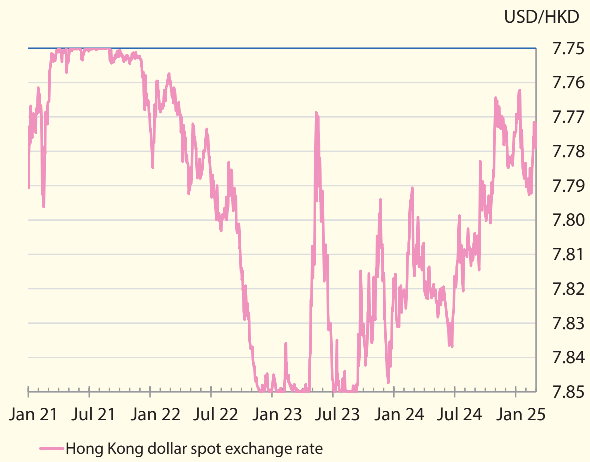
4. Monetary and financial conditions

The Hong Kong dollar (HKD) strengthened in late September 2024, mainly supported by a surge in local stock market activities following the announcement of a series of economic stimulus measures in Mainland China. The HKD softened in early 2025 but strengthened thereafter amid strong performance of the local stock market. Hong Kong Interbank Offered Rates (HIBORs) generally tracked their US dollar (USD) counterparts while shorter-tenor rates were also being affected by local supply and demand. Short-term HIBORs tightened temporarily in late September 2024 due to buoyant equity market and quarter-end funding demand, firmed up again amid thinner liquidity ahead of the year-end, and then softened in early 2025 as seasonal liquidity tightness eased. Total deposits increased in the seven months from end-June 2024, while bank credit declined, reflecting subdued credit demand driven in part by the high interest rate environment. Overall, the HKD exchange and money markets continued to trade in a smooth and orderly manner. Looking ahead, rising trade tensions between the US and its major trading partners and heightened uncertainty surrounding the US interest rate outlook may increase fund flow volatility. Nonetheless, with its ample foreign reserves position and robust financial system, Hong Kong is well able to withstand the volatilities in fund flows without compromising its financial stability.

4.1 Exchange rate and capital flows

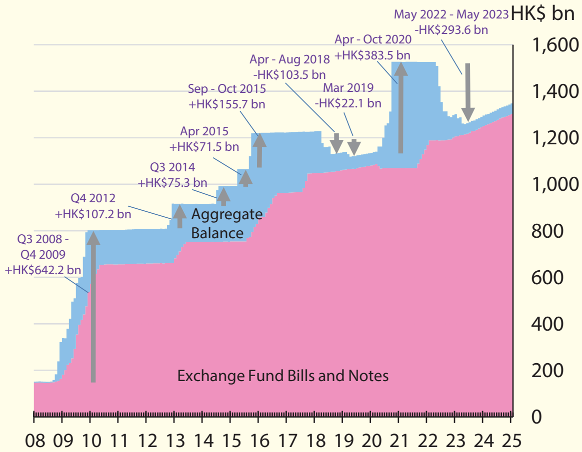
The HKD strengthened in late September 2024, mainly supported by a surge in local stock market activities following the announcement of a series of economic stimulus measures in Mainland China. The HKD softened in early 2025 but strengthened thereafter amid strong performance of the local stock market. During the review period, the HKD traded within a range of 7.7622 and 7.8010 against the USD (Chart 4.1). As the CUs have not been triggered since May 2023, the Aggregate Balance of the banking system remained little changed at HK$44.7 billion at the end of February 2025, and the day-to-day interbank operations and settlement activities among banks continued to operate in a smooth and orderly manner (Chart 4.2).

Chart 4.1
Hong Kong dollar exchange rate



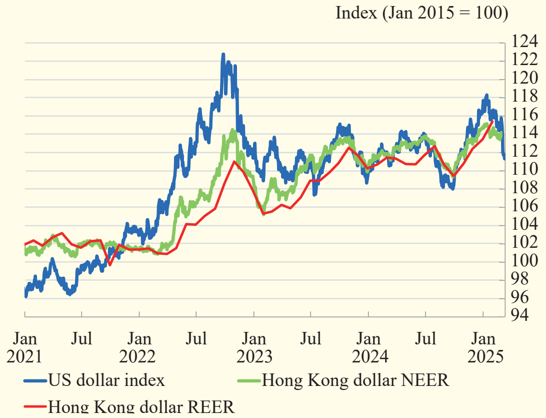
Source: HKMA.

Chart 4.2
Aggregate Balance and Exchange Fund Bills and Notes (EFBNs)



Source: HKMA.

Chart 4.3
Nominal effective exchange rate index (NEER) and real effective exchange rate index (REER)



Note: The REER is seasonally adjusted and available only on a monthly basis.
Sources: CEIC, C&SD and HKMA staff estimates.

Broadly tracking the movements of the US dollar, the Hong Kong dollar nominal effective exchange rate index (NEER) strengthened from late September 2024 before stabilising towards the end of the review period (Chart 4.3). Meanwhile, the Hong Kong dollar real effective exchange rate index (REER) generally followed the movement of the NEER.

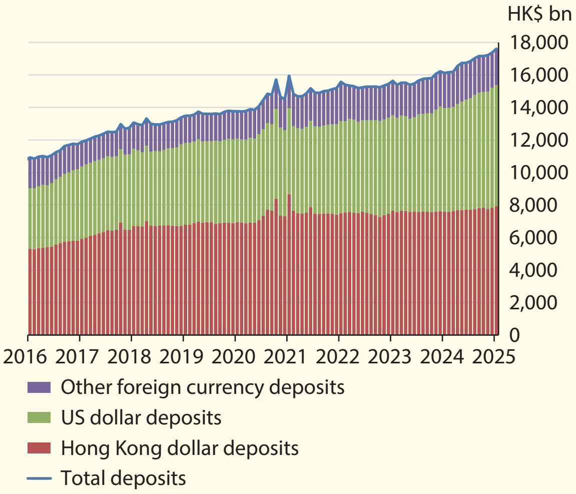
Going forward, rising trade tensions between the US and its major trading partners and heightened uncertainty surrounding the US interest rate outlook may increase fund flows volatility. However, with its ample foreign reserves position and robust financial system, Hong Kong has the ability to withstand the volatilities in fund flows without compromising its financial stability.

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$1,975.9 billion as at the end of February 2025.

