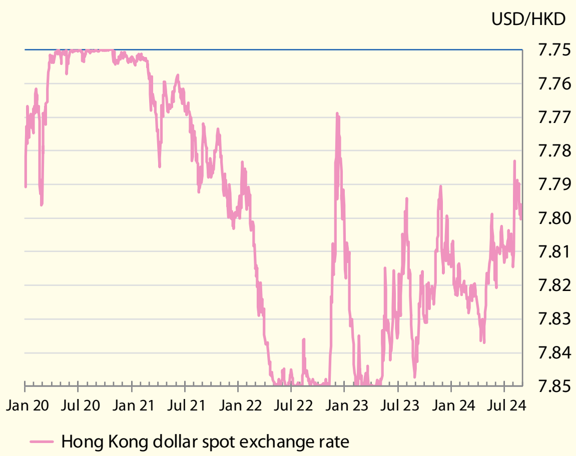
4. Monetary and financial conditions

The Hong Kong dollar (HKD) strengthened between late April and mid-May, mainly supported by dividend-related funding demand. In early August, the HKD strengthened sharply as concerns of a possible US recession and expectations of faster and deeper US Fed rate cuts triggered an unwinding of carry trades and short HKD positions, and remained stable thereafter. Hong Kong Interbank Offered Rates (HIBORs) generally tracked their US dollar (USD) counterparts while also being affected by local supply and demand. HIBORs eased in early April after the March quarter-end, followed by some tightening amid equity-related and dividend-related funding demand since late April. HIBORs eased again in early August after the dividend peak season. Total deposits increased in the first seven months of 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, uncertainties surrounding the global interest rate outlook and geoeconomic fragmentation may heighten fund flow volatility. Nonetheless, with its ample foreign reserves position and a 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

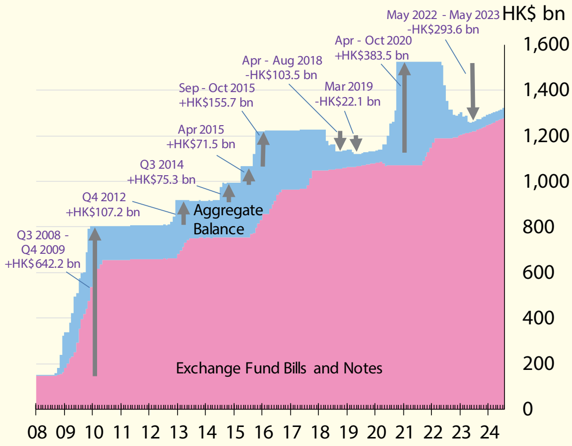
The HKD strengthened between late April and mid-May, mainly supported by dividend-related funding demand. In early August, the HKD strengthened sharply as concerns of a possible US recession and expectations of faster and deeper US Fed rate cuts triggered an unwinding of carry trades and short HKD positions, and remained stable thereafter. During the review period, the HKD traded within a range between 7.7829 and 7.8369 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$44.9 billion at the end of August 2024, 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



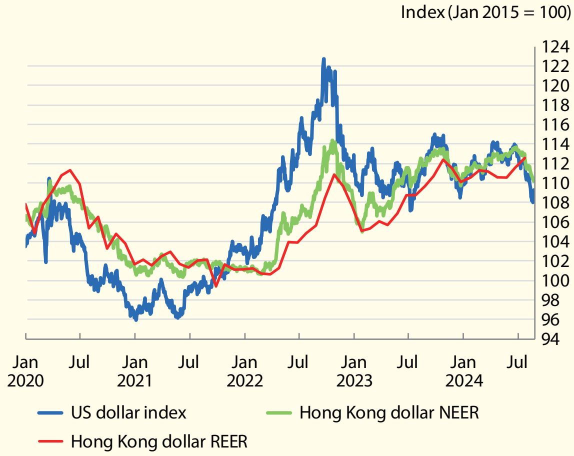
Source: HKMA.

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 mid-March till early July, before softening thereafter (Chart 4.3). Meanwhile, the Hong Kong dollar real effective exchange rate index (REER) generally followed the movement of the NEER.

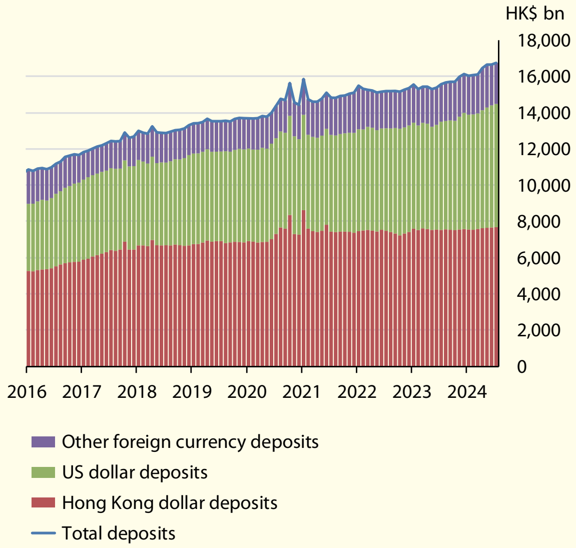
Going forward, fund flows are likely to remain influenced by uncertainties surrounding the global interest rate outlook and geoeconomic fragmentation. However, with its ample foreign reserves position and robust financial system, Hong Kong is able to withstand the volatilities in fund flows without compromising 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$1,934.7 billion as at the end of August 2024.

