reveal that the volume of IPO-related interbank transfers fell by 99.4% compared with the pre-FINI period. This indicates that the new settlement arrangement has largely eliminated the sizeable cross-bank payment flows previously associated with IPO funding and refunds.

The reduction in interbank transfers is also reflected in the distribution of reserve balances across banks. Before FINI, large IPO subscriptions tended to shift reserve balances from intermediary banks to receiving banks, temporarily increasing the concentration of liquidity within the banking system. This concentration could, in turn, tighten funding conditions for banks with liquidity needs.

To quantify this effect, we constructed a daily Herfindahl-Hirschman Index (HHI) of banks' reserve balances and estimated its dynamic response to IPO subscription interest. Subscription interest is scaled by the Aggregate Balance, which serves as a gauge of the funding pressure generated by IPO activity relative to the amount of interbank liquidity available in the banking system. The results show that, before FINI, large IPOs significantly increased reserve balance concentration for several days. By contrast, under FINI, the estimated impact was statistically insignificant (Chart B2.2).

Chart B2.2: Response of reserve balance concentration (HHI) to IPO subscriptions



Note: HHI is measured on a 0–1 scale. Dark and light shaded areas show the 90% and 95% confidence intervals respectively.

Sources: HKMA staff calculations, HKEX website, Bloomberg, HKD RTGS.

FINI mitigated impact of IPOs on overnight HIBOR

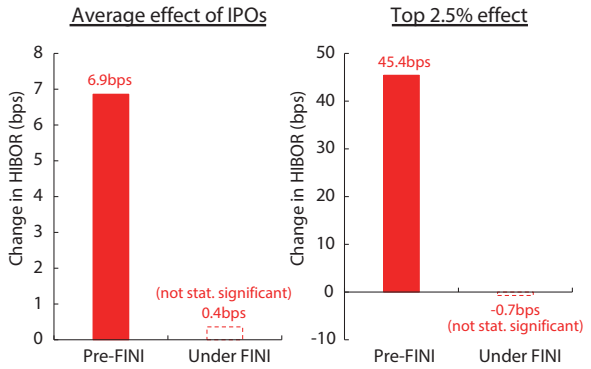
We next use regression analysis to examine whether the reduction in interbank transfers and reserve concentration lessened the impact of IPO subscriptions on overnight HIBOR.

We find that prior to the introduction of FINI, IPO subscriptions had a significant positive effect on overnight HIBOR.[36] On average, an increase in IPO subscription interest equivalent to the Aggregate Balance was associated with a 6.9-basis-point increase in overnight HIBOR, with the effect reaching around 45 basis points in upper-tail scenarios, as captured by the 97.5th percentile of the quantile regression (Chart B2.3).

[36] The regression controls for other factors affecting HIBORs, including the relevant US interest rate, the out-of-the-money USD/HKD risk reversal, changes in the Aggregate Balance, local market conditions, and seasonal funding demand.

This effect diminished substantially after FINI was launched. While the estimated impact of IPO subscriptions on the overnight HIBOR remained positive, it was no longer statistically significant under the FINI regime. This suggests that FINI has been effective in alleviating the short-term liquidity pressures previously associated with IPO funding.[37]

Chart B2.3:
Estimated impact of IPO subscriptions on overnight HIBOR



Note: Estimated effects are scaled to an increase in IPO subscription interest equal to one AB. Solid indicates statistical significance at 10%. Hollow bars are not statistically significant. The top 2.5% effect is quantified using quantile regression at the 97.5th percentile.

Sources: HKMA staff calculations, HKEX website, Bloomberg.

[37] Further analysis shows that only IPOs with subscription interest exceeding the Aggregate Balance had a statistically significant effect. Moreover, IPO-related effects on interbank rates are largely confined to very short maturities. The effect is evident for overnight and, to a lesser extent, one-week HIBOR, but is not statistically significant for one-month or longer tenors. The smaller impact at the one-week tenor is also substantially reduced under FINI, while one-month and longer-tenor HIBORs remain largely unaffected. This suggests that IPO-related liquidity stress is mainly short-lived.