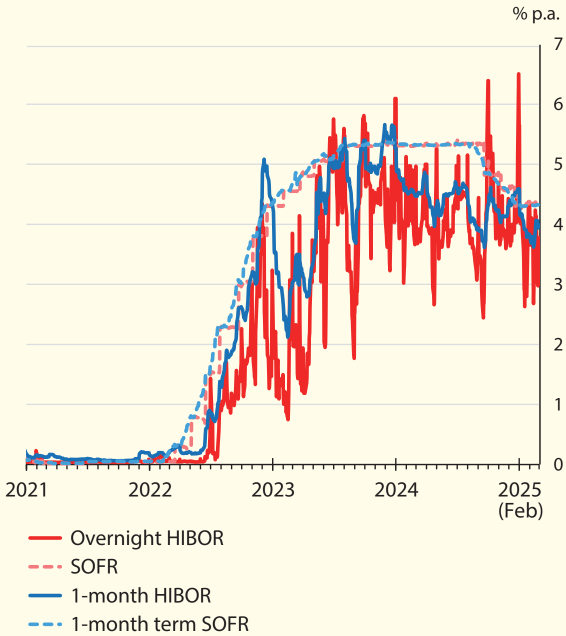
During the seven-month period since end-June 2024, total deposits with authorized institutions (AIs) increased by 5.2%. Among the total, HKD and foreign currency deposits increased by 3.0% and 7.1% respectively (Chart 4.4). It should be noted that monetary statistics are subject to volatility due to a wide range of transient factors, such as seasonal and initial public offering (IPO) related funding demand as well as business and investment related activities. Therefore, it is more appropriate to observe the longer-term trends.

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.

Overall, Hong Kong's interbank market continued to trade in a smooth and orderly manner during the review period. In accordance with the expectation and the design of the Linked Exchange Rate System (LERS), HKD interbank interest rates generally tracked their USD counterparts[40] while shorter-tenor rates were also being affected by local supply and demand. Short-term HIBORs tightened temporarily in late September 2024 due to buoyant equity market and quarter-end funding demand. In view of the pick-up of payment flows as the capital market turned vibrant, the HKMA temporarily extended the operating hours of the Real Time Gross Settlement (RTGS) systems for several days as precautionary measures, allowing more time for banks to process payments and manage funding for client flows in late hours. Short-term HIBORs firmed up again amid thinner liquidity ahead of the 2024 year-end, and then softened in early 2025 as seasonal liquidity tightness eased (Chart 4.5).

On the retail front, following the US policy rate cuts, many banks reduced their Best Lending Rates three times or by a total of 62.5 basis points from September to December 2024. At the end of the review period, the Best Lending Rates in the market ranged from 5.25%-5.75%. Meanwhile, the average lending rate for new mortgages decreased from 4.14% in July 2024 to 3.51% in January 2025. Banks will decide when and by how much to adjust their lending and savings rates, taking into account factors such as funding supply and demand in the interbank market, the level of interbank rates and their own funding cost structures.

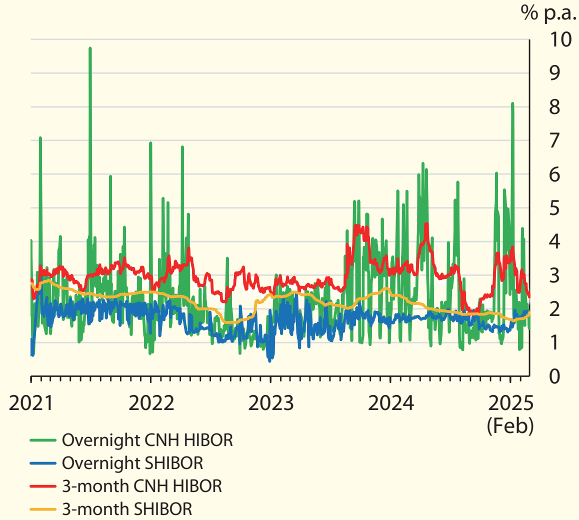
[40] The USD London Interbank Offered Rate (LIBOR) has been discontinued since 1 July 2023 and replaced by the Secured Overnight Financing Rate (SOFR) as its alternative reference rate.

In the near term, HKD interest rates may remain at relatively high levels. 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 concerned about 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. The recent use of the Discount Window shows that banks are adapting to changing market developments and are willing to make good use of these liquidity facilities.

Offshore RMB banking business

The offshore renminbi (CNH) interbank market continued to function normally during the review period.[41] The three-month CNH HIBOR rose above 3% in November 2024 amid an increase in funding demand. While the overnight CNH HIBOR witnessed some fluctuations, it mostly traded below 6% (Chart 4.6). Liquidity conditions in the CNH interbank market remained broadly stable over the review period.

Chart 4.6
Overnight and 3-month offshore renminbi (CNH) HIBOR fixings

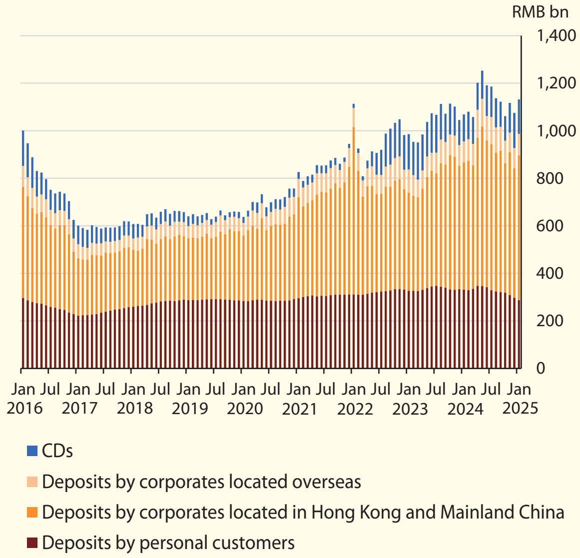


Sources: CEIC and Treasury Markets Association.

Following the expansion in the first half of 2024, Hong Kong's CNH liquidity pool declined modestly during the review period. The total outstanding amount of renminbi (RMB) customer deposits and certificates of deposit (CDs) decreased by 4.5% in the six-month period since the end of July 2024 to RMB1,131.8 billion at the end of January 2025 (Chart 4.7 and Table 4.A). Among the total, RMB customer deposits fell by 6.7%, mainly led by a decline in personal customers' deposits. Meanwhile RMB CDs expanded, increasing by 13.2% during the same period.

41 See section 2.2 of Chapter 2 for the development of offshore and onshore renminbi exchange rates.

Chart 4.7
Renminbi customer deposits and certificates of deposits (CDs) in Hong Kong



Source: HKMA.