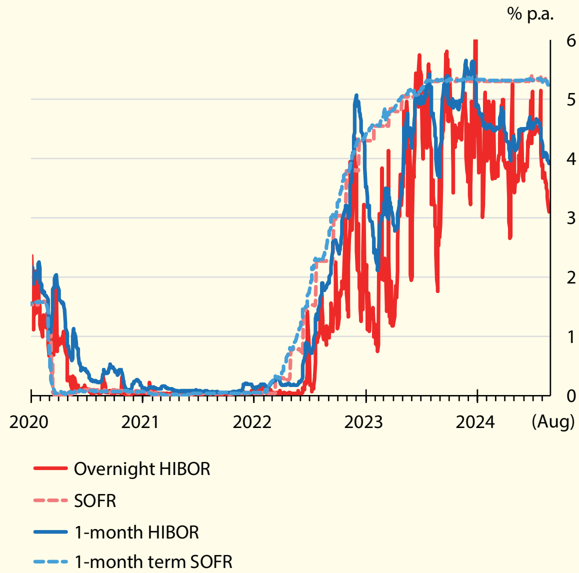
In the first seven months of 2024, total deposits with authorized institutions (AIs) increased by 3.8%. Among the total, HKD and foreign currency deposits increased by 1.3% and 6.1% respectively (Chart 4.4). It should be noted that monetary statistics are subject to volatility due to a wide range of 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, HKD interbank interest rates generally tracked their USD counterparts[31] while also being affected by local supply and demand. HIBORs eased in early April as the seasonal funding demand faded after the end of the first quarter, followed by some tightening amid equity-related and dividend-related funding demand since late April. HIBORs eased again in early August after the dividend peak season (Chart 4.5).

On the retail front, after the US Fed lowered its policy rate in September 2024, many local banks reduced their Best Lending Rates by 25 basis points. Meanwhile, the average lending rate for new mortgages increased slightly from 4.13% to 4.14% between January and July 2024.

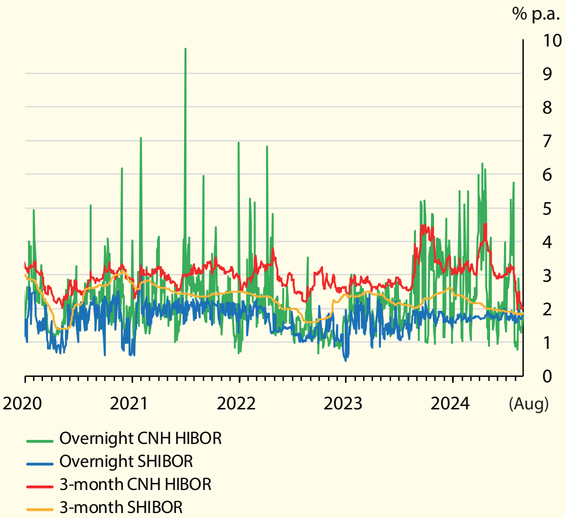
In the near term, HKD interest rates may stay at relatively high levels. The HKMA continues to closely engage with banks, reminding them to properly manage their liquidity, including keeping in close contact with their large clients to understand their HKD funding plans and arrangements. This helps banks 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.

31 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.

Offshore RMB banking business

The offshore renminbi (CNH) interbank market continued to function normally during the review period.[32] The three-month CNH HIBOR rose above 4% during April 2024 due to occasional tightness in liquidity, before easing to 3% at the end of May 2024 as demand softened, followed by further softening towards the end of July. 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.

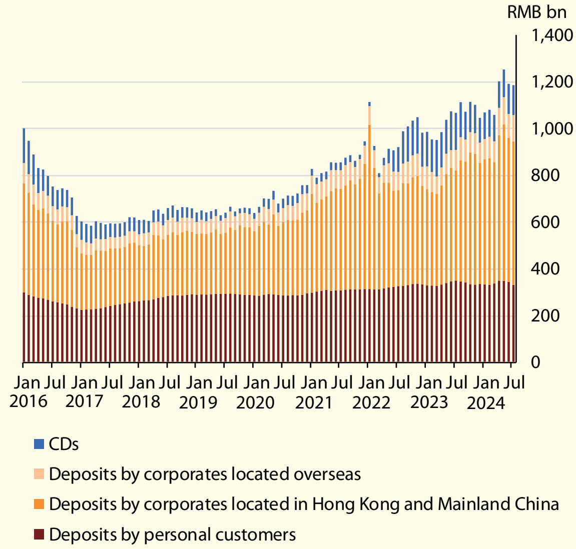
Chart 4.6
Overnight and 3-month offshore renminbi (CNH) HIBOR fixings



Source: CEIC and Treasury Markets Association.

Hong Kong's CNH liquidity pool expanded during the first seven months of 2024. The total outstanding amount of renminbi (RMB) customer deposits and certificates of deposit (CDs) increased by 13.4% to RMB1,185.6 billion at the end of July 2024 (Chart 4.7 and Table 4.A). Among the total, RMB customer deposits grew by 12.6%, mainly led by corporate customers' deposits. With the continued increase in the issuance of RMB CDs, outstanding CDs expanded by 20.7% during the same period.

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



Source: HKMA.

Table 4.A
Offshore renminbi banking statistics

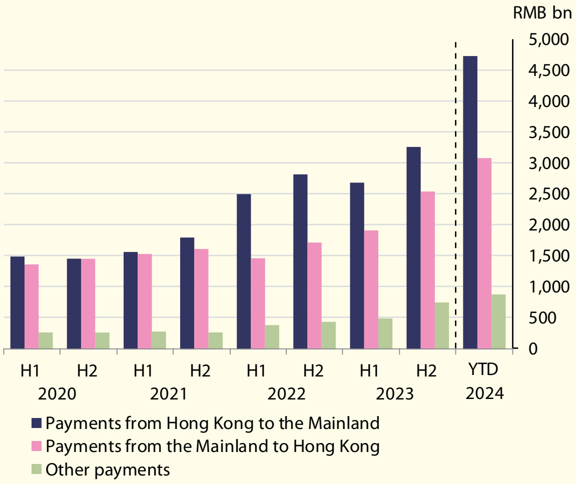
	Dec 2023	Jul 2024
Renminbi deposits & CDs (RMB bn)	1,045.3	1,185.6
Of which:		
Renminbi deposits (RMB bn)	939.2	1,057.5
Share of renminbi deposits in total deposits (%)	6.3	6.8
Renminbi CDs (RMB bn)	106.1	128.1
Renminbi outstanding loans (RMB bn)	441.2	584.6
Number of participating banks in Hong Kong's renminbi clearing platform	208	207
Amount due to overseas banks (RMB bn)	121.7	122.7
Amount due from overseas banks (RMB bn)	114.5	148.4
	Jan–Jul 2024	
Renminbi trade settlement in Hong Kong (RMB bn)	8,696.2	
Of which:		
Inward remittances to Hong Kong (RMB bn)	3,082.0	
Outward remittances to Mainland China (RMB bn)	4,728.9	
Turnover in Hong Kong's RMB real time gross settlement (RTGS) system (Daily average during the period; RMB bn)	3,327.1	

Source: HKMA.