The findings are consistent with a simple conceptual mechanism: for a given level of total reserves, a more uneven distribution of reserve balances can increase interbank market tightness and put upward pressure on overnight interbank rates. By reducing IPO-induced reserve concentration, FINI prevents the temporary scarcity of liquidity among intermediary banks, thereby stabilising overnight HIBOR and easing short-term funding tightness.

Conclusion and implications

In sum, our analysis shows that FINI has materially improved the functioning of the HKD interbank market during IPO periods. The introduction of FINI has sharply reduced IPO-related interbank transfers, mitigated the concentration of reserve balances across banks, and substantially dampened the impact of large IPO subscriptions on overnight HIBOR.

These findings demonstrate how settlement design can limit the spillovers of large financial transactions to money markets. They also suggest that FINI has strengthened Hong Kong's capacity to accommodate large, heavily oversubscribed IPOs without the degree of short-term liquidity volatility observed under the previous arrangement.

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Cheung, J., Luk, P., Yip, R. (2026). Fast Interface for New Issuance (FINI) and the Hong Kong Dollar Interbank Market During IPOs. *HKMA Research Memorandum, 04/2026*.

HKEX (2020). *FINI Concept Paper: Modernising Hong Kong's IPO Settlement Process*.

Keung, C. (2019). Effect of initial public offerings on short-term interbank rates. *Economic Letter No. 2019/12*.

Leung, F. and Ng, P. (2008). Impact of IPO activities on the Hong Kong dollar interbank market. *HKMA Working Paper No. 08/11*.

Box 3
The link between tighter high-yield bond spreads and the shift of weaker borrowers to private credit

Introduction[38]

Yield spread, which refers to the extra yield of a bond relative to a benchmark rate, is an important indicator in the financial market. A puzzling development in the high-yield (HY) bond market is that average spreads have remained tight and below historical averages, despite volatile global financial markets. This box dives into this issue and discusses its implications for financial stability.

Conventionally, tight spreads could be driven by either improved issuer quality or strong investor demand for risk. However, the rapid expansion of the private credit (PC) market offers a plausible alternative explanation. PC has emerged as a vital funding source for firms excluded from traditional bank loans and public bond markets. Furthermore, tailor-made loan terms, greater flexibility, faster execution and lower disclosure requirements also attract corporates to tap funding from PC. Anecdotally, PC has captured a significant share of middle-market lending, particularly among borrowers with weaker financial conditions. As riskier HY bond issuers shift their borrowing to the PC market, the resulting changes in the composition of HY bond issuers could contribute to the tight spreads.

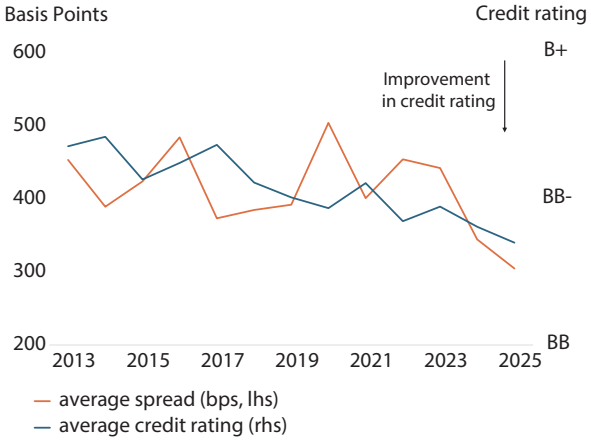
Against this background, this box addresses three questions. First, to what extent are tight HY spreads associated with improvement in the credit quality of issuers? Second, is the improvement linked to the growth of the PC market, and if so, to what extent? Third, is there any sign that firms shifting to PC tend to take higher risk? We assess the final question by examining their leverage. We will also provide implications for financial stability.

[38] For details, see Wu, Lam and Dong (2026): "The link between tighter high-yield bond spreads and the shift of weaker borrowers to private credit", *HKIMR working paper*, forthcoming.