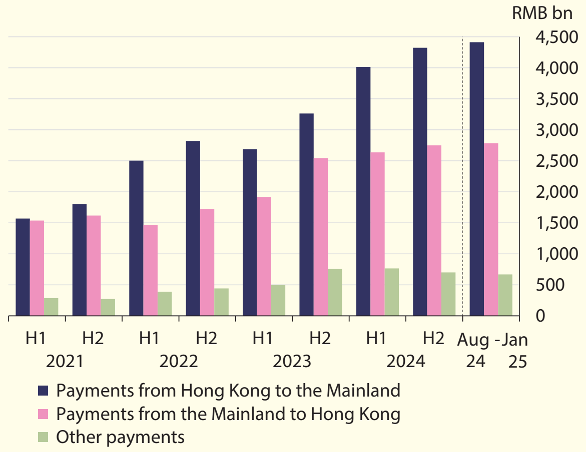
Table 4.A
Offshore renminbi banking statistics

	Dec 2023	Jan 2025
Renminbi deposits & CDs (RMB bn)	1,045.3	1,131.8
Of which:		
Renminbi deposits (RMB bn)	939.2	986.8
Share of renminbi deposits in total deposits (%)	6.3	6.0
Renminbi CDs (RMB bn)	106.1	145.0
Renminbi outstanding loans (RMB bn)	441.2	744.9
Number of participating banks in Hong Kong's renminbi clearing platform	208	206
Amount due to overseas banks (RMB bn)	121.7	143.3
Amount due from overseas banks (RMB bn)	114.5	119.9
	2023	**2024**
Renminbi trade settlement in Hong Kong (RMB bn)	11,668.6	15,184.6
Of which:		
Inward remittances to Hong Kong (RMB bn)	4,462.9	5,384.5
Outward remittances to Mainland China (RMB bn)	5,951.2	8,336.3
Turnover in Hong Kong's RMB real time gross settlement (RTGS) system (Daily average during the period; RMB bn)	2,063.6	3,097.5

Source: HKMA.

Other CNH business continued to grow. The outstanding aggregate amount of RMB loans expanded by 27.4% in the six-month period from July 2024. Hong Kong's RMB trade settlements also continued to pick up. Transactions handled by banks in Hong Kong amounted to RMB7,865.7 billion between end-July and end-January 2025 (Chart 4.8), up by 13.3% compared with RMB6,943.1 billion during the same period last year, with outward trade remittances to the Mainland increasing more than inward trade remittances to Hong Kong. The deep RMB liquidity pool in Hong Kong and the capabilities and extensive network of Hong Kong banks continued to support a large volume of RMB payments and financing transactions. For 2024 as a whole, the average daily turnover of the RMB RTGS system stayed high at RMB3,097.5 billion, compared with RMB2,063.6 billion recorded in 2023.

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's new RMB Trade Financing Liquidity Facility, which was launched in February 2025, will further enhance the liquidity of Hong Kong's CNH market by providing banks with a stable source of relatively lower-cost RMB funds to support trade finance services. On products, the continuous efforts to upgrade and expand the family of Connect schemes between the Mainland and Hong Kong[42], which include Swap Connect, Stock Connect, Bond Connect, and Cross-boundary Wealth Management Connect, will widen the spectrum of RMB products and tools available for asset allocation and risk management, facilitating greater two-way traffic between the two markets. As for financial infrastructure, CMU OmniClear[43] and Hong Kong Exchanges and Clearing Limited (HKEX) signed a Memorandum of Understanding (MOU) in March 2025 to deepen their collaboration in enhancing the post-trade securities infrastructure of Hong Kong's capital markets, and will explore and pursue cooperation in areas such as expanding the use of Mainland bonds as collateral. The HKMA and the PBoC are working closely together to implement the linkage of faster payment systems in the Mainland and Hong Kong (i.e. the Mainland's Internet Banking Payment System (IBPS) and Hong Kong's Faster Payment System (FPS)), supporting broader economic cooperation and exchange between the two places. With these developments, Hong Kong will continue to play a unique role in supporting Mainland's capital account opening, as well as the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road initiatives.

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[42] The HKMA and the PBoC announced new policy measures to deepen the financial market connectivity between Hong Kong and the Mainland, and consolidate Hong Kong's status as the global CNH business hub. For details, see the press release "New Measures to Deepen Financial Cooperation between Hong Kong and the Mainland" on 13 January 2025. (https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/01/20250113-4/)

[43] CMU OmniClear was established in October 2024 to operate the Central Moneymarkets Unit (CMU) on behalf of the HKMA, and is a wholly-owned subsidiary of the Exchange Fund.

Asset markets

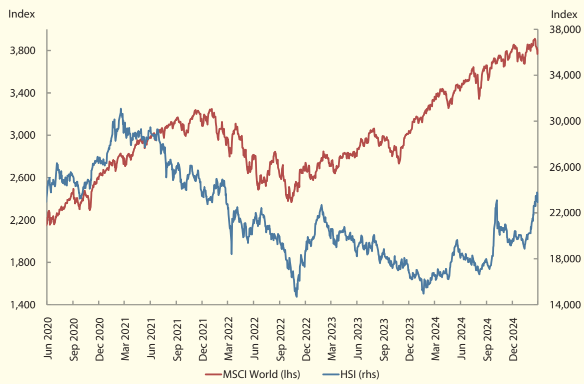
The Hong Kong equity market experienced substantial growth during the review period, driven by the Mainland's supportive policy measures, the first interest rate cut by the US Federal Reserve (Fed) in more than four years, and the positive market sentiment following China's recent advancements in A.I.. Despite volatility in interest rates, new issuances of CNH debt securities in Hong Kong and HKD debt securities continued to grow steadily in 2024. Housing prices showed signs of stabilisation following the commencement of the interest rate cut cycle in September 2024, while the commercial real estate market remained under pressure.

4.3 Equity market

The Hong Kong equity market rose notably between September and early October 2024, driven by the Mainland's supportive policy measures and the first interest rate cut by the US Fed in more than four years (Chart 4.9). Although the local equity market softened subsequently, it performed strongly from the middle of January 2025, boosted by the positive market sentiment following China's recent advancements in A.I.. Meanwhile, after being on an upward trajectory for most of the review period, the global equity market encountered a notable correction in late February 2025 due to concerns over economic outlook and the impact of US's trade policies. From the end of August 2024 to the end of February 2025, the Hang Seng Index surged by 27.5%, outperforming the MSCI World Index, which rose moderately by 3.9% during the same period.