[32] See Chapter 2.2 for the development of offshore and onshore renminbi exchange rates.

Other CNH business continued to grow. The outstanding aggregate amount of RMB loans expanded by 32.5% in the first seven months of 2024. Hong Kong's RMB trade settlement also continued to pick up. Transactions handled by banks in Hong Kong amounted to RMB8,696.2 billion in the first seven months of 2024 (Chart 4.8), up by 41.9% compared with RMB6,126.4 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 capability and extensive network of Hong Kong banks continued to support a large volume of RMB payments and financing transactions. During the first seven months of 2024, the average daily turnover of the RMB RTGS system stayed high at RMB3,327.1 billion, compared with RMB1,704.0 billion recorded in the same period 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 expansion of the list of eligible collateral for HKMA's RMB liquidity facility to include onshore renminbi (CNY) bonds issued by the Ministry of Finance and policy banks on the Mainland came into effect on 26 February 2024. Market response has been positive since the implementation, with banks in Hong Kong successfully using onshore bonds to obtain liquidity from the HKMA. On products, the continuous efforts to upgrade and expand the family of Connect schemes between the Mainland and Hong Kong[33], 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, the Central Moneymarkets Unit is also undergoing a major overhaul to enhance its operational capacity and product offerings, to better support the growth of RMB bond issuances and associated custodian services. The Multiple Central Bank Digital Currency Bridge (mBridge) project had reached the Minimum Viable Product (MVP) stage as of June 2024. Further progress has been made to expand the scope of the e-CNY pilot in Hong Kong to facilitate the set up and the use of e-CNY wallets by Hong Kong residents, as well as the top-up of e-CNY wallets through Hong Kong's Faster Payment System (FPS). This can improve cross-border payment and settlement efficiency for commercial and retail users. With these developments, Hong Kong will continue to play a unique role in supporting Mainland's capital account opening, the development of the green finance market, as well as the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road initiatives.

[33] The HKMA and the PBoC announced six policy measures to deepen financial cooperation early this year. Some of them have already been implemented. For more details, see the inSight article "Recent developments in financial cooperation between Hong Kong and the Mainland" on 28 June 2024 (https://www.hkma.gov.hk/eng/news-and-media/insight/2024/06/20240628/).

Asset markets

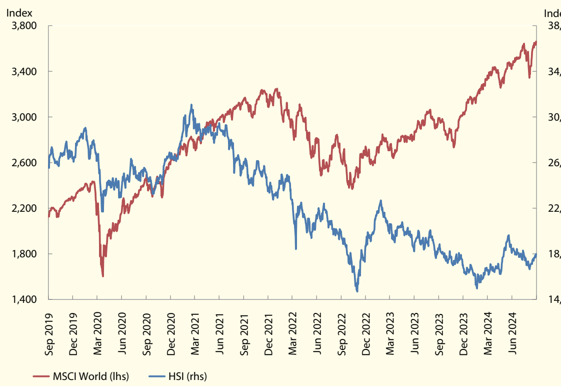
The Hong Kong equity market rose during the review period on the back of improved market sentiment, despite a sharp decline in the global equity market in early August. Supported by steady issuances, the local debt market continued to exhibit stable growth in the first half of 2024. After some stabilisation due to policy relaxations, the residential property market has softened since May as market sentiment weakened amid renewed uncertainty surrounding the US policy rate path.

4.3 Equity market

The Hong Kong equity market experienced a notable rebound between April and May 2024 on the back of improved market sentiment (Chart 4.9). The Hang Seng Index subsequently consolidated, before picking up again in August. The global equity market continued to rally during the review period, despite a sharp decline in early August amid renewed concerns over the US economic outlook and the unwinding of yen carry trades following the interest rate hike by the BOJ. Overall, the Hang Seng Index increased by 8.9% from the end of February 2024 to the end of August 2024, while the MSCI World Index rose by 9.7% during the same period.

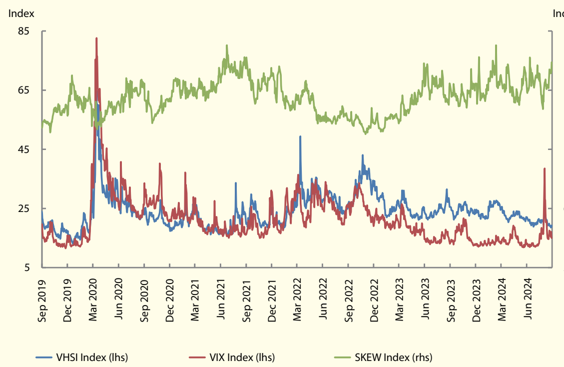
The sharp global stock market decline in early August was accompanied by an escalation in market volatility as measured by the option-implied volatilities of the S&P 500 Index (VIX Index), before stabilising quickly (Chart 4.10). The SKEW Index remained elevated amid the volatile market conditions.[34] Notwithstanding the surge in global market volatility, volatility in the local equity market remained contained throughout the review period.

Chart 4.9
The Hang Seng Index and the MSCI World Index



Source: Bloomberg.

