

4. Monetary and financial conditions

4.1 Exchange rate and capital flows

The Hong Kong dollar (HKD) firmed in April due to buoyant capital market activities (Chart 4.1) and, in particular, continued net inflows through the Southbound Stock Connect. In early May, amid the sharp appreciation of some Asian currencies and continued equity-related demand, the HKD strengthened further and the strong-side Convertibility Undertaking (CU) was triggered four times, under which the HKMA sold a total of HK\$129.4 billion.

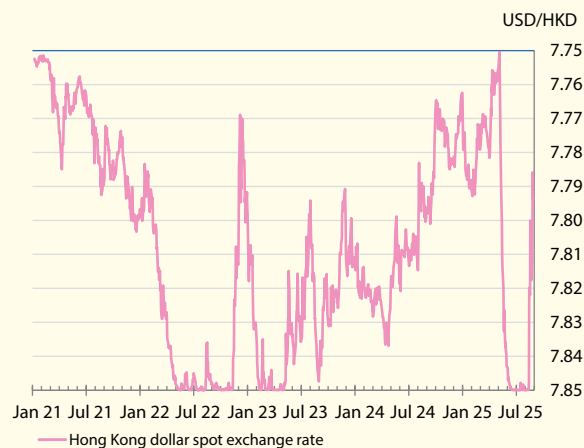
Following the triggering of the strong-side CU, the supply of HKD was relatively abundant. As a result, the Hong Kong Interbank Offered Rates (HIBORs) softened and widened negative HKD-USD interest rate spreads incentivised the sale of HKD for US dollar (USD) for carry trade activities, which pushed the HKD towards the weak side. The weak-side CU was triggered twelve times between late June and mid-August. The HKMA bought a total of HK\$119.9 billion. Thereafter, the HKD strengthened in the second half of August.

As a result of the triggering of the CU, the Aggregate Balance of the banking system increased from HK\$44.7 billion at the end of February to HK\$174.1 billion on 8 May and then came down to HK\$54.1 billion at the end of August. Day-to-day interbank operations and settlement activities among banks continued to operate in a smooth and orderly manner (Chart 4.2).

Broadly tracking the movements of the USD, the HKD nominal effective exchange rate index (NEER) declined during the review period (Chart 4.3). Meanwhile, the HKD real effective exchange rate index (REER) generally followed the movement of the NEER.

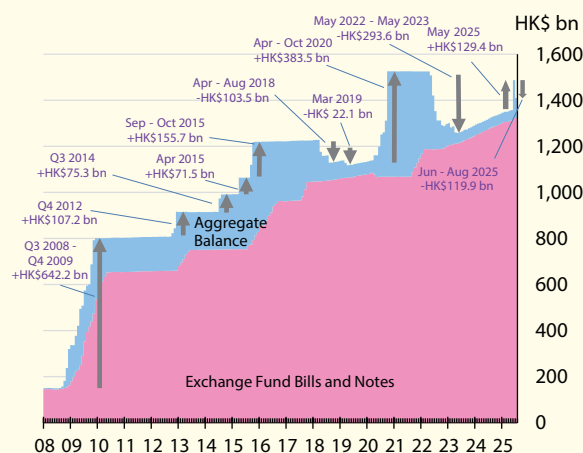
Going forward, heightened uncertainty over US trade policy and divergences in the monetary policies of major economies may increase the volatility of fund flows. However, with its ample foreign reserves position and robust financial system, Hong Kong is well positioned to withstand the volatilities in fund flows without compromise to its financial stability.

Chart 4.1
Hong Kong dollar exchange rate



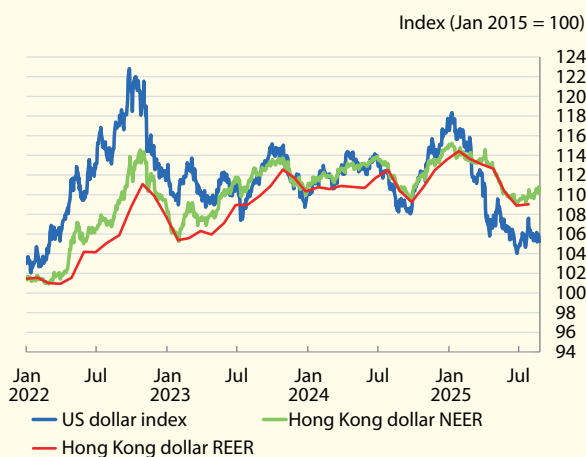
Source: HKMA.

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



Source: HKMA

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.

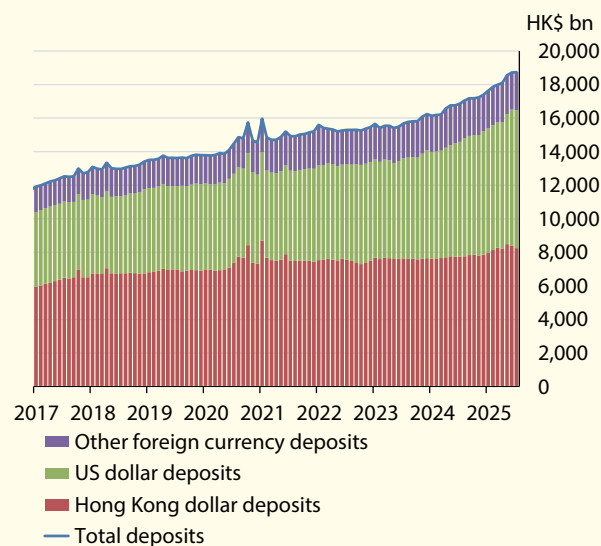
4.2 Monetary environment and interest rates

Hong Kong's monetary environment stayed accommodative during the review period. The HKD Monetary Base remained sizeable and broadly stable, at HK\$2,014.0 billion as at the end of August 2025.

In the first seven months of 2025, total deposits with authorized institutions increased by 7.8%. Of this total, HKD deposits and foreign currency deposits increased by 4.9% and 10.2% 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 funding demand as well as business and investment related activities. Therefore, it is more appropriate to observe the longer-term trends.

Overall, Hong Kong's interbank market continued to trade in a smooth and orderly manner during the review period. In accordance with the expectation and the design of the Linked Exchange Rate System, HKD interbank interest rates generally track their USD counterparts²⁶ while shorter-tenor rates are also influenced by local supply of and demand for HKD funding. In May, short-term HIBORs declined as liquidity conditions eased following the expansion of the Aggregate Balance. Between late June and end-August, with the reduction of the Aggregate Balance following the triggering of the weak-side CU, HIBORs picked up (Chart 4.5).