Volatility in the local equity market picked up in early October 2024 alongside the sharp rise in the Hang Seng Index (the blue line in Chart 4.10). The option-implied volatilities of the S&P 500 Index fluctuated and rose notably in mid-December 2024 amid market concerns over a slower pace of US interest rate cuts in 2025. Meanwhile, the SKEW Index remained at a high level despite experiencing substantial fluctuations, reflecting that investors remained cautious of abrupt equity market corrections on concerns over stretched asset valuation[44].

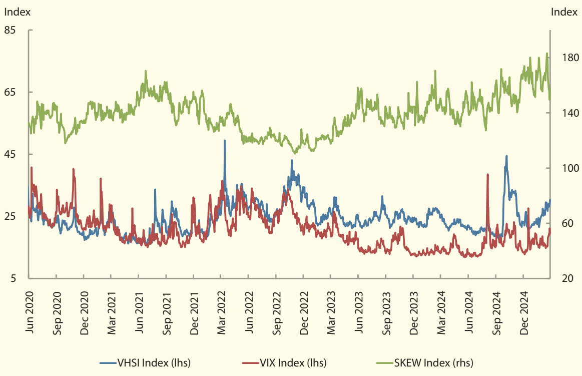
Chart 4.9
The Hang Seng Index and the MSCI World Index



Source: Bloomberg.

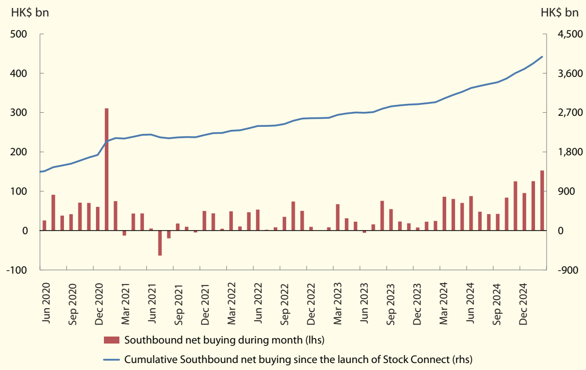
44 The SKEW Index is calculated by the Chicago Board Options Exchange from the prices of the S&P 500 out-of-the-money options. A SKEW value of 100 means that the probability of outlier negative returns on a 30-day horizon is negligible. As the SKEW rises above 100, the left tail of the S&P 500 returns distribution acquires more weight, suggesting that the probability of outlier negative returns has become more significant. For details, see https://www.cboe.com/products/vix-index-volatility/volatility-indicators/skew.

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



Source: Bloomberg.

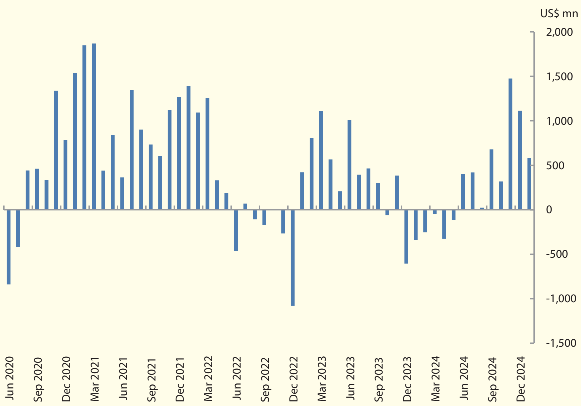
Chart 4.12
Net buying through Southbound Stock Connect over time



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.

The local equity market registered net inflows through equity market funds between August 2024 and January 2025, with the amount of net inflows totaling US$4,187.9 million (Chart 4.11).

Chart 4.11
Equity market fund flows into Hong Kong



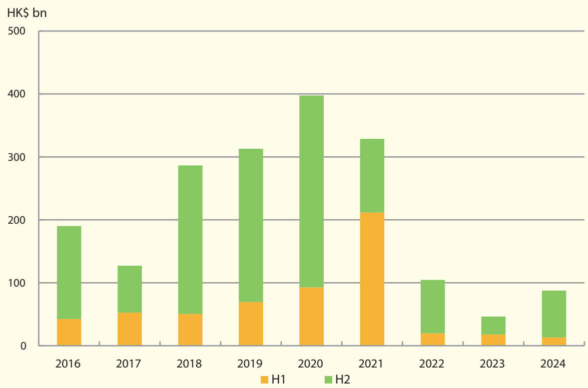
Source: EPFR Global.

There were steady net inflows into the local equity market through the Southbound Stock Connect, with net buying by Mainland investors amounting to HK$625.0 billion from the end of August 2024 to the end of February 2025 (Chart 4.12). The cumulative Southbound net buying amount since the launch of Stock Connect increased by 18.6% during the review period and stood at HK$3,976.9 billion at the end of February 2025.

Primary market activity in Hong Kong experienced a strong rebound in the second half of 2024. For 2024 as a whole, the amount of funds raised through IPOs increased by 89% from 2023 to reach HK$87.5 billion (Chart 4.13), making Hong Kong one of the world's top four IPO venues in 2024.

In October 2024, the Hong Kong Exchanges and Clearing Limited, together with the Securities and Futures Commission, announced an enhanced timeframe for the new listing application process. The initiative, which also features an accelerated processing timeframe for eligible companies listed in Mainland China, will provide greater certainty and transparency for potential applicants and their advisers in formulating their listing plans.

Chart 4.13
IPO market in Hong Kong



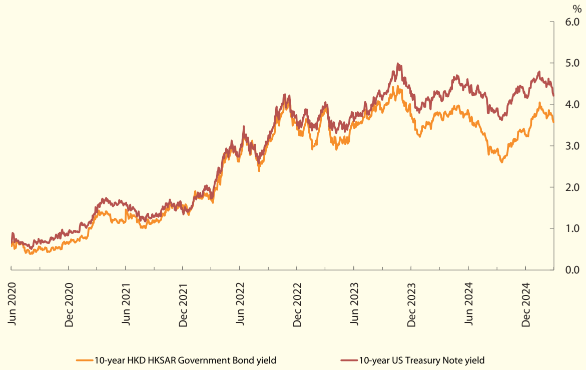
Source: Hong Kong Exchanges and Clearing Limited.

Developments in the external environment will continue to influence the performance of the local equity market. Changes in fiscal and trade policies under the new US administration may lead to higher uncertainties over inflation risks and thus the future trajectory of interest rates in the US. This could have significant implications for capital flows in the global financial market. Additionally, the potential resurgence of trade tensions and growing geoeconomic fragmentation could pose downside risks to the global financial market, including Hong Kong's equity market.