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

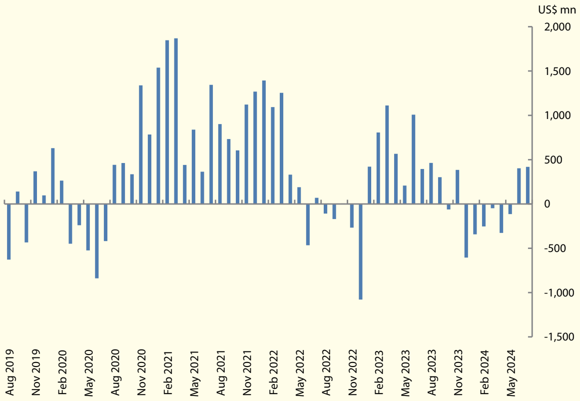


Source: Bloomberg.

The local equity market registered net inflows through equity market funds between February and July 2024 (Chart 4.11).

[34] 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.

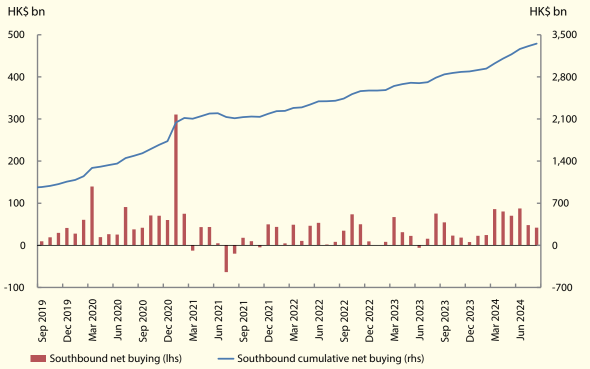
Chart 4.11
Equity market fund flows into Hong Kong



Source: EPFR Global.

There were steady net inflows into the local equity market through the Southbound Stock Connect, with the net buying by Mainland investors amounting to HK$414.1 billion from the end of February to end of August 2024 (Chart 4.12). The cumulative net buying amount increased by 14.1% to HK$3,352.0 billion during the review period.

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.

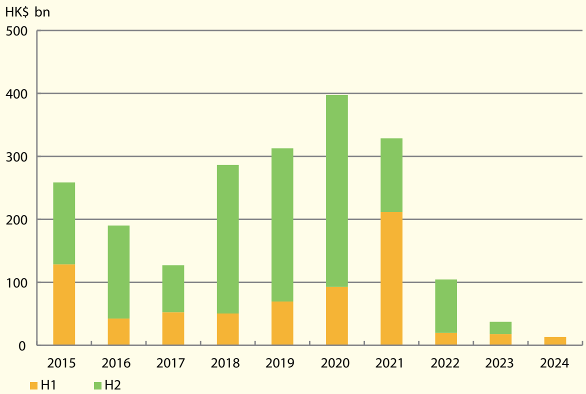
Sources: CEIC and HKMA staff estimates.

Global IPO activities have been clouded by political uncertainties arising from elections in various economies and lingering geopolitical tensions. The amount of capital raised through IPOs in reporting stock exchanges worldwide in the first half of 2024 fell by 17% year on year according to the World Federation of Exchanges. In Hong Kong, the total amount raised through IPOs amounted to HK$13.2 billion during the same period, dropping by 26.2% compared with the first half of 2023 (Chart 4.13).

In April 2024, the China Securities Regulatory Commission announced a series of measures to further expand the mutual access between the capital markets of the Mainland and Hong Kong. The measures include encouraging leading enterprises of industries in the Mainland to list in Hong Kong. The Mainland authorities' support for its leading enterprises of industries to list in Hong Kong is expected to benefit Hong Kong's IPO market.

During the review period, a milestone was reached for the Chapter 18C listing regime for Specialist Technology Companies, with the completion of the first company listing in June 2024.

Chart 4.13
Initial public offering market in Hong Kong



Source: Hong Kong Exchanges and Clearing Limited.

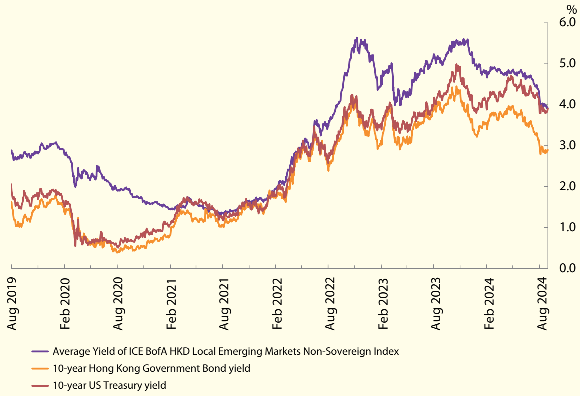
The near-term outlook for the local equity market is expected to be influenced by a wide range of factors. On the global front, the uncertainties surrounding the US economic outlook and the forthcoming US presidential election, coupled with the potential further unwinding of yen carry trades and persistent geopolitical tensions, are likely to fuel volatility in global financial markets, including Hong Kong's equity market.

Furthermore, the economic performance of the Mainland, as well as market expectations on policy measures by the Mainland authorities to support the Mainland economy, will remain key drivers of sentiments in the local equity market.

4.4 Debt market[35]

The yield of the US 10-year Treasury fluctuated during the review period, with a notable drop towards the end of July amid market concerns over the US economic outlook (Chart 4.14). The yield of the Hong Kong dollar 10-year Government Bond followed a similar pattern, while the yield of Hong Kong dollar corporate bonds also declined.