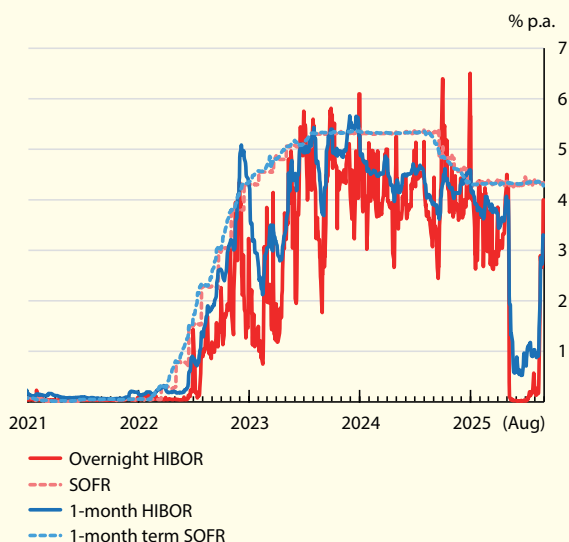
Chart 4.4
Deposits with authorized institutions (AIs) by
currency



Source: HKMA.

²⁶ 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.

Chart 4.5
Hong Kong Interbank Offered Rates (HIBORs) and
US dollar Secured Overnight Financing Rates (SOFRs)



Sources: Bloomberg and HKMA.

On the retail front, after the US Fed lowered its policy rate in September, many local banks reduced their Best Lending Rates by 12.5 basis points. Meanwhile, the average lending rate for new mortgages decreased from 3.51% in January 2025 to 2.40% in July 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.

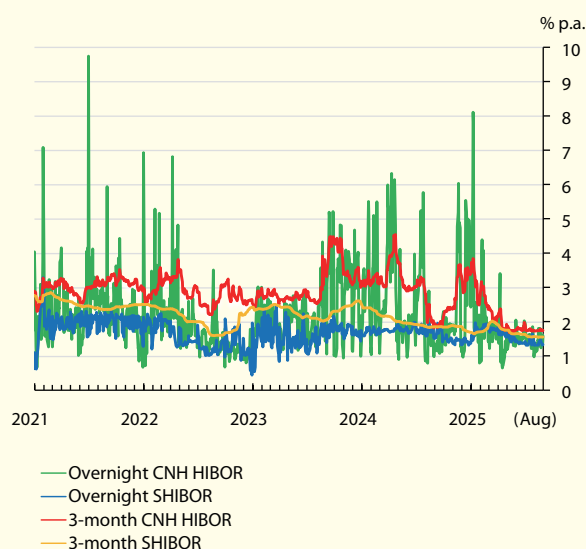
The HKMA continues to closely engage with banks to remind them to properly manage their liquidity, including by maintaining close contact with large clients. Understanding their clients' HKD funding plans and arrangements can help them plan effectively and avoid HKD hoarding. The HKMA has also reminded banks not to be concerned about the perceived "stigma effect" of tapping into its liquidity facilities. Box 3 describes a study of the usage of the HKMA's Discount Window (DW) from 2018 to 2024. The study finds that, not only has DW usage increased in recent times, but that the DW stigma has also decreased during the current period of tight liquidity as compared with the previous period from 2018 to 2020. These trends coincide with the HKMA's efforts to communicate with banks to mitigate the stigma effect and reflect the effectiveness of these communication efforts.

Offshore RMB banking business

The offshore renminbi (CNH) interbank market continued to function normally during the review period.²⁷ The three-month CNH HIBOR eased to below 2% from April 2025 as demand softened. While the overnight CNH HIBOR saw some fluctuations, it mostly traded below 2% (Chart 4.6). Liquidity conditions in the CNH interbank market remained broadly stable over the review period.

²⁷ See section 2.2 of Chapter 2 for developments in offshore and onshore renminbi exchange rates.

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



Hong Kong's CNH liquidity pool declined modestly during the first seven months of 2025. The total outstanding amount of renminbi (RMB) customer deposits and certificates of deposit (CDs) decreased by 3.4% to RMB1,038.8 billion at the end of July 2025 (Chart 4.7 and Table 4.A). Among the total, RMB customer deposits grew by 1.3%, mainly led by corporate customers' deposits. The outstanding amount of RMB CDs saw a decline of 32.4% during the same period.

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

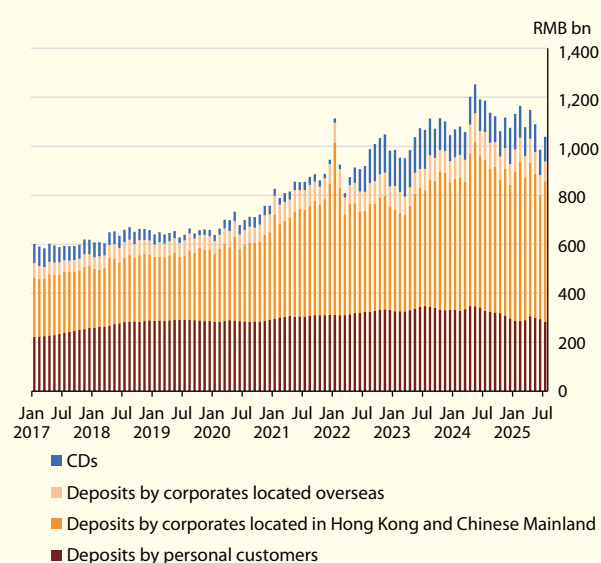


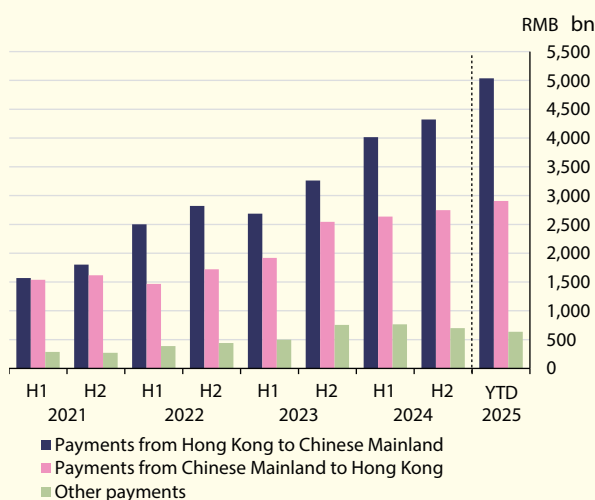
Table 4.A
Offshore renminbi banking statistics

