

The Hong Kong Debt Market in 2020

by the Monetary Management Department

Policy actions implemented by central banks and governments around the world in response to the COVID-19 pandemic led to a loose monetary environment for most of 2020. Among other things, central banks in major developed markets were seen to have slashed policy rates and injected liquidity through, for instance, direct bond purchases, with a view to loosening the financial conditions and stimulating economic growth. Scepticism towards how long the accommodative monetary environment might stay had increased as we headed into 2021, having regard to factors such as the latest development of the pandemic, rate of vaccinations, as well as timing and pace of economic recovery in key economies. In Hong Kong, new issuances of Hong Kong dollar debt instruments from the non-public segment registered a substantial increase in volume over 2019 as local and overseas issuers expanded the scale of their funding. This article offers a brief summary of the key developments in 2020.

Overview of international bond market

The outbreak of COVID-19 prompted central banks around the world to take action to address economic risks brought about by the pandemic. In the US, the Federal Reserve lowered the federal funds rate from 1.5%–1.75% at the beginning of the year to 0%–0.25% through two consecutive rate cuts in March 2020, and relaunched its asset purchase programme. US Treasury yields declined sharply in March, and only picked up slightly towards the end of the year. Similarly, the European Central Bank kept interest rates at historically low levels and introduced the Pandemic Emergency Purchase Programme in Europe. As a result of the accommodative policies of major central banks, the monetary environment was loose in 2020. Emerging economies saw capital outflows from the debt market at the onset of the pandemic, but the situation soon stabilised. According to the data from the Asian Development Bank, the size of local currency bond markets in Asia expanded notably as both the public and the private sectors continued to tap local bond markets to meet their funding needs.

CHART 1

Average borrowing costs in developed and emerging markets



Notes:

1. Average yields of the BofA Merrill Lynch G7 Government Index are used as proxies for the yield levels of developed markets.
 2. Average yields of the ICE BofA Merrill Lynch Emerging Market Sovereign Bond Index are used as proxies for the yield levels of emerging markets.
- Sources: Thomson Reuters, Bloomberg and BofA Merrill Lynch.

Overview of Hong Kong debt market

Driven by carry-trade activities and equities-related demands, Hong Kong dollar registered strong inflows in 2020. The strong-side Convertibility Undertaking was repeatedly triggered between April and October 2020. The aggregate balance increased from around HK\$54 billion at the beginning of the year to around HK\$457 billion in December. In line with other advanced economies, short-term interest rates as measured by Hong Kong Interbank Offered Rate or Exchange Fund Bills and Notes (EFBNs) yields generally decreased.

Yields of Hong Kong Government Bonds also declined during the year. At the short end of the yield curve, yields for the three-year and five-year tenors declined in the first half of 2020 and remained low for the rest of the year. At the long end of the curve, yields for the 10-year and 15-year tenors trended downwards in the first half of 2020 and picked up slightly from August. Towards the end of the year, the spread between the long-tenor and short-tenor yields widened as the Hong Kong yield curve steepened in tandem with the US Treasury yield curve. Steepening of both curves reflected market expectations of stronger economic activity and higher prospects of inflation in the longer term.

In 2020, Hong Kong dollar debt issuance increased by 5% over 2019 to HK\$4.32 trillion. The rise in issuance was contributed by increased issuance from both the public and non-public segments. Excluding EFBNs, new issuance of Hong Kong dollar debt instruments increased by 16.8% compared with 2019, reaching HK\$923 billion.

Overseas entities

Although the US dollar/Hong Kong dollar basis spreads remained negative for most of 2020 (Chart 2), overseas issuers continued to participate in the local bond market. Multilateral development banks (MDBs) and non-MDB overseas issuers both increased their issuances of Hong Kong dollar debt by 80% and 2.8% respectively.

CHART 2

Key tenors of USD/HKD basis spreads



Source: Bloomberg.