Chart 4.14
Yields of 10-year US Treasury, 10-year Hong Kong Government Bond, and Hong Kong dollar corporate bonds

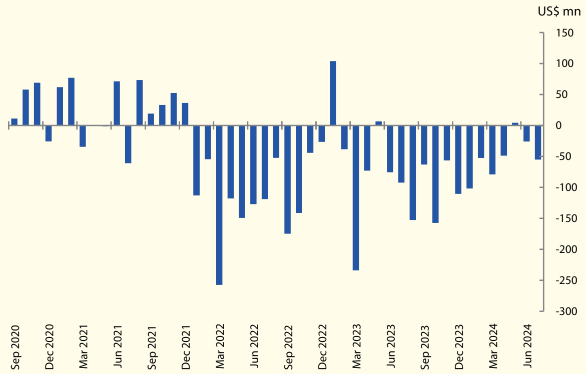


Note: The ICE BofA HKD Local Emerging Market Non-Sovereign Index, which covers Hong Kong dollar bonds issued by corporates and quasi government entities, captures the movement in yields of Hong Kong dollar corporate bonds.
Sources: ICE Data Indices, Bloomberg and HKMA.

Bond market funds recorded net outflows from Hong Kong between February and July 2024 (Chart 4.15).

[35] 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 revisions.

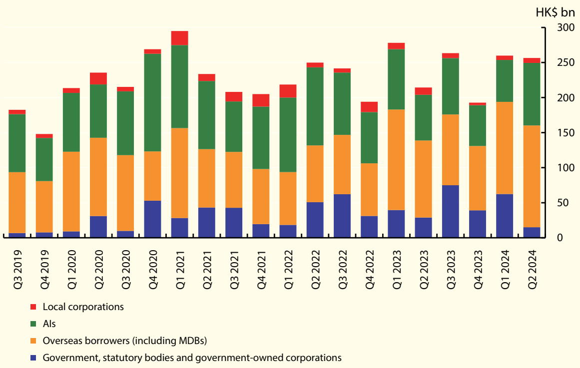
Chart 4.15
Bond market fund flows into Hong Kong



Source: EPFR Global.

The total issuance of Hong Kong dollar debt grew by 2.9% year on year to HK$2,538.1 billion in the first half of 2024 (Chart 4.16). Non-Exchange Fund Bills and Notes (EFBN) Hong Kong dollar debt securities increased by 4.9% year on year to HK$516.3 billion.

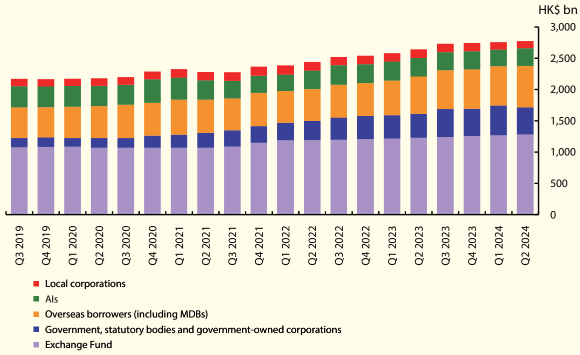
Chart 4.16
New issuance of non-Exchange Fund Bills and Notes Hong Kong dollar debt securities



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

As a result, the outstanding amount of Hong Kong dollar debt securities increased by 5% year on year to HK$2,774.9 billion at the end of June 2024 (Chart 4.17). This amount was equivalent to 33.2% of Hong Kong dollar M3, and 27.6% of the Hong Kong dollar-denominated assets of the banking sector. Meanwhile, the outstanding amount of non-EFBN Hong Kong dollar debt securities increased by 5.6% year on year to HK$1,493.2 billion at the end of June 2024.

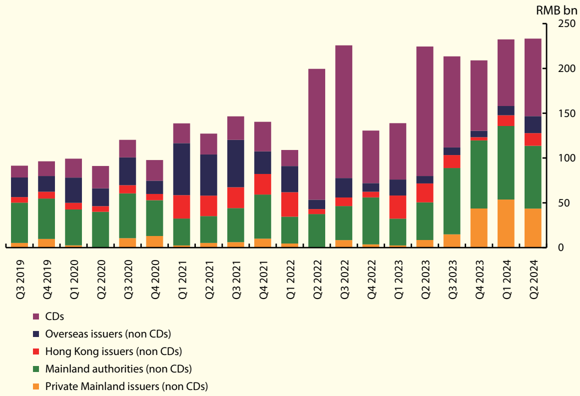
Chart 4.17
Outstanding Hong Kong dollar debt securities by issuer



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

The issuance of CNH debt securities in Hong Kong rose by 28.2% year on year to RMB465.7 billion in the first half of 2024 (Chart 4.18). This was mainly driven by non-CDs issuance, which recorded a year on year increase of 95.6% to RMB304.8 billion.

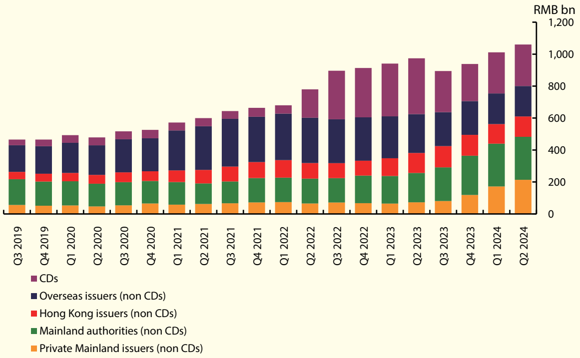
Chart 4.18
New issuance of CNH debt securities in Hong Kong



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

With the increase in issuance, the outstanding amount of non-CDs CNH debt securities increased by 28.1% year on year to RMB800.5 billion at the end of June 2024. Overall, the total outstanding amount of CNH debt securities issued in Hong Kong grew by 8.9% year on year to RMB1,060.4 billion at the end of June 2024 (Chart 4.19).

Chart 4.19
Outstanding CNH debt securities in Hong Kong



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

The near-term prospects of the local debt market will continue to be influenced by the interest rate paths of major advanced economies. Offshore renminbi debt market activities in Hong Kong will also depend on the economic performance of the Mainland, as well as movements in the renminbi interest and exchange rates.