	Dec 2024	Jul 2025
Renminbi deposits & CDs (RMB bn)	1,075.3	1,038.8
Of which:		
Renminbi deposits (RMB bn)	926.6	938.2
Share of renminbi deposits in total deposits (%)	5.7	5.5
Renminbi CDs (RMB bn)	148.7	100.5
Renminbi outstanding loans (RMB bn)	724.0	839.6
Number of participating banks in Hong Kong's renminbi clearing platform	206	208
Amount due to overseas banks (RMB bn)	117.5	115.5
Amount due from overseas banks (RMB bn)	102.8	138.9
	Jan-Jul 2025	
Renminbi trade settlement in Hong Kong (RMB bn)	8,579.0	
Of which:		
Inward remittances to Hong Kong (RMB bn)	2,906.6	
Outward remittances to Chinese Mainland (RMB bn)	5,035.5	
Turnover in Hong Kong's RMB real time gross settlement (RTGS) system (Daily average during the period; RMB bn)	2,759.7	

Source: HKMA.

As for other renminbi business, the outstanding aggregate amount of RMB loans expanded by 16.0% in the first seven months of 2025. Renminbi trade settlement handled by banks in Hong Kong amounted to RMB8,579.0 billion in the first seven months of 2025 (Chart 4.8), down by 1.3% compared with RMB8,696.2 billion during the same period in 2024. The deep RMB liquidity pool in Hong Kong and the capabilities and extensive networks of Hong Kong banks continued to support large volumes of RMB payments and financing transactions. During the first seven months of 2025, the average daily turnover of the RMB RTGS system stayed high at RMB2,759.7 billion, compared with RMB3,327.1 billion recorded in the same period in 2024.

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 continue to enhance the liquidity of Hong Kong's CNH market by providing banks with a stable source

of 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 Kong²⁸ 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 HKMA and the PBoC launched Payment Connect on 22 June 2025, which is a 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)) that supports secure, efficient and convenient real-time cross-boundary payment for residents and institutions in both places. Moreover, CMU OmniClear Limited (CMU OmniClear)²⁹ and LCH Limited signed a Memorandum of Understanding (MOU) in June 2025, which could facilitate the wider acceptance of CNH bonds as eligible collateral in international markets. With these developments, Hong Kong will continue to play a unique role in supporting the Mainland's capital account opening, as well as the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road initiatives.

²⁸ The PBoC, the Securities and Futures Commission (SFC) and the HKMA announced plans to further enrich the product types under Swap Connect. For details, see the press release "Joint press release of the PBoC, the SFC and the HKMA on further enriching the product types of Swap Connect to facilitate high-level opening-up of Mainland's financial markets" on 15 May 2025 (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/05/20250515-7/>). In addition, the HKMA officially launched the enhancement arrangements for the offshore RMB bond repurchase (repo) business, to facilitate the participation of Northbound Bond Connect investors in repo business. For details, see the press release "Official Launch of Enhancement Arrangements for the Offshore RMB Bond Repurchase Business announced by HKMA" on 25 August 2025 (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/08/20250825-5/>). Furthermore, the Southbound Bond Connect investor scope was expanded to include securities firms, fund companies, insurance companies and wealth management companies.

²⁹ CMU OmniClear, established in October 2024 to operate the Central Money Markets Unit (CMU) on behalf of the HKMA, is a wholly-owned subsidiary of the Exchange Fund.

Asset markets

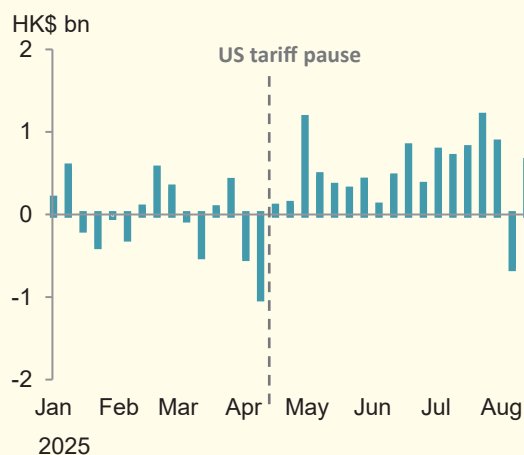
4.3 Equity market

Amid heightened uncertainty over US trade policy, global equity markets exhibited significant volatility during the review period. Following the US announcement of reciprocal tariffs on its trade partners, the MSCI World Index plummeted by 11.3% between 2 April and 8 April, as investors were concerned about the potential inflationary pressures in the US and recessionary impacts on the global economy. However, the index has since rebounded, following the US announcement of suspending the reciprocal tariff to allow time for negotiation.

Mirroring the global equity market, the local equity market also declined sharply in early April before rebounding. The recovery in the Hang Seng Index was further supported by significant inflows of foreign investors (Chart 4.9) and an improvement in market sentiment driven by Chinese Mainland's fiscal and monetary stimulus measures. Overall, the MSCI World Index and the Hang Seng Index increased by 9.8% and 9.3% respectively from the end of February 2025 to the end of August 2025 (Chart 4.10).

Chart 4.9

Equity market fund flows into Hong Kong from US and European investment funds

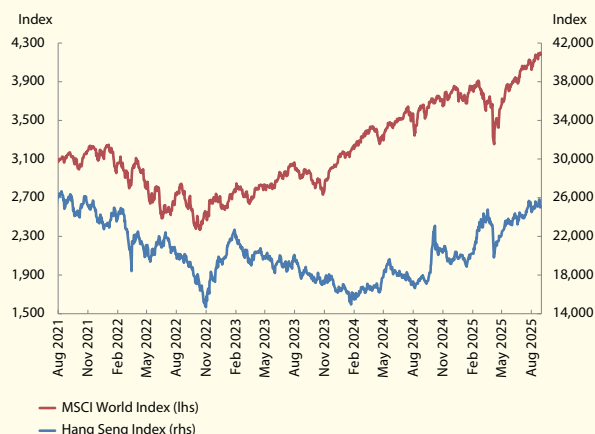


Note: US and European investment funds refer to funds that are domiciled in the US or Europe, as classified by source.