Improved borrower composition and tighter HY bond spreads

Chart B3.1 shows the average spread of HY bonds by year of issuance (the orange line), which has trended down from 454 basis points (bps) in 2013 to 304 bps in 2025. This downward trend is associated with better average credit ratings of these bonds (the blue line).[39] The strong association motivates us to investigate the sources of the improvement in the overall credit quality of HY bond issuances over time.

Chart B3.1:
Average spread of HY bonds and average credit rating of issuers



Note: This figure plots the weighted average credit rating and the weighted average issuance spread of HY bonds issued in each year. Credit ratings are converted into a numerical scale for the calculation of average rating, where 1 corresponds to the highest rating within the HY segment (BB+) and 13 to the lowest reported rating (D). The average numeric rating is then converted back into letter grades for display in the chart. Issuance spread, measured in basis points, represents the yield spread on HY bonds over the relevant benchmark rate.

Source: Dealogic and HKMA staff estimates

[39] The improvement in the credit quality of HY bond issuance is also reflected in the distribution of issuance by rating class. Specifically, in our data sample, the share of BB-rated issuance (the highest rating band in the HY bond market) increased from 57% in 2013 to 71% in 2025. Over the same period, the share of B-rated (the middle rating band) and CCC+ or below (the lowest rating band) issuance declined from 36% to 28% and from 7% to 1%, respectively.

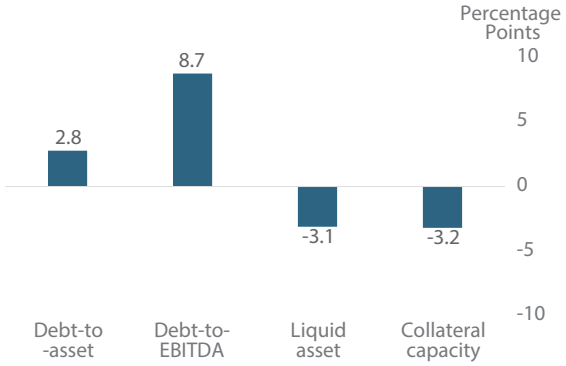
The shift in borrowing by riskier HY bond issuers to the PC market

We hypothesise that riskier HY bond issuers tend to shift to the PC market for funding, altering the composition of the HY bond issuers and driving tighter average spreads. This hypothesis is supported by the fact that average leverage (measured by debt-to-EBITDA) is significantly higher in the PC market than in the HY bond market, making PC particularly attractive to riskier corporates.

To test this, we identify HY bond issuers that also accessed PC ("dual borrowers") from the total sample of HY bonds.[40] We then estimate the probability of PC borrowing using a set of lagged firm characteristics.[41] Specifically, to examine whether riskier HY bond issuers tend to borrow from the PC market, our model incorporates metrics such as leverage (measured by the debt-to-assets or debt-to-EBITDA ratio), liquidity (measured by the liquid asset ratio), and collateral capacity (collateralisable assets[42] to total assets). The estimation controls for other firm-level and sector-level factors.

The results (Chart B3.2) support our hypothesis. In particular, HY bond issuers with higher leverage, lower liquidity, and lower collateral capacity have a statistically higher probability of borrowing from the PC market, all else being equal.[43] We also observe a reduction in HY bond issuances by these firms after they entered the PC market.[44] Taken together, these findings suggest that some riskier HY bond issuers may shift part of their borrowing from the HY bond market to the PC market.

Chart B3.2: Estimated relationship between selected financial metrics and the probability of HY bond issuer borrowing from the PC market



Note: This chart presents the estimated average marginal effects from a logit regression model, measured as the average change in the predicted probability that an HY bond issuer becomes a dual borrower, in percentage points, associated with a one-standard-deviation increase in each financial metric. All estimates are statistically significant at the 10% level.

Source: HKMA staff estimates.

The impact of PC access on risk-taking

We next examine whether HY bond issuers that tap the PC market take on higher risk by examining their leverage. To do so, we compare changes in firms' debt-to-asset ratios before and after their first PC borrowing with changes against similar HY bond issuers that do not borrow from the PC market over the same period.