4.4 Debt market[45]

Despite the interest rate cut by the US Fed in September 2024, the first in over four years, the yield of the US 10-year Treasury Notes reversed its downward trend and rose from the middle of September (Chart 4.14) on concerns over rising inflation risks in the US under the new US administration. The yield declined notably in February 2025 as soft economic data sparked concerns over the US economic outlook. The yield of the 10-year HKD Hong Kong Special Administrative Region Government (HKSAR Government) Bond mirrored the movements of its US counterpart.

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

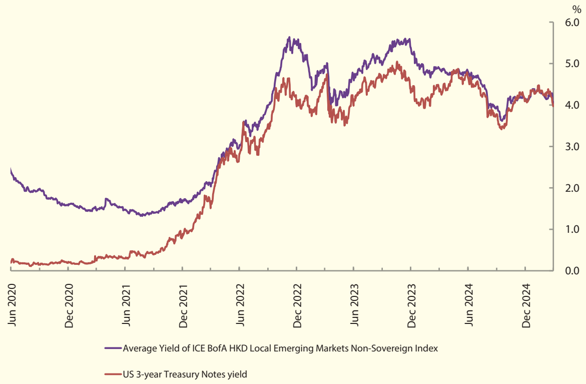


Note: Starting from 15 January 2025, the yield of the 10-year HKD HKSAR Government Bond refers to the yield of the benchmark 10-year HKD Bond issued under the Infrastructure Bond Programme and Government Sustainable Bond Programme. Before this date, the yield refers to the benchmark 10-year HKD Bond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

Sources: Bloomberg and HKMA.

The average yield of HKD corporate bonds also followed the movements of the yield of the US Treasury Notes of similar maturity, maintaining a narrow yield spread since 2024 (Chart 4.15).

Chart 4.15
Yields of US 3-year Treasury Notes and HKD corporate bonds



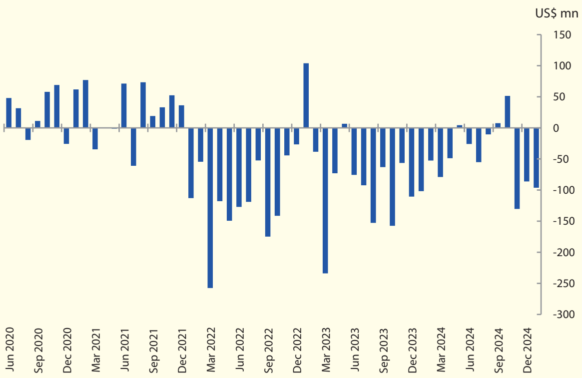
Notes: The ICE BofA HKD Local Emerging Market Non-Sovereign Index, which covers HKD bonds issued by corporates and quasi government entities, captures the movement in yields of HKD corporate bonds. The average effective duration of the ICE BofA HKD Local Emerging Market Non-Sovereign Index is around 3 years.

Sources: ICE Data Indices and Bloomberg

45 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. Figures of outstanding amounts of debt securities are estimated based on the maturity date of individual debt securities issued. The estimations take into account early redemptions if sufficient information is available. Figures of outstanding amounts of debt securities may be subject to overestimation. All debt securities figures are subject to revision.

There were net outflows from Hong Kong by bond market funds between August 2024 and January 2025 (Chart 4.16).

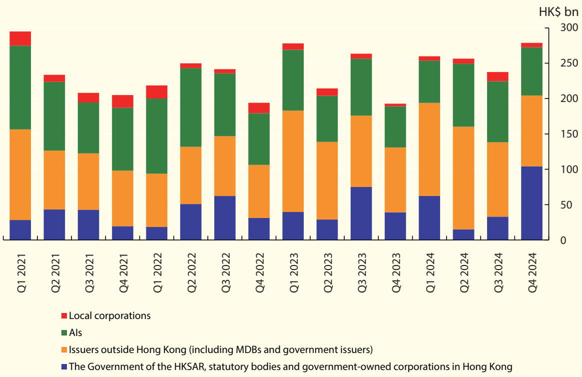
Chart 4.16
Bond market fund flows into Hong Kong



Source: EPFR Global.

The total issuance of HKD debt in the whole year of 2024 increased by 4.2% year-on-year to HK$5,135.1 billion. The issuance of non-Exchange Fund Bills and Notes (EFBN) HKD debt securities rose by 8.8% year-on-year to HK$1,032.5 billion (Chart 4.17).

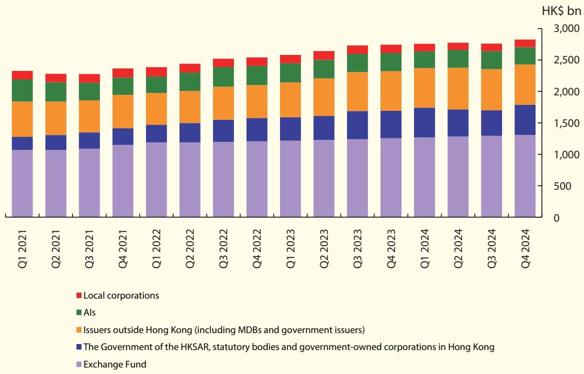
Chart 4.17
New issuance of non-EFBN HKD debt securities



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

The outstanding amount of HKD debt securities increased by 3.0% year-on-year to HK$2,825.1 billion at the end of 2024 (Chart 4.18). This amount was equivalent to 33.3% of HKD M3, and 28.2% of the HKD-denominated assets of the banking sector. Meanwhile, the outstanding amount of non-EFBN HKD debt securities increased by 2.1% year-on-year to HK$1,518.4 billion at the end of 2024.

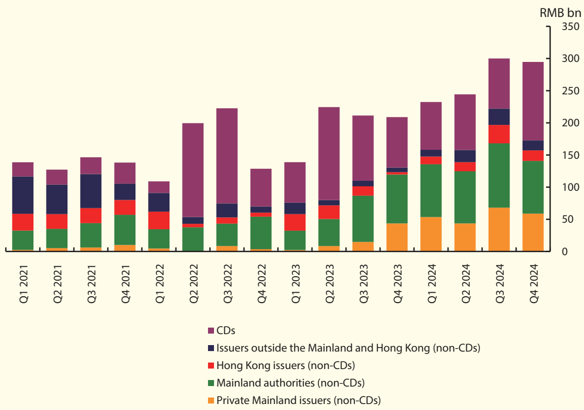
Chart 4.18
Outstanding HKD debt securities by issuer



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

The issuance of CNH debt securities in Hong Kong rose by 36.7% year-on-year to RMB1,071.6 billion in 2024 (Chart 4.19). This was mainly driven by the issuance of debt securities other than certificates of deposit (CDs), the issuance of these securities recorded a year-on-year increase of 79.4% to RMB710.8 billion. The total outstanding amount of CNH debt securities issued in Hong Kong grew by 36.0% year-on-year to RMB1,264.4 billion at the end of 2024.