Source: EPFR

Chart 4.10

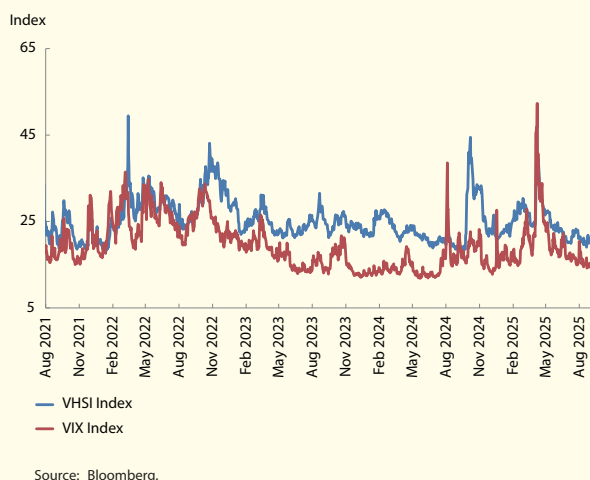
The Hang Seng Index and the MSCI World Index



Source: Bloomberg.

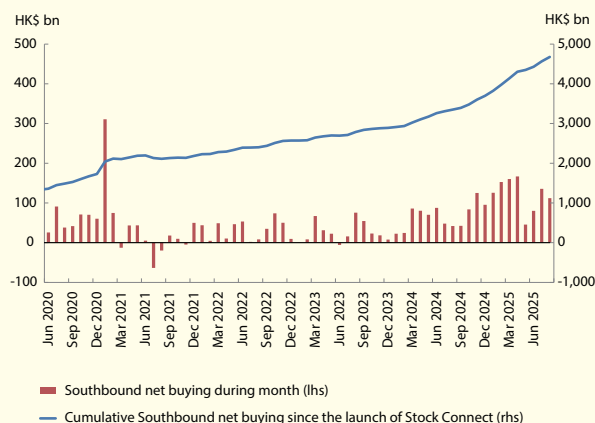
Along with the sharp decline in equity markets in early April, equity market volatility in both the S&P 500 Index and the Hang Seng Index escalated in early April, before quickly stabilising (Chart 4.11).

Chart 4.11
Option-implied volatilities of the Hang Seng Index (VHSI Index) and the S&P 500 Index (VIX Index)



There were steady net inflows into the local equity market through the Southbound Stock Connect, with net buying by Chinese Mainland investors amounting to HK\$700.6 billion from the end of February 2025 to the end of August 2025 (Chart 4.12). The cumulative Southbound net buying amount since the launch of Stock Connect increased by 17.6% during the review period, and stood at HK\$4,676.7 billion at the end of August 2025.

Chart 4.12
Net buying through Southbound Stock Connect over time

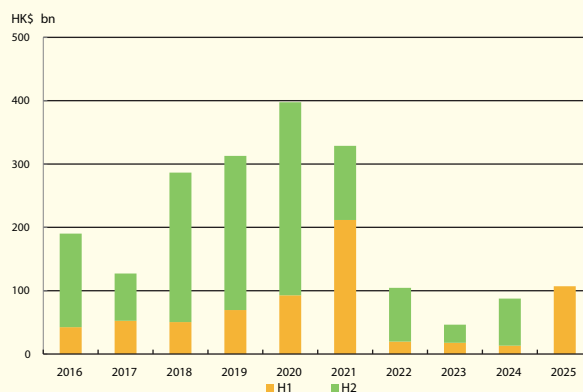


Note: Southbound net buying is the sum of such buying on the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Sources: CEIC and HKMA staff estimates.

The primary equity market in Hong Kong experienced a significant rebound in the first half of 2025, boosted partly by dual listings of Chinese Mainland corporates.³⁰ The amount of funds raised through initial public offerings (IPOs) reached HK\$107.1 billion in the first half of 2025 – eight times the amount raised in the same period in 2024 (Chart 4.13).

Chart 4.13
Initial public offering market in Hong Kong



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

The outlook for global equity markets will be shaped by several key factors. First, developments in trade negotiations between the US and its partners will continue to be significant drivers of investor sentiment. Secondly, the impact of tariffs on the US inflation outlook could cloud the extent and pace of interest rate cuts in the US, bringing further uncertainty to markets. Thirdly, elevated uncertainties could prompt global investors to seek greater portfolio diversifications to better manage risk, a move which could significantly drive capital flows across asset markets globally. For Hong Kong specifically, market sentiment will also be influenced by the outlook for Chinese Mainland economy, including the possibility of additional supportive measures being introduced by the authorities.

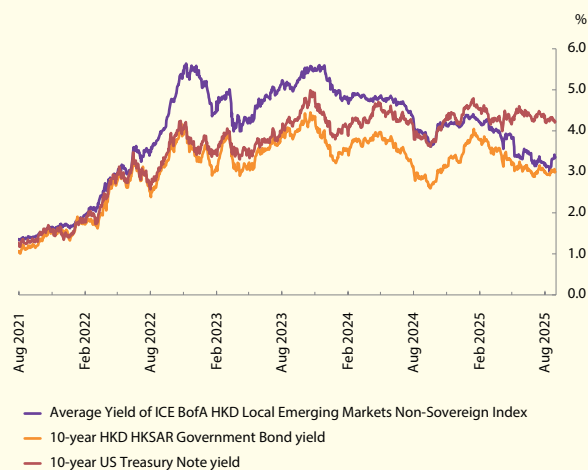
³⁰ Seven A+H shares dual listed IPOs were listed in Hong Kong's equity market in the first half of 2025. The amount of funds raised by these IPOs accounted for about 72% of the total amount of funds raised by a total of 42 IPOs in Hong Kong in the first half of 2025.

4.4 Debt market³¹

The yield of the 10-year US Treasury Notes surged in early April (Chart 4.14), driven largely by market concerns over the potential impact of tariffs on inflation and the long-term fiscal sustainability risks posed by rising government debt and deficits in the US. Significant unwinding of leveraged US Treasury trades was another contributor³².

Despite these developments in the US Treasury market, the yield of the 10-year HKD Hong Kong Special Administrative Region (HKSAR) Government Bond moved downward amid a relatively abundant supply of HKD funding. Mirroring this development, the average yield of HKD corporate bonds also declined.

Chart 4.14
Yields of the 10-year US Treasury Notes, the 10-year HKD HKSAR Government Bond and HKD corporate bonds



Notes: 1. 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 the Government Sustainable Bond Programme. Before this date, the yield refers to the benchmark 10-year HKD Bond issued under the Government Bond Programme. 2. The ICE BofA HKD Local Emerging Market Non-Sovereign Index covers HKD bonds issued by corporates and quasi-government entities.