During the review period, several policy initiatives were introduced to foster the development of green and sustainable finance in Hong Kong. On 3 May 2024, the HKMA released details of the extension of the Green and Sustainable Finance Grant Scheme (GSF Grant Scheme) as announced in the 2024–25 Budget. The GSF Grant Scheme has been extended by three years to 2027 to help foster the adoption of sustainable finance, enrich the local ecosystem, and promote good market practice. The scope of subsidies has also been expanded to cover transition bonds and loans, with a view to encouraging relevant industries in the region to make use of Hong Kong's transition financing platform as they move towards decarbonisation.

On 3 May 2024, the HKMA also published the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy) to enable informed decision making on green and sustainable finance and facilitate relevant finance flows. The Hong Kong Taxonomy currently encompasses 12 economic activities under four sectors namely power generation, transportation, construction, and water and waste management. It will serve as a pivotal tool to raise awareness about green finance, promote common understanding of green activities, facilitate green finance flows, and provide a foundation for further applications. The Hong Kong Taxonomy is a living document, where the HKMA will seek to expand the coverage of the taxonomy to include more sectors and activities, including transition activities.

Furthermore, on 18 July 2024, the Government announced the successful offering of approximately HK$25 billion worth of green bonds, denominated in renminbi, US dollar and euro, under the Government Sustainable Bond Programme (previously known as the Government Green Bond Programme). The offering attracted participation from a wide spectrum of investors globally, with more than HK$120 billion equivalent in orders. In particular, the 20-year and 30-year renminbi Green Bonds were offered for the first time by the Hong Kong Special Administrative Region (HKSAR) Government, with 30-year bond also being the longest tenor renminbi bond offered by the HKSAR Government so far. The inaugural offering of the 20-year and 30-year renminbi bonds helps to extend the offshore renminbi yield curve, further enrich offshore renminbi product offerings, and promote renminbi internationalisation in an orderly manner.

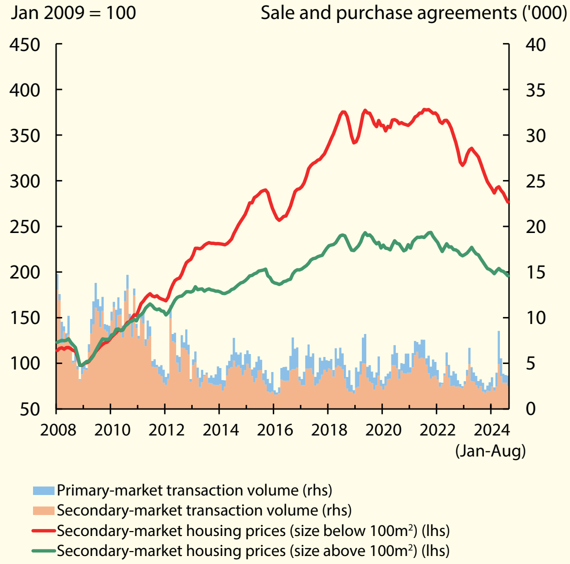
4.5 Property markets

Residential property market

The residential property market has softened after improving somewhat alongside the policy relaxations announced in late-February 2024.[36] Secondary-market flat-viewing activities increased notably in March and April, while property developers accelerated their new project launches by adopting competitive pricing strategies. Despite this, market sentiment has faltered since May, partly due to the massive absorption of purchasing power in the market and renewed uncertainties surrounding the US policy rate path.[37] As a result, the average monthly housing transaction volume moderated to 3,744 units in June to August, after reaching the recent peak of 8,551 units in April following a surge in primary-market activity (Chart 4.20).

In the face of intense competition from developers' new launches and weakened market sentiment, secondary-market housing prices retreated by 5.7% from May to August after having picked up by 2.4% in March and April. Specifically, the prices for small and medium-sized flats (with a saleable area of less than 100m^2) saw a slightly sharper decline than those for large flats (with a saleable area of at least 100m^2) (Chart 4.20). Latest real estate agencies' data indicated that housing prices remained subdued in early September.

Chart 4.20
Residential property prices and transaction volumes



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

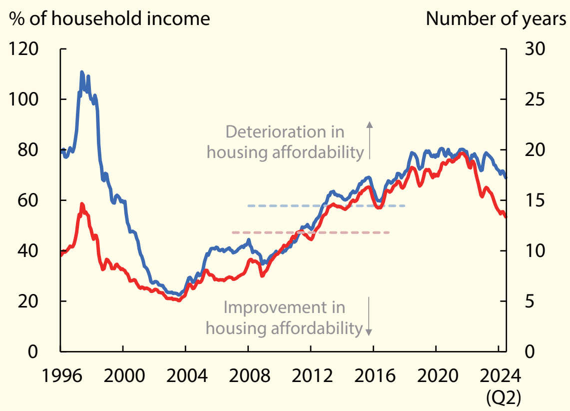
Housing affordability remained stretched in the first half of 2024. The housing price-to-income ratio was still close to the high level in 1997 despite subsiding to 13.4 on the back of the adjustment in housing prices and an increase in household income. Likewise, the income gearing ratio decreased to 68.9%, but remained well above the long-term average (Chart 4.21).[38] On the other hand, housing rentals saw a notable increase of 6.5% from February to August 2024 (Chart 4.22). In tandem, the residential rental yield edged up to 3.1% in July 2024 from 2.9% in January 2024.

36 These policy relaxations include the cancellation of all the demand-side management measures for residential properties, and adjustments to the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements on property loans. For details, see "The 2024–25 Budget" and the circular "Prudential Measures for Property Mortgage Loans and Other Related Supervisory Requirements" issued by the HKMA on 28 February 2024.

37 It was also reported in May 2024 that some banks had lowered their cash rebates and tightened their approval of RMLs in order to manage their loan portfolio risk amid the high interest rate environment. More recently, some banks have reportedly resumed their cash rebates in view of the expected start of US Fed's interest rate easing cycle in September.