Chart 4.19
New issuance of CNH debt securities in Hong Kong



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

The near-term outlook of the HKD debt market will continue to be influenced by the interest rate paths of major advanced economies. The recent narrowing of the yield spread between HKD corporate bonds and US Treasury Notes (see Chart 4.15) may support HKD bond issuance.

Meanwhile, the CNH debt market in Hong Kong will be shaped by the monetary policies of Mainland China and the US, as well as by RMB exchange rates. In particular, a moderately loose monetary policy in Mainland China in 2025 could benefit CNH debt securities issuance in Hong Kong.

During the review period, policy initiatives were introduced to foster local debt market developments. On 11 September 2024, the Hong Kong Mortgage Corporation Limited announced the successful completion of its second infrastructure loan-backed securities issuance, with a total value of approximately US$423.3 million. The issuance further supports the development of Hong Kong as an infrastructure financing hub, facilitating inflows of market capital to high-quality infrastructure projects, and expanding the securitisation market in Asia.

In addition, the People's Government of Guangdong Province issued RMB 5 billion worth of CNH bonds in Hong Kong for the first time on 20 September 2024. The issuance further solidifies Hong Kong's position as a global offshore RMB business hub, contributes to the prudent and solid advancement of RMB internationalisation, and enables the GBA to better serve as the momentum for high-quality development.

On 28 November 2024, the HKMA launched the Digital Bond Grant Scheme (DBGS), which was announced in the 2024 Policy Address. The DBGS aims to promote the development of the digital securities market and encourage broader adoption of tokenisation technology in capital market transactions.

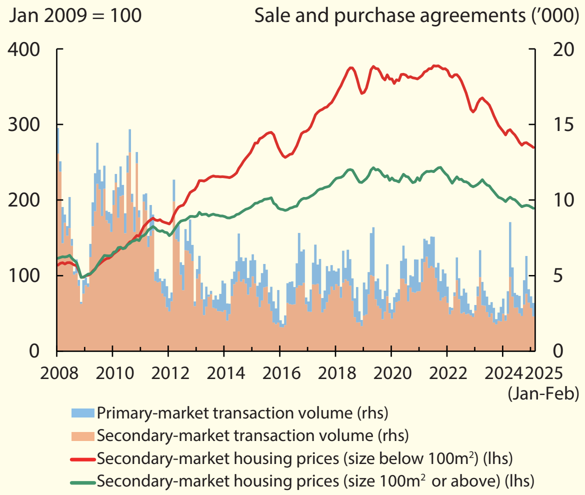
To promote the development of the bond markets in Hong Kong and Macao, the HKMA and the Monetary Authority of Macao (AMCM) jointly announced on 21 January 2025 the official launch of the direct linkage between the CMU operated by CMU OmniClear Limited (a subsidiary of the Exchange Fund), and the central securities depository operated by Macao Central Securities Depository and Clearing Limited, a subsidiary of the AMCM. The connection between the bond market infrastructures in Hong Kong and Macao will provide a cross-border investment and financing channel, enabling investors from both markets to participate in each other's bond market with greater ease and efficiency. The direct linkage also signifies a new milestone in financial cooperation between Hong Kong and Macao, leveraging the strengths of both regions and demonstrating the synergistic development of the GBA.

4.5 Property markets

Residential property market

The residential property market was subdued in the third quarter of 2024, before regaining momentum after the initiation of the interest rate cut cycle in September 2024. Flat-viewing activities and market transactions increased, while property developers also stepped up new launches alongside improved market sentiment. As a result, average monthly housing transactions saw a significant increase, rising from 3,408 units in the third quarter to 5,033 units in the fourth quarter. For 2024 as a whole, total housing transactions rebounded to 53,099 units from 43,002 units in the preceding year (Chart 4.20).

Chart 4.20
Residential property prices and transaction volumes

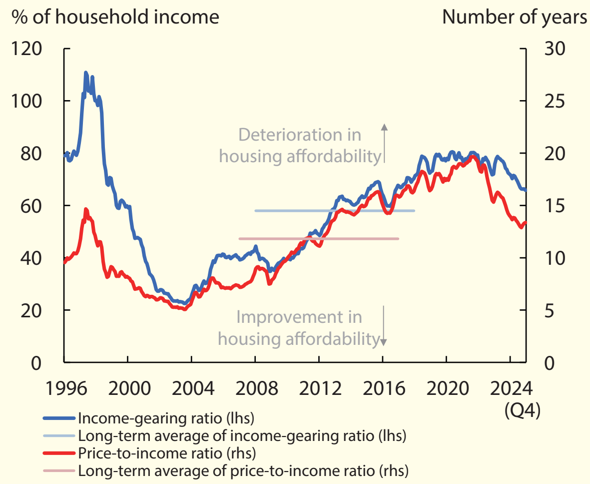


Sources: R&VD and Land Registry.

Amid continued adoption of competitive pricing strategies by developers in launching new projects, secondary-market housing prices remained under pressure in the second half of 2024 despite signs of stabilisation towards the end of the year for both large flats (with a saleable area of $100m^2$ or above) and small-and-medium-sized flats (with a saleable area of less than $100m^2$) (Chart 4.20). For the full year of 2024, residential property prices fell by 7.1%, the third consecutive year of decline. Entering into 2025, housing prices recorded a mild decline of 1.6% in the first two months of the year, while transaction volumes edged down in January and February partly due to softened market sentiment amid concerns over a slower pace of US Fed interest rate cuts and the holiday effect. Nevertheless, the market turned active in early March following the adjustments to stamp duties for properties at lower values as announced in the 2025–26 Budget[46].

Housing affordability, despite remaining stretched, saw further improvement in the second half of 2024. Reflecting the downward adjustment of housing prices during the period, the housing price-to-income ratio decreased to 13.4 as at the end of December 2024. Meanwhile, the income gearing ratio also eased slightly to 65.8% alongside the decrease in interest rates, albeit still remaining above the long-term average (Chart 4.21).[47] In the leasing market, housing rentals rose by 3.4% in 2024 and continued to rise in early 2025 (Chart 4.22), driving residential rental yields up to 3.2% in January 2025.