Local corporates and authorized institutions (AIs)

At the same time, the scale of funding in the local debt market of local corporates continued to stay at a high level of above HK\$35 billion in 2020. This was due mainly to the “pre-financing” and refinancing activities which took place to benefit from low local interest rates. On the other hand, AIs continued to remain one of the largest groups of local issuers. In 2020, AIs expanded the size of their new issuances by 19.6% from 2019 as most AIs tried to tap the Hong Kong dollar market to meet their short-term funding needs through the issuance of notes and certificates of deposit in the low interest rate environment. During the year, statutory bodies and government-owned corporations also expanded the scale of their funding by more than doubling their Hong Kong dollar issuances.

Government bonds

The HKMA continued to implement the Government Bond Programme to promote the further and sustainable development of the local bond market. At the end of 2020, the total outstanding amount of 11 issues of institutional bonds stood at HK\$80.6 billion. In addition, one Islamic bond issued under the Government Bond Programme was outstanding with an issuance size of US\$1 billion.

During the year, the Government resumed the issuance of inflation-linked retail bond, iBond. The seventh batch of iBond was issued in November with an issuance size of HK\$15 billion and a minimum annual interest rate of 2%. There were 456,380 valid applications and total subscriptions exceeded HK\$38 billion. Separately, the Government continued the issuance of Silver Bond, an inflation-linked bond with a minimum annual interest rate of 3.5%, targeting Hong Kong residents aged 65 or above. The fifth batch of Silver Bond was issued in December with an issuance size of HK\$15 billion. It attracted 135,243 valid applications with a total subscription of over HK\$43 billion. The government retail bonds provided citizens with investment options that offered steady and guaranteed returns in the low interest rate environment, and both retail bonds received good response from the public.

In the 2021–22 Budget, the Government announced that the issuance of iBond and Silver Bond would continue to promote the further development of the local retail bond market.

Looking ahead

In the near future, factors such as the evolving development of the pandemic, possible geopolitical tensions, and timing and pace of recovery of key global economies, will continue to weigh on the outlook of the local bond market. The HKMA will continue to support the development of the local bond market through implementing various initiatives under the Government Bond Programme and Government Green Bond Programme.

APPENDIX (see notes)

Table B1: Issuance of Hong Kong dollar debt instruments (in HK\$ million)