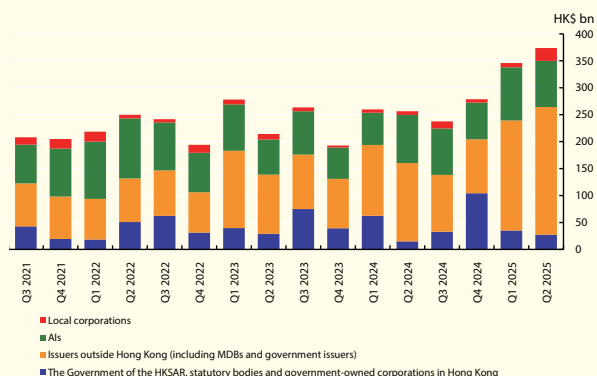
Sources: ICE Data Indices, Bloomberg and HKMA.

Alongside the decline in the cost of HKD debt securities issuance, the total issuance of HKD debt securities in the first half of 2025 increased by 11.5% year-on-year to HK\$2,828.7 billion. Non-Exchange Fund Bills and Notes (EFBN) HKD debt securities rose by 39.4% year-on-year to HK\$719.4 billion (Chart 4.15).

³¹ 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.

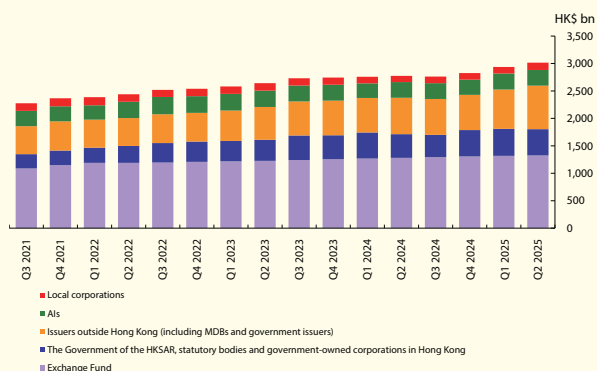
³² Unwinding of swap spread trades, which exploit the difference between Treasury yields and equivalent-maturity swap rates, reportedly exacerbated the rise in the US Treasury yields. Some leveraged investors were positioned to benefit from a decrease in longer-maturity Treasury yields relative to equivalent-maturity interest rate swaps. However, the rise in longer-term US Treasury yields in early April, following the tariff announcement, rendered the swap spread trade increasingly unprofitable. This led to a quick unwinding of these leveraged trades through the sale of longer-term US Treasury securities, thereby exacerbating the rise in their yields.

Chart 4.15
New issuance of non-EFBN HKD debt securities



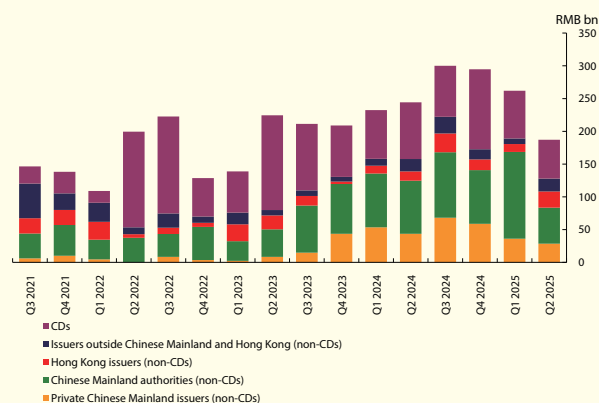
As a result, the outstanding amount of HKD debt securities increased by 8.7% year-on-year to HK\$3,015.7 billion at the end of June 2025 (Chart 4.16). The outstanding amount of non-EFBN HKD debt securities increased by 13.2% year-on-year to HK\$1,690.4 billion at the end of June 2025.

Chart 4.16
Outstanding HKD debt securities by issuer



The issuance of CNH debt securities in Hong Kong slowed down slightly in the first half of 2025, after reaching a peak in 2024. The amount of issuance in the first six months of 2025 totalled RMB449.2 billion, a reduction of 5.8% compared to the same period in 2024 (Chart 4.17). The slowdown was mainly attributable to a reduction in issuance by private issuers in Chinese Mainland. Despite this slowdown, the total outstanding amount of CNH debt securities issued in Hong Kong grew modestly by 0.9% from the end of December 2024 and reached RMB1,271.4 billion at the end of June 2025.

Chart 4.17
New issuance of CNH debt securities in Hong Kong



Looking ahead, while recent lower issuance costs have supported HKD debt activities, the sustainability of this supporting factor depends largely on HKD fund flows.

With regard to the CNH debt market in Hong Kong, heightened uncertainties in global financial markets could prompt global investors to diversify their portfolios, which may help boost demand for CNH debt securities. In addition, CNH debt market activities would continue to benefit from the moderately loose monetary policy in Chinese Mainland. Furthermore, the latest expansion of the Southbound Bond Connect investor scope could help increase Hong Kong's attractiveness to bond issuers and global investors³³, while the enhancement arrangements for the offshore RMB bond repo business and enrichments in the product types of Swap Connect will enhance the offshore RMB liquidity management and the interest rate risk management of RMB assets respectively^{34,35}.

Other policy initiatives introduced during the review period would also foster local debt market development. These include the inaugural offering of 30-year HKD government bonds that helps to extend the HKD benchmark yield curve, and the signing of an MOU between CMU OmniClear and HKEX to deepen their collaboration in enhancing the post-trade securities infrastructure of Hong Kong's capital markets, and supporting the long-term development of Hong Kong's fixed-income and currencies ecosystem.

³³ The Southbound Bond Connect investor scope has been expanded to include securities firms, fund companies, insurance companies and wealth management companies, formally effective from 8 July 2025. For details, please see <https://www.hkma.gov.hk/eng/news-and-media/speeches/2025/07/20250708-1/>.

³⁴ Two enhancement arrangements for offshore RMB repo business were launched on 25 August 2025, supporting i) rehypothecation of bond collaterals and ii) cross-currency repo. For details, please see <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/08/20250825-5/>.