Chart 4.21
Indicators of housing affordability

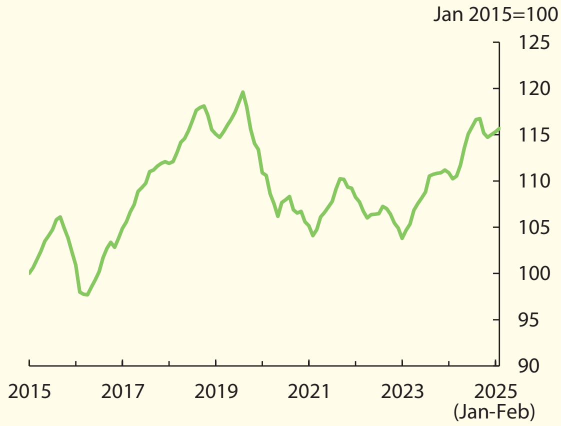


Sources: R&VD, C&SD and HKMA staff estimates.

46 In the 2025–26 Budget, the Government announced that the maximum value of properties chargeable to a stamp duty of HK$100 would be raised from HK$3 million to HK$4 million with effect from 26 February 2025.

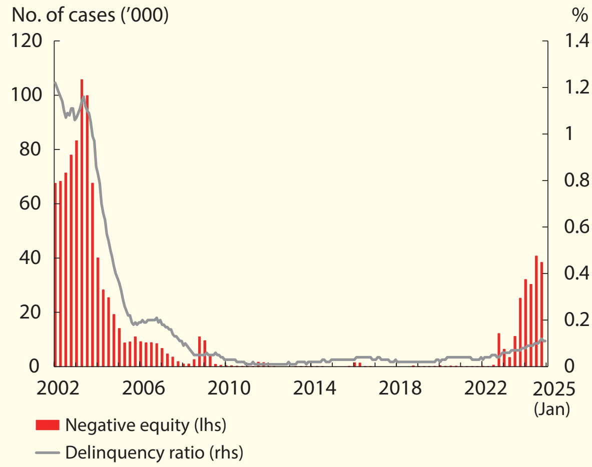
47 The price-to-income ratio measures the average price of a typical $50m^2$ flat relative to the median income of households living in private housing. The income-gearing ratio compares mortgage payments for a typical $50m^2$ flat (under a 20-year mortgage scheme with a 70% loan-to-value ratio) to the median income of households living in private housing. The income-gearing ratio is not the same as a borrower's actual debt-servicing ratio, which is subject to a maximum cap under HKMA prudential measures.

Chart 4.22
Residential property rental index



Source: R&VD.

Chart 4.23
Negative equity and mortgage delinquency ratio



Source: HKMA.

Reflecting the movements in housing prices, the estimated number of residential mortgage loans (RMLs) in negative equity retreated to 38,389 cases at the end of December 2024 after rising to 40,713 cases at the end of September 2024 (Chart 4.23). These cases were mainly related to bank staff housing loans or RMLs under the Mortgage Insurance Programme, which generally have a higher LTV ratio. In addition, the mortgage delinquency ratio of all the outstanding RMLs stayed low at 0.12% in January 2025[48], suggesting that the systemic risks relating to banks' RMLs are being effectively managed through prudent underwriting standards. On the other hand, since the commencement of the US interest rate cut cycle in September 2024, local major banks have adjusted their Best Lending Rates downwards by a total of 62.5 basis points. As a result, the average mortgage interest rate for new loans fell to around 3.51% in January 2025, easing the debt-servicing burden of mortgage borrowers (see also section 4.2).

Taking into account the latest market developments and the stability of the banking system, the HKMA further adjusted the countercyclical macroprudential measures for property mortgage loans on 16 October 2024 by standardising the maximum LTV ratio and the debt-servicing ratio (DSR) limit at 70% and 50%, respectively, for all properties, having considered that there was room for the adjustments while continuing to maintain banking stability and ensuring the proper risk management of property mortgage loans.[49] Notwithstanding these adjustments, the average LTV ratio and DSR for new mortgages remained at about 61% and 39% respectively in January 2025. The HKMA considers that the Hong Kong banking sector continues to have ample buffers to cope with any challenges that may arise from a sharp correction in property prices.

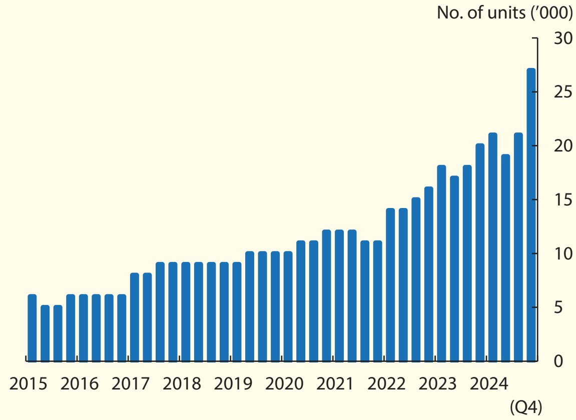
[48] The delinquency ratio of RMLs in negative equity also remained at a low level of 0.15% at the end of December 2024.

[49] The adjustments effective from 16 October 2024 include: (i) setting the maximum LTV ratio for all residential properties at 70%, regardless of the value of the property and whether it is for self-occupation; (ii) adjusting the maximum LTV ratio for net-worth based mortgage loans from 60% to 70%; (iii) adjusting the DSR limit for non-self-use properties from 40% to 50%; and (iv) lifting the requirement to lower the applicable maximum LTV ratio and DSR limit by 10 percentage points for mortgage applicants who have borrowed or guaranteed other outstanding mortgages. For details, see the circular "Prudential Measures for Property Mortgage Loans" issued by the HKMA on 16 October 2024.

To further assist stage payment homebuyers who bought uncompleted residential properties during 2021 to 2023 to complete their transactions, while continuing to ensure the proper risk management of banks' property mortgage lending business, the HKMA also introduced a one-off special scheme on 4 December 2024, allowing banks to provide mortgage loans with a maximum LTV ratio of 80% and a DSR limit of 60% to eligible homebuyers.[50] The HKMA will continue to monitor market developments closely and introduce measures to safeguard banking stability as conditions in the property market evolve.