	(A) Exchange Fund	(B) Government	(A) + (B) Public Segment (year-on- year rate of change)	(C) AIs	(D) Local Corporates	(E) MDBs	(F) Non-MDB Overseas Issuers	(G) Statutory Bodies & Government- owned Corporations	(C) to (G) Non-public Segment (year-on- year rate of change)	Total (year-on- year rate of change)
1998	316,850	0	316,850	34,359	0	44,502	12,856	9,171	100,888	417,738
1999	261,443	0	261,443 (-17.5%)	82,838	6,744	15,920	39,123	8,931	153,556 (52.2%)	414,999 (-0.7%)
2000	275,036	0	275,036 (5.2%)	97,881	3,900	19,330	51,474	8,325	180,910 (17.8%)	455,946 (9.9%)
2001	237,009	0	237,009 (-13.8%)	74,134	1,000	7,462	45,139	24,075	151,810 (-16.1%)	388,818 (-14.7%)
2002	216,228	0	216,228 (-8.8%)	96,608	6,354	5,200	51,401	20,760	180,323 (18.8%)	396,551 (2.0%)
2003	219,648	0	219,648 (1.6%)	94,479	1,570	2,641	55,750	15,724	170,164 (-5.6%)	389,811 (-1.7%)
2004	205,986	10,250	216,236 (-1.6%)	75,670	6,699	3,530	56,890	17,799	160,588 (-5.6%)	376,824 (-3.3%)
2005	213,761	0	213,761 (-1.1%)	101,039	11,574	1,800	65,263	8,560	188,236 (17.2%)	401,997 (6.7%)
2006	220,415	0	220,415 (3.1%)	83,442	22,624	2,950	107,244	17,419	233,679 (24.1%)	454,094 (13.0%)
2007	223,521	0	223,521 (1.4%)	99,586	18,153	1,700	82,459	19,368	221,266 (-5.3%)	444,787 (-2.0%)
2008	285,875	0	285,875 (27.9%)	67,524	5,966	3,000	37,687	24,308	138,485 (-37.4%)	424,360 (-4.6%)
2009	1,047,728	5,500	1,053,228 (268.4%)	74,836	13,861	13,145	57,152	29,852	188,846 (36.4%)	1,242,073 (192.7%)
2010	1,816,752	18,500	1,835,252 (74.3%)	102,913	15,464	315	30,841	11,187	160,720 (-14.9%)	1,995,972 (60.7%)
2011	1,841,278	27,500	1,868,778 (1.8%)	134,638	22,429	0	25,304	20,195	202,566 (26.0%)	2,071,345 (3.8%)
2012	1,851,575	26,000	1,877,575 (0.5%)	190,833	16,512	790	32,640	12,027	252,802 (24.8%)	2,130,377 (2.8%)
2013	2,123,448	30,000	2,153,448 (14.7%)	143,978	19,638	940	28,105	10,665	203,326 (-19.6%)	2,356,774 (10.6%)
2014	2,177,293	30,800	2,208,093 (2.5%)	124,248	28,871	1,337	57,818	9,647	221,921 (9.1%)	2,430,015 (3.1%)
2015	2,242,206	30,400	2,272,606 (2.9%)	136,350	12,481	0	60,564	12,015	221,410 (-0.2%)	2,494,017 (2.6%)
2016	2,729,092	29,400	2,758,492 (21.4%)	180,346	15,431	5,529	111,339	20,898	333,543 (50.6%)	3,092,034 (24.0%)
2017	3,000,429	19,600	3,020,029 (9.5%)	185,892	9,316	3,230	95,292	21,542	315,271 (-5.5%)	3,335,300 (7.9%)
2018	3,232,955	19,600	3,252,555	342,541	34,618	9,048	430,313	23,702	840,221	4,092,776
2019	3,319,339	20,400	3,339,739 (2.7%)	323,152	39,380	6,295	376,214	24,585	769,625 (-8.4%)	4,109,364 (0.4%)
2020	3,392,689	48,200	3,440,889 (3.0%)	386,640	35,223	11,335	386,785	54,646	874,629 (13.6%)	4,315,518 (5.0%)

Table B2: Outstanding size of Hong Kong dollar debt instruments (in HK\$ million)