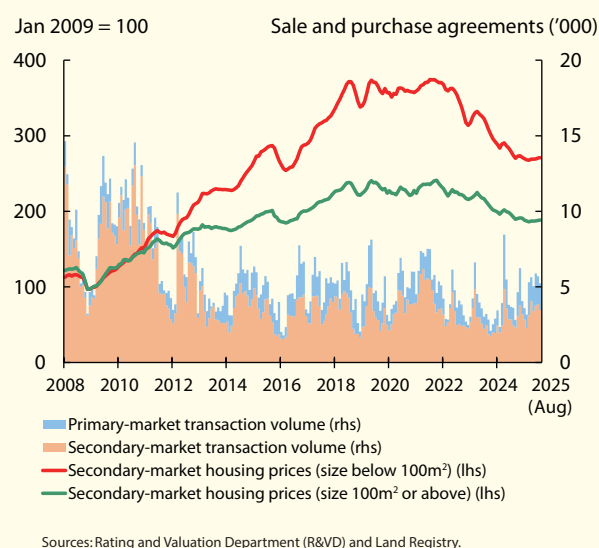
³⁵ The PBoC, the SFC and the HKMA jointly announced on 15 May 2025 on further enriching the product types of Swap Connects. These include i) an expansion of the tenor of interest rate swap contracts to 30 years (launched on 30 June 2025) and ii) an expansion of the product scope by including interest rate swap contracts using the Loan Prime Rate as the reference rate (launched on 22 September 2025). For details, please see <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/05/20250515-7/>.

4.5 Property markets

Residential property market

The residential property market has stabilised since the second quarter of 2025 after softening in the previous quarter. With eased financial conditions, market sentiment improved and flat-viewing activities became more vibrant between May and early September. In tandem, some property developers continued to boost sales of their new launches with competitive pricing strategies. As a result, the average monthly housing transaction volume increased from 4,064 units in the first quarter to 5,585 units in the second quarter, and remained largely steady at 5,529 units in July to August (Chart 4.18).

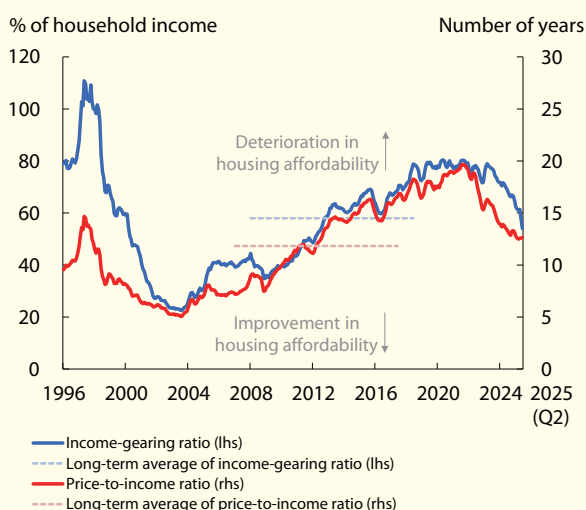
Chart 4.18
Residential property prices and transaction volumes



Secondary-market housing prices have also held up alongside improving market sentiment. In particular, prices of small and medium-sized flats (with a saleable area of less than 100m²) and large flats (with a saleable area of 100m² or above) edged up by 1.3% and 1.2% respectively between April and August (Chart 4.18). More timely statistics compiled by property agencies indicated that housing prices remained steady in early September.

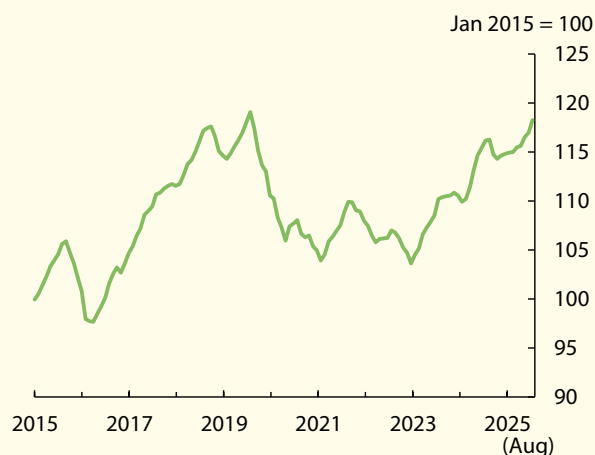
Housing affordability, despite remaining stretched, improved further in the first half of 2025. Specifically, the housing price-to-income ratio eased to 12.6 in the second quarter of 2025. With lowered mortgage rates in the second quarter, the income-gearing ratio also decreased to 57.7% (Chart 4.19).³⁶ On the leasing market front, housing rentals rose further by 3.1% from February to August 2025 (Chart 4.20), with residential rental yields standing at 3.2% in July.

Chart 4.19
Indicators of housing affordability



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

Chart 4.20
Residential property rental index



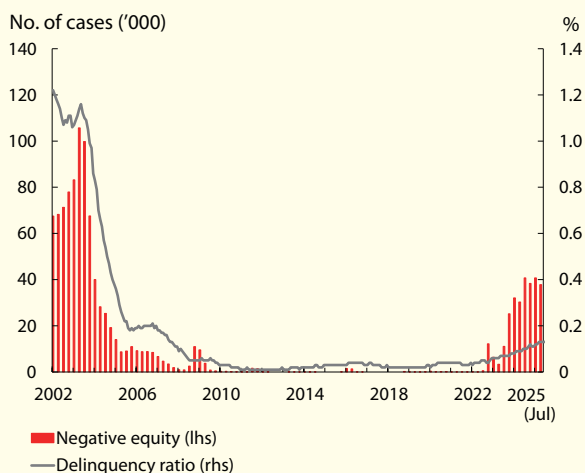
Source: R&VD.

Reflecting the movements in housing prices, the estimated number of residential mortgage loans (RMLs) in negative equity retreated to 37,806 cases at the end of June from 40,741 cases at the end of March (Chart 4.21). These cases were mostly related to bank staff housing loans or RMLs under the Mortgage Insurance Programme (MIP), which generally have a higher loan-to-value (LTV) ratio. Given that the delinquency ratio of all outstanding RMLs remained at a low level of 0.13% in July³⁷, and that over half of private housing units did not carry any outstanding mortgages, the systemic risks relating to banks' RMLs are being properly managed on various fronts.

³⁶ The price-to-income ratio measures the average price of a typical 50m² flat relative to the median income of households living in private housing. The income-gearing ratio compares mortgage payments for a typical 50m² flat (under a 20-year mortgage scheme with a 70% loan-to-value (LTV) ratio) to the median income of households living in private housing. The income-gearing ratio is not the same as a borrower's actual debt-servicing ratio (DSR), which is subject to a maximum cap under the HKMA supervisory requirements.

³⁷ The delinquency ratio of RMLs in negative equity also remained at a low level of 0.21% at the end of June 2025.