The residential property market outlook is clouded by multiple uncertainties and risks. On the one hand, the accumulated inventories in the primary market[51] (Chart 4.24), coupled with growing uncertainty surrounding the pace of the US Fed's interest rate cuts, may continue to pose headwinds to housing prices in the near term. On the other hand, the Government's ongoing policies to attract businesses and talents should provide some support for housing demand.[52] Over the longer term, the outlook for the housing market will depend on the supply-demand gap. The Government projects that private housing supply will remain abundant in the coming years.[53]

Chart 4.24
Unsold units in completed projects



Source: Housing Bureau.

Commercial real estate market[54]

The commercial real estate market remained lacklustre in the second half of 2024. The average monthly transaction volume increased to a still low level of 292 units during the period, up from 264 units in the first half of 2024. Meanwhile, speculative activities also remained subdued (Chart 4.25). In line with the muted market sentiment, prices for office spaces, retail premises and flatted factories continued to decline throughout 2024 and into the first month of 2025 (Chart 4.26). In the leasing market, rentals generally remained soft, although rental yields across all three segments edged up to 3.4%–3.9% in January 2025 (Chart 4.27).

[50] The special scheme covers uncompleted residential properties for self-occupation where the provisional sale and purchase agreements were signed during the period from 1 January 2021 to 31 December 2023 and the buyers had opted for stage payment plans, with the property valuation at the time of mortgage application being lower than the purchase price. For details, see the circular "Prudential Measures for Property Mortgage Loans" issued by the HKMA on 4 December 2024.

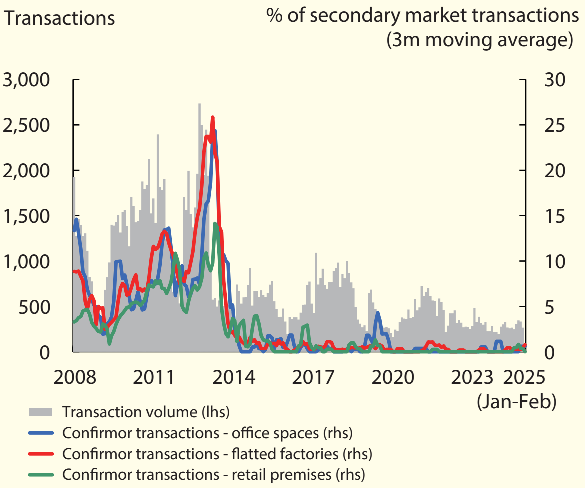
[51] There were around 27,000 unsold units in completed projects as of the end of 2024. If uncompleted projects with pre-sale consents and those applying for pre-sale consents are also included, the outstanding inventory in the primary market amounted to around 46,000 units as of the end of 2024.

[52] In the 2024 Policy Address, the Government announced enhancements to the various talent admission schemes and the New Capital Investment Entrant Scheme (CIES). With effect from 16 October 2024, investment in one single residential property with a transaction price of no less than HK$50 million can be counted as eligible investments under the New CIES, with the amount of real estate investment to be counted towards the total capital investment capped at HK$10 million. Furthermore, various enhancement measures, including relaxing the net asset assessment and calculation requirement, as well as allowing investments made through an eligible private company wholly owned by an applicant to be counted towards the applicant's eligible investment, have taken effect from 1 March 2025.

[53] According to the Housing Bureau, the potential first-hand private housing supply for the next three to four years will remain elevated at around 107,000 units as estimated at the end of 2024.

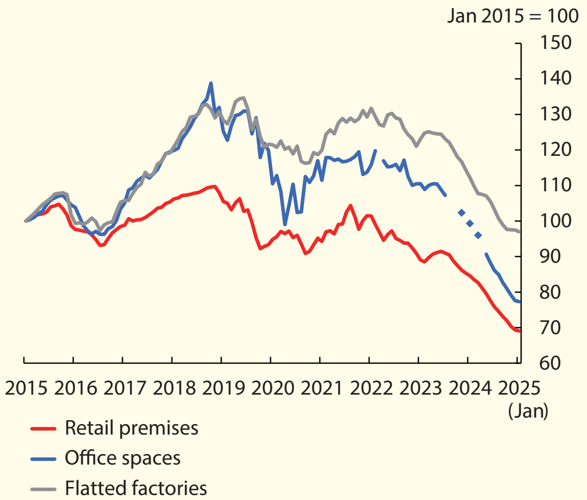
[54] Commercial real estate refers to office spaces, retail premises and flatted factories.

Chart 4.25
Transactions in commercial real estates



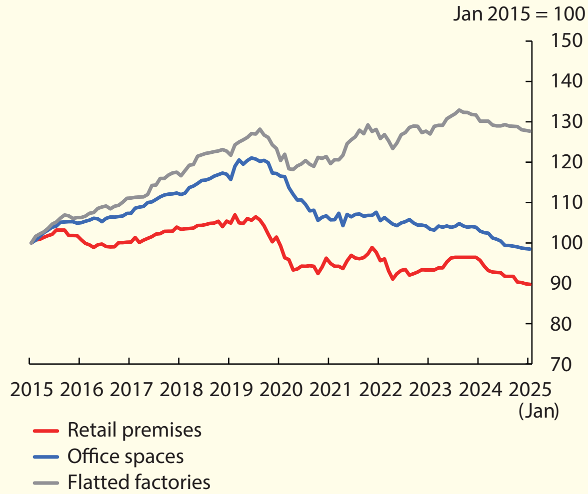
Sources: R&VD and Centaline Property Agency Limited.

Chart 4.26
Commercial real estate price indices



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

Chart 4.27
Commercial real estate rental indices



Source: R&VD.

Looking ahead, the commercial real estate market is expected to face ongoing challenges, particularly in the office segment, given elevated vacancy rates[55] amid ample supply in recent years, as well as the prevalence of remote working. Meanwhile, shifts in consumption patterns among visitors and residents may persist, weighing on the performance of the retail premises segment. Nevertheless, some support may be provided to the market from the supportive measures introduced by the Mainland authorities to boost Hong Kong's tourism sector[56], as well as Mainland's economic stimulus measures. In view of the high vacancy rates of offices in recent years and the relatively ample supply in the next few years, the Government announced in the 2025–26 Budget the suspension of commercial site sales in the upcoming fiscal year, as well as the consideration of rezoning some of the commercial sites into residential use and allowing greater flexibility of land use.

55 Market data from surveyor firms indicates that Grade A office vacancy rates remained high at 13.3% in February 2025.

56 These measures include the resumption of the multiple-entry IVS, the increase in the number of IVS applicable cities, and the increase in the duty free shopping allowance for Mainland tourists.