[40] We identify them using information from Preqin and Capital IQ for firm matching and financial data extraction. After accounting for financial data availability, the estimation sample contains 563 HY bond issuers, of which 91 are classified as dual borrowers. The estimation sample covers the period from 2013 to 2025.

[41] We estimate this using a logit regression model.

[42] Defined as fixed assets and intangible assets excluding goodwill.

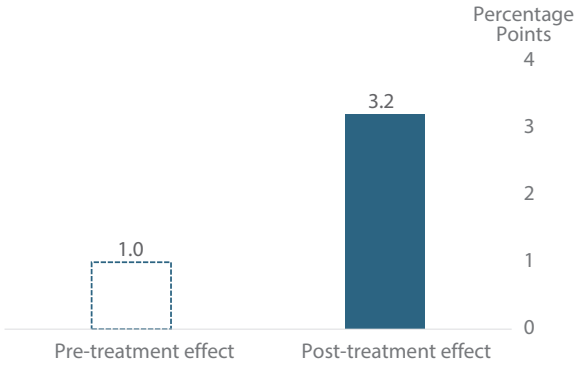
[43] Among the dual borrowers, the share of issuance in the B category and in the CCC+ or below category was 39% and 6%, respectively, compared with 28% and 3% for other HY bond issuers. This further supports the higher riskiness of dual borrowers.

[44] Specifically, the average annual HY bond issuance amount per dual borrower in the sample fell from US$ 633 million before entry into the PC market to US$ 512 million after entry. Dual borrowers' share of total HY bond issuance declined from 35% in 2013 to 24% in 2025.

Specifically, we estimate a staggered difference-in-differences model,[45] where dual borrowers form the treatment group from their first year of PC access onward. In each year, the control group consists of firms that have not accessed PC.[46]

The estimation result (Chart B3.3) indicates that, after accessing PC, dual borrowers' debt-to-asset ratios increased by 3.2 percentage points more than those of other HY bond issuers. This is equivalent to roughly 7.8% of dual borrowers' average debt-to-asset ratio prior to accessing the PC market. The finding suggests that the more accommodative lending conditions in the PC market may have driven some riskier HY bond issuers to tap funding, resulting in higher leverage.

Chart B3.3: Estimated treatment effect of PC entry on firms' debt-to-asset ratio



Note: This chart presents the estimated treatment effect of PC entry on dual borrowers' debt-to-asset ratio (measured in percentage points) relative to HY bond issuers that have not accessed PC, using a staggered difference-in-differences design based on the Callaway and Sant'Anna (2021) estimator. Post-treatment and pre-treatment effects capture the average treatment effect in each year after and before a dual borrower's first observed PC borrowing, respectively. Solid bars indicate estimates are statistically significant at the 10% level.

Source: HKMA staff estimates.

Conclusion

This study has two financial stability implications. Firstly, the average spread of HY bonds is a key conventional indicator for monitoring vulnerabilities of higher-risk corporates. However, the changing composition of HY bond issuers i.e. the shift in borrowing by riskier issuers to the PC market, suggests that this metric should be interpreted with caution. Secondly, our finding that HY bond issuers exhibit higher leverage after entering the opaque PC market underscores the need for enhanced risk monitoring in this sector.[47]

[45] Staggered difference-in-differences applies when units receive treatment at different times. In such settings, the conventional two-way fixed effects estimator may be biased because it can compare newly treated units with already treated ones, and therefore requires a dedicated estimator that addresses this bias. This study employs the estimator proposed by Callaway and Sant'Anna (2021). Details of the Callaway and Sant'Anna (2021) estimator can be referred to Callaway, B. and Sant'Anna, P.H.C. (2021). "Difference-in-Differences with multiple time periods", *Journal of Econometrics*, 225(2), 200-230.

[46] This group includes future "dual borrowers" before they enter the PC market, as well as firms that never access PC.

[47] Financial Stability Board (2026). "Report on Vulnerabilities in Private Credit"