	(A) Exchange Fund	(B) Government	(A) + (B) Public Segment (year-on- year rate of change)	(C) AIs	(D) Local corporates	(E) MDBs	(F) Non-MDB Overseas Issuers	(G) Statutory Bodies & Government- owned Corporations	(C) to (G) Non-public Segment (year-on- year rate of change)	Total (year-on- year rate of change)
1998	97,450	0	97,450	175,286	10,283	69,402	29,356	11,366	295,693	393,143
1999	101,874	0	101,874 (4.5%)	186,036	15,477	61,287	54,402	20,117	337,319 (14.1%)	439,192 (11.7%)
2000	108,602	0	108,602 (6.6%)	192,990	13,027	57,062	80,193	20,047	363,319 (7.7%)	471,921 (7.5%)
2001	113,750	0	113,750 (4.7%)	182,682	11,402	51,104	98,758	35,873	379,819 (4.5%)	493,568 (4.6%)
2002	117,476	0	117,476 (3.3%)	190,520	16,156	40,834	117,819	48,212	413,541 (8.9%)	531,018 (7.6%)
2003	120,152	0	120,152 (2.3%)	199,295	13,905	27,855	139,777	56,441	437,273 (5.7%)	557,426 (5.0%)
2004	122,579	10,250	132,829 (10.6%)	209,401	18,914	24,735	161,816	60,186	475,052 (8.6%)	607,880 (9.1%)
2005	126,709	10,250	136,959 (3.1%)	237,942	28,723	21,535	180,648	57,712	526,560 (10.8%)	663,520 (9.2%)
2006	131,788	7,700	139,488 (1.8%)	246,890	47,734	19,555	237,578	56,876	608,633 (15.6%)	748,121 (12.8%)
2007	136,646	7,700	144,346 (3.5%)	255,491	57,632	13,155	234,344	58,476	619,098 (1.7%)	763,443 (2.0%)
2008	157,653	5,000	162,653 (12.7%)	209,089	57,973	14,253	207,616	64,618	553,550 (-10.6%)	716,202 (-6.2%)
2009	534,062	7,000	541,062 (232.6%)	195,915	62,547	24,348	216,777	66,643	566,229 (2.3%)	1,107,291 (54.6%)
2010	653,138	25,500	678,638 (25.4%)	218,641	65,445	15,513	206,521	60,592	566,712 (0.1%)	1,245,350 (12.5%)
2011	655,413	49,500	704,913 (3.9%)	229,416	66,211	14,731	194,323	51,034	555,716 (-1.9%)	1,260,629 (1.2%)
2012	657,384	68,500	725,884 (3.0%)	264,696	76,486	10,271	186,094	45,159	582,705 (4.9%)	1,308,590 (3.8%)
2013	751,151	91,500	842,651 (16.1%)	252,053	88,896	10,214	185,790	39,816	576,769 (-1.0%)	1,419,420 (8.5%)
2014	752,630	98,000	850,630 (0.9%)	233,444	96,486	6,101	182,161	40,990	559,181 (-3.0%)	1,409,812 (-0.7%)
2015	828,421	100,400	928,821 (9.2%)	239,870	95,581	5,301	204,114	43,351	588,216 (5.2%)	1,517,037 (7.6%)
2016	963,098	102,791	1,065,889 (14.8%)	271,352	99,424	10,550	233,342	50,010	664,677 (13.0%)	1,730,566 (14.1%)
2017	1,048,479	106,320	1,154,799 (8.3%)	241,071	99,020	9,854	243,697	53,647	647,290 (-2.6%)	1,802,089 (4.1%)
2018	1,062,715	107,368	1,170,083	319,663	113,856	17,917	442,763	54,787	948,986	2,119,069
2019	1,082,062	100,135	1,182,197 (1.0%)	331,269	116,806	21,222	458,466	55,904	983,666 (3.7%)	2,165,863 (2.2%)
2020	1,068,130	116,501	1,184,631 (0.2%)	373,066	123,767	26,514	488,451	81,584	1,093,382 (11.2%)	2,278,013 (5.2%)

Note to the tables:

The debt securities statistics from 2018 were reclassified in accordance with the latest international statistical standards set forth in the Handbook of Securities Statistics published by the Bank for International Settlements, International Monetary Fund and European Central Bank. They may not be comparable with statistics previously published in the HKMA's Quarterly Bulletins.

CHART B1

Proportions of Hong Kong dollar debt issuance activities (by type of issuer)