Chart 4.21
Negative equity and mortgage delinquency ratio

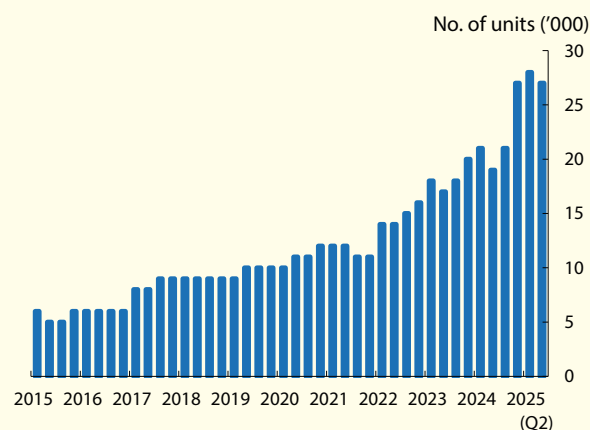


The HKMA continues to monitor market development closely and implement supervisory requirements on RMLs as appropriate to safeguard banking stability. In fact, the average LTV ratio and debt-servicing ratio (DSR) for new mortgages remained steady at about 63% and 40% respectively in July. The HKMA considers that the Hong Kong banking sector has ample buffers to withstand any risks and challenges arising from the property market.

The residential property market outlook is subject to a number of uncertainties and risks. On the one hand, accumulated inventories in the primary market³⁸ (Chart 4.22), coupled with uncertainties surrounding the global economic outlook, may continue to weigh on market sentiment in the near term. On the other hand, the Government's ongoing policies to attract businesses and talents, together with the enhancement of the New Capital Investment Entrant Scheme (CIES)³⁹,

should continue to 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 the private housing supply will remain high in the coming years.⁴⁰

Chart 4.22
Unsold units in completed projects



Commercial real estate (CRE) market⁴¹

The CRE market remained under pressure in the first seven months of 2025. The average monthly transaction volume rose to 368 units during the period, up from 291 units in the second half of 2024. Meanwhile, speculative activities remained limited (Chart 4.23). Despite a higher transaction volume, prices for office spaces, retail premises and flatted factories remained under pressure during the period (Chart 4.24). In the leasing market, rentals in all three segments also continued to adjust (Chart 4.25). Overall, rental yields across segments edged up to 3.5%–4.1% in July 2025.

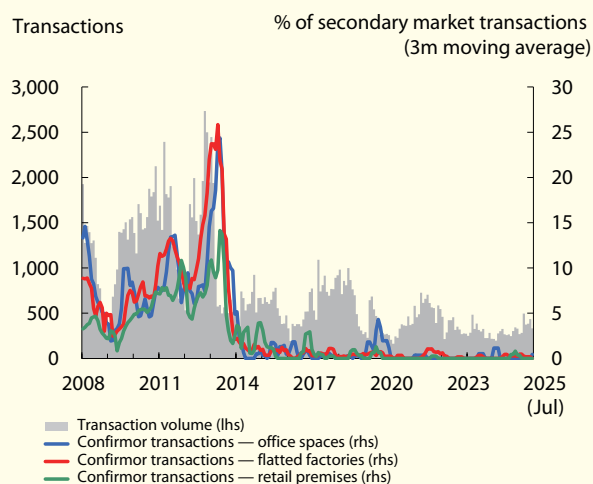
³⁸ There were around 27,000 unsold units in completed projects as of the end of June 2025.

³⁹ In the 2025 Policy Address, the Government announced an enhancement to the New CIES, under which the transaction price threshold for residential property investments will be lowered from HK\$50 million to HK\$30 million.

⁴⁰ According to the Housing Bureau, the potential first-hand private housing supply for the next three to four years will remain elevated at around 101,000 units as estimated at the end of June 2025.

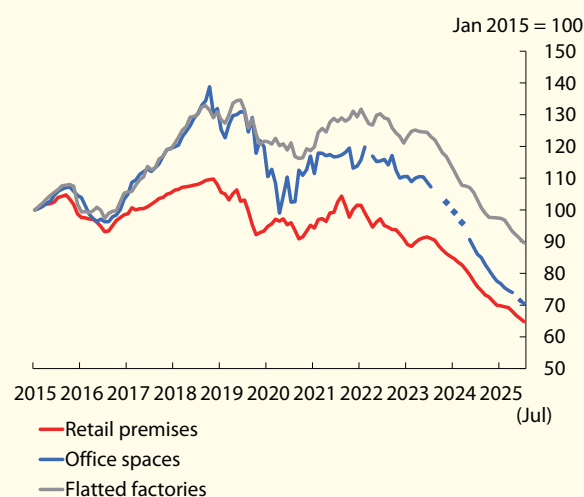
⁴¹ CRE refers to office spaces, retail premises and flatted factories.

Chart 4.23
Transactions in commercial real estate



Sources: R&VD and Centaline Property Agency Limited.

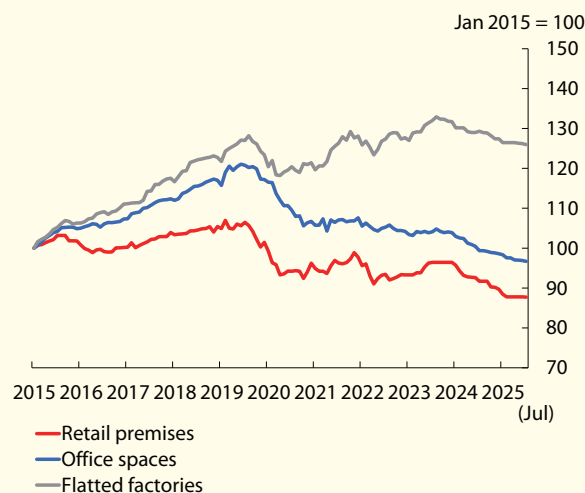
Chart 4.24
Commercial real estate price indices



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

Source: R&VD.

Chart 4.25
Commercial real estate rental indices



Source: R&VD.

In the near term, office spaces are expected to continue to face challenges amid high vacancy rates, while retail premises will remain under pressure due to changing consumption patterns in Hong Kong. However, the market may receive some support from improving inbound tourism, the Government's continuous efforts to attract businesses, and measures to bolster the office spaces market⁴².