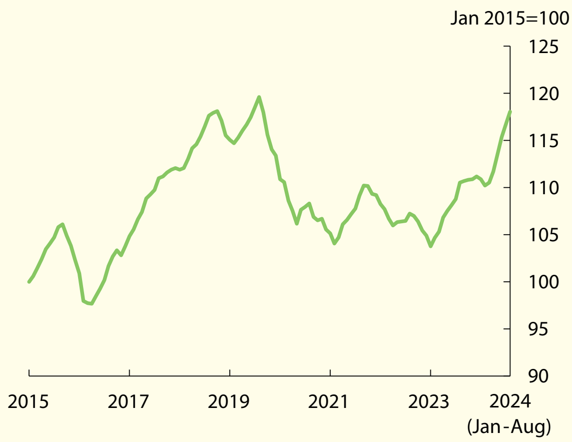
38 The price-to-income ratio measures the average price of a typical 50m^2 flat relative to the median income of households living in private housing. The income-gearing ratio compares the mortgage payment for a typical 50m^2 flat (under a 20-year mortgage scheme with a 70% LTV ratio) to the median income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

Chart 4.21
Indicators of housing affordability



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

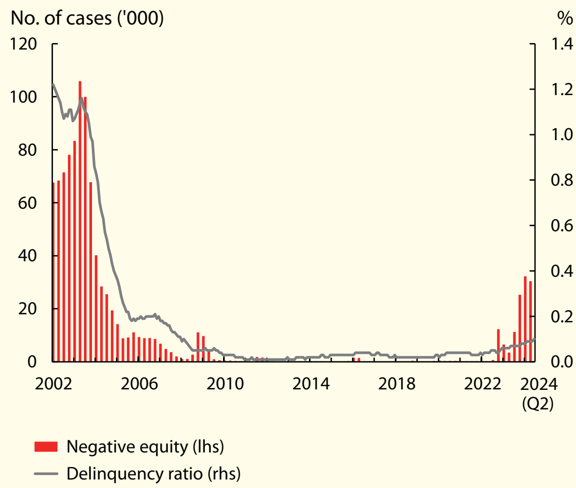
Chart 4.22
Residential property rental index



Source: R&VD.

Reflecting the movement in housing prices, the estimated number of RMLs in negative equity increased from 25,163 cases at end-December 2023 to 32,073 cases at end-March 2024, before decreasing slightly to 30,288 cases at end-June 2024 (Chart 4.23). These cases were related to bank staff housing loans or RMLs under the MIP, which generally have a higher LTV ratio. The delinquency ratio of these mortgages remained low at 0.11% at end-June 2024, partly reflecting the high mortgage loan quality under the MIP due to its strict requirements regarding applicants' repayment ability. Looking ahead, the tight labour market is anticipated to underpin households' mortgage payment capability, helping curb the upward pressure on the delinquency ratio of RMLs.

Chart 4.23
Residential mortgage delinquency ratio and loans in negative equity



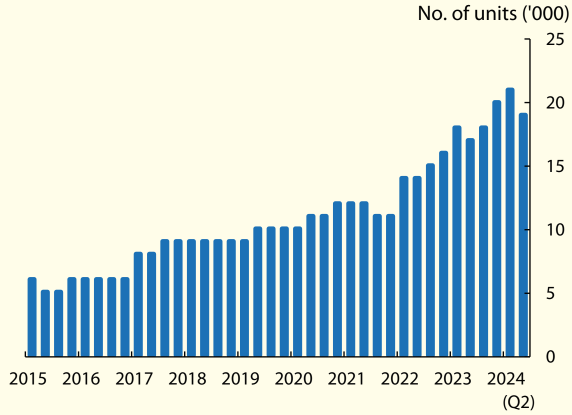
Source: HKMA.

The macroprudential measures introduced by the HKMA since 2009 have helped contain household leverage levels and strengthen banks' risk management for mortgage loans, thereby improving their resilience to interest rate and property market shocks. In particular, the average LTV ratio for new mortgages was about 61% in July 2024, below the ratio of 64% before the measures were first introduced in 2009. The average DSR also stayed at around 40%. In addition, over half of the private housing units did not carry any outstanding mortgages as of end-2023. As such, the systemic risks relating to banks' RMLs are being properly managed on various fronts.

Having prudently considered market trends and developments, the HKMA announced technical adjustments to the countercyclical macroprudential measures for property mortgage loans and other related supervisory requirements in June 2024 to assist certain buyers in genuine hardship to take out mortgage loans at a higher LTV ratio, while continuing to maintain effective risk management of banks' property mortgage lending business.[39] 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 subject to multiple uncertainties and risks. On the one hand, tight financial conditions and the accumulated inventory of the completed projects' unsold units may continue to weigh on market sentiment (Chart 4.24). On the other hand, market sentiment may improve as the US Fed kick-started the easing cycle, while the resilient labour market and the Government's policies to attract businesses and talents may provide some support for housing demand. Over the longer term, the outlook for the housing market will depend on the supply-demand gap. The Government projects that private housing completions, and thus supply in the market, will remain high in the coming years.[40]

Chart 4.24
Unsold units in completed projects



Source: Housing Bureau.

Commercial real estate market[41]

The commercial real estate market remained weak in the first seven months of 2024. The average monthly transaction volume stayed at a low level of 264 units during the period, and speculative activities continued to be weak (Chart 4.25). Along with the still-low transaction volume, prices for office spaces, retail premises and flatted factories eased further by 15.9%[42], 10.8% and 9.7% respectively in the year up to July (Chart 4.26). In the leasing market, rentals in all three segments remained soft (Chart 4.27). Overall, rental yields across segments edged up to 3.1%–3.6% in July 2024.