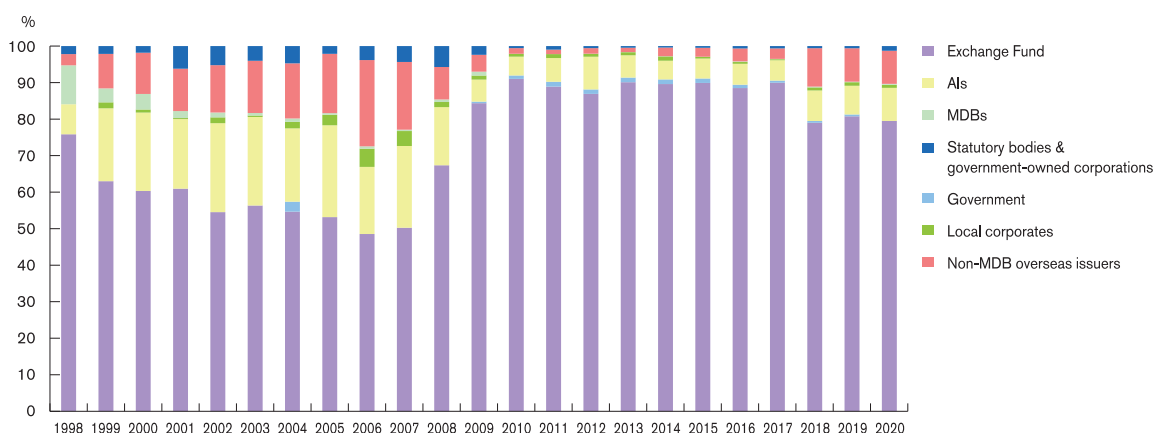
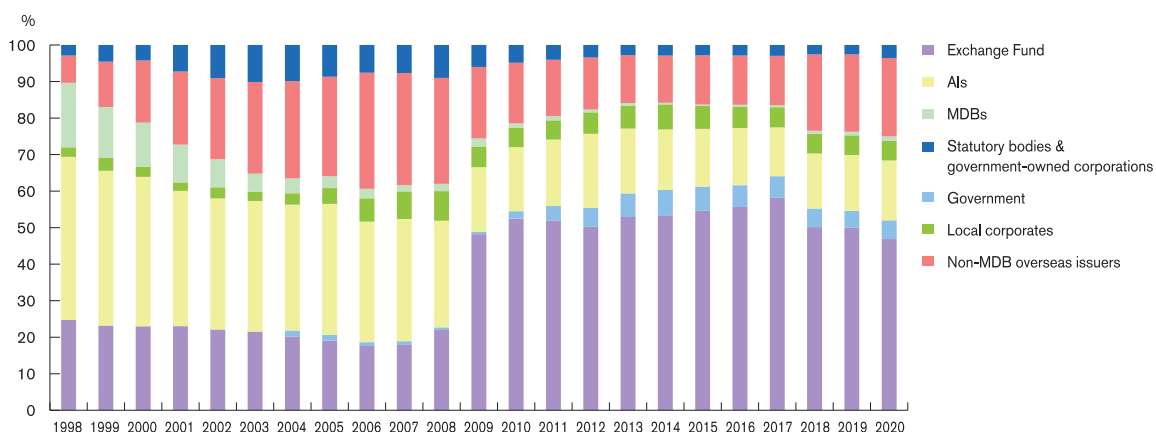


CHART B2

Proportions of outstanding Hong Kong dollar debt instruments (by type of issuer)



Notes:

1. Authorized institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies.
2. Multilateral development banks (MDBs) refer to the Asian Development Bank, the Council of Europe Development Bank (formerly known as the Council of Europe Social Development Fund), the European Company for the Financing of Railroad Rolling Stock, the European Investment Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, the African Development Bank, the Nordic Investment Bank, and the CAF - Development Bank of Latin America. Income earned on Hong Kong dollar debt securities issued by the MDBs is exempt from profits tax.
3. Statutory bodies and government-owned corporations include Bauhinia Mortgage-backed Securities Limited, The Hong Kong Mortgage Corporation Limited, Airport Authority Hong Kong, Hong Kong Link 2004 Limited, Kowloon-Canton Railway Corporation, MTR Corporation Limited, Hong Kong Interbank Clearing Limited, Urban Renewal Authority, Hong Kong Housing Society, and Hong Kong Science and Technology Parks Corporation. It should be noted that while the issuers are public bodies in the legal sense, they are typically considered as non-public issuers by the market. Hence, they are categorised under the "non-public" segment in the tables above.
4. Figures may not add up to the total because of rounding.
5. The debt securities statistics from 2018 are reclassified in accordance with the latest international statistical standards set forth in the Handbook of Securities Statistics published by the Bank for International Settlements, International Monetary Fund and European Central Bank. They may not be comparable with statistics previously published in the HKMA's Quarterly Bulletins.