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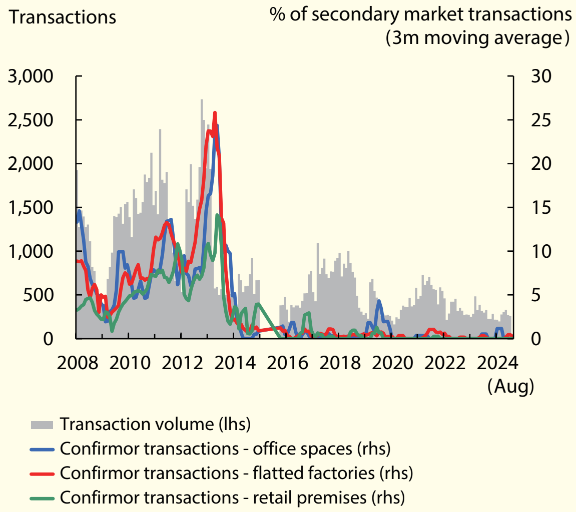
39 The adjustments effective from 14 June 2024 include: (i) broadening the applicability of the macroprudential measures for property mortgage loans that were announced on 28 February 2024 to include mortgage applications for residential properties under construction for self-occupation where the provisional sale and purchase agreements were signed before 28 February 2024 and the properties are scheduled for completion on or after 28 February 2024; (ii) simplifying the calculation of borrowing capacity under net worth-based lending; and (iii) reverting back haircuts on rental income of at least 30% to an indicative level of at least 20% when calculating the DSR of borrowers with investment property. For details, please refer to the circular "Technical adjustments to the countercyclical macroprudential measures for property mortgage loans" issued by the HKMA on 14 June 2024. In tandem, the HKMC Insurance Limited (HKMCI) also announced on the same day the adjustments to the MIP under which the applicability of the eligibility criteria of the MIP would be broadened to cover all mortgage insurance applications for owner-occupied residential properties in the primary market, irrespective of the execution dates of the relevant provisional sale and purchase agreements. For details, please refer to the press release "Technical Adjustment to the Mortgage Insurance Programme" issued by the HKMCI on 14 June 2024.

40 As estimated by the Housing Bureau at end-June 2024, the total supply of private first-hand flats in the coming three to four years is projected to remain at a high level of 109,000 units.

41 Commercial real estate refers to office spaces, retail premises and flatted factories.

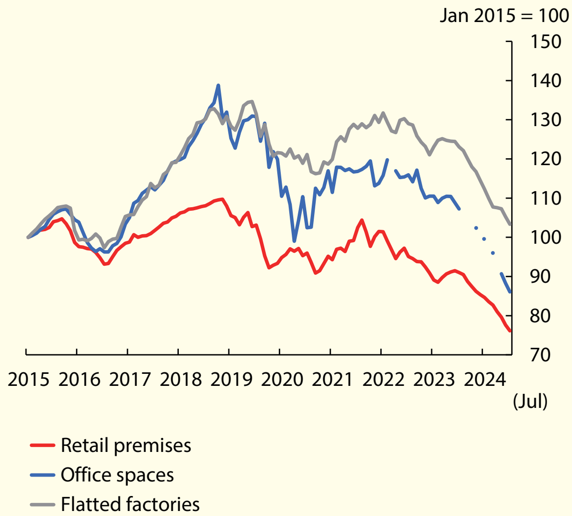
42 The year-to-date change in the price for office spaces is compared to the price in November 2023, as the corresponding data for December 2023 is not available.

Chart 4.25
Transactions in commercial real estates



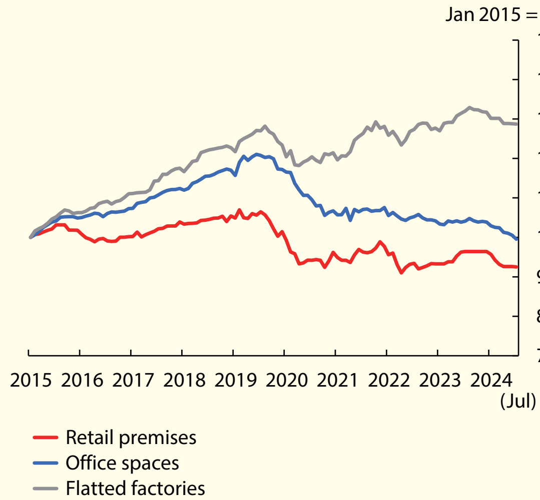
Note: The data on transaction volume is up to July 2024.
Sources: R&VD and Centaline Property Agency Limited.

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 for analysis.
Source: R&VD.

Chart 4.27
Commercial real estate rental indices



Source: R&VD.

The outlook for the commercial real estate market remains challenging in the near term. The subdued performance of the retail sector may continue to weigh on the retail premises segment, although the expansion of the IVS and the increase in duty free shopping allowance for Mainland tourists may lend some support to tourist spending. Meanwhile, both the capital and rental values of office spaces are likely to remain under pressure given high vacancy rates[43] amid ample supply following higher completions in recent years. That said, the Government's new CIES[44], which includes commercial real estate as a permissible investment, is expected to render some support to the market.

43 Market data from surveyor firms indicates that Grade A office vacancy rates increased to 13.4% in August 2024 from 12.8% in December 2023.

44 Under the Scheme, an applicant must demonstrate that he/she has net assets of not less than HK$30 million to which he/she is absolutely beneficially entitled throughout the two years preceding the application. An applicant must make an investment of a minimum of HK$30 million in the permissible investment assets, including investing a minimum of HK$27 million in the permissible financial assets and commercial real estate (subject to a cap of HK$10 million), and placing HK$3 million into a new CIES Investment Portfolio. The Scheme opened for applications from 1 March 2024 and had attracted over 500 applications as of 13 September. Of these applications, 448 were verified as having fulfilled the net asset requirement, and 47 applications were verified as having fulfilled the investment requirements (i.e. having made the investment of HK$30 million in Hong Kong within the six-month time limit).