⁴² On 21 July 2025, the Development Bureau and the Education Bureau announced the Hostels in the City Scheme, which streamlined development control procedures to encourage and facilitate the market to convert commercial buildings into student hostels. Market analysts expect that grade B and grade C office spaces would benefit the most under the scheme. In the 2025 Policy Address, the Government further announced that, apart from cases involving the conversion of commercial buildings, cases involving redevelopment of original commercial buildings into new student hostels can also enjoy the facilitation measures under the scheme.

Box 3

Examining the “stigma effect” associated with the HKMA’s Discount Window

Introduction

A core function of central banks is to support banks in meeting their short-term liquidity obligations. However, international experience⁴² suggests that banks’ use of short-term liquidity facilities may be hampered by the “stigma effect”, a concern that such borrowing could signal financial weakness to stakeholders.

In Hong Kong, the HKMA’s Liquidity Facilities Framework provides funding or liquidity support to banks in case of need. Among the various liquidity facilities available in the Framework, the DW allows banks to use their holdings of Exchange Fund Paper as collateral to obtain overnight HKD liquidity.⁴³ To help mitigate the stigma effect, the HKMA has advised banks not to be concerned about tapping the liquidity facilities.⁴⁴

This box studies the usage of the HKMA’s DW from 2018 to 2024, focusing on two key questions: (1) Has DW usage increased across the latest rate hike cycle since 2022, a period when the HKMA has been more proactive in communicating with banks about its liquidity facilities? (2) Has the stigma effect surrounding the DW reduced in the same period? The analysis below demonstrates that the answers to both questions are affirmative. These findings suggest that the HKMA’s ongoing communication efforts to mitigate the stigma effect have been effective.

DW usage and its stigma effect over time

The need to use the DW depends on the liquidity condition at the time. Table B3.1 therefore divides 2018–2024 into three periods based on the average level of Aggregate Balance and policy rate, i.e. the Base Rate, as shown in the top panel of Chart B3.1, and describes the liquidity condition in each period:

Table B3.1
Breakdown of 2018–2024 by liquidity conditions

Period	Average level		
	Aggregate Balance	Base Rate	Liquidity condition
Period 1 (01/01/2018–07/05/2020)	Low	High	Relatively tight
Period 2 (08/05/2020–16/03/2022)	High	Low	Relatively loose
Period 3 (17/03/2022–31/12/2024)	Low	High	Relatively tight

Source: HKMA.

In response to the relatively tight liquidity in Period 3, the HKMA undertook direct communication efforts in which it encouraged banks to make good use of its liquidity facilities. If these communication efforts were effective, one would expect to see higher DW usage and a less pronounced stigma effect in Period 3 compared to Period 1, an earlier period with tight liquidity.

(1) Has DW usage increased?

The bottom panel of Chart B3.1 shows the usage of the DW in 2018–2024. As expected, the DW was used infrequently in Period 2 due to its overall abundant liquidity. Comparing the usage of the DW in Periods 1 and 3, both with tighter liquidity conditions, DW usage in Period 3 was more frequent and sustained, especially towards the second half of the Period.⁴⁵ This indicates that banks were adapting to changing market developments and were willing to make good use of the DW.

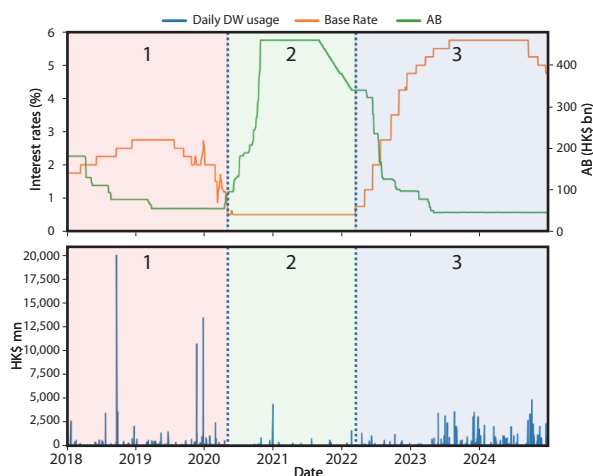
⁴² See, for example, Armantier et al. (2024) and Winters (2012).

⁴³ Intraday repo is the other Settlement Facilities. Banks can use their holdings of Exchange Fund Paper as collateral to obtain intraday liquidity through the Intraday Repo at zero cost, provided that they can repay the repo before the close of business. Intraday repos that cannot be repurchased before the close of business will be rolled into overnight borrowing under the DW, for which interest is charged by the HKMA.

⁴⁴ For details, see the inSight article “Recent movements in the Hong Kong dollar interbank rates – Some observations” in June 2023: <https://www.hkma.gov.hk/eng/news-and-media/insight/2023/06/20230614/>

⁴⁵ Regression analysis confirms that the increase in DW usage in Period 3 was statistically significant, after controlling for within-period liquidity conditions.

Chart B3.1
HKD liquidity and daily DW activities



Source: HKMA staff estimates.

(2) Has the stigma effect declined?

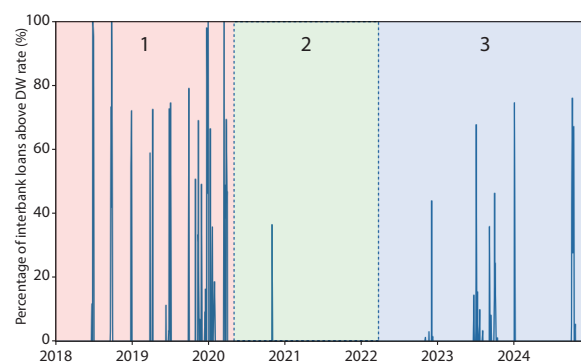
The stigma effect refers to the additional interest cost that a bank is willing to pay in the interbank market to avoid accessing the DW. It is, however, not observable. For example, if a bank borrows in the interbank market overnight at 10 basis points (bps) above the rate at the DW, this does not mean that the bank's stigma is 10bps – as the bank may be willing to pay a premium of up to 15 bps. In practice, we follow Armantier et al. (2024) in measuring the observed (positive) spread that the bank actually pays on the overnight interbank rate above the applicable DW rate⁴⁶ in order to avoid using the DW. This observed spread is referred to as the bank's "realised stigma".

To obtain the overnight interbank rate at the loan level, this study used internal transactional data from the HKD RTGS system, which settles large-value payments between banks. The dataset contains 53.7 million transactions made during the period of study. Using this data, 300,000 interbank loans were identified using the Furfine (1999) algorithm, which matches

large lump-sum transfers from one bank to another with those of a slightly higher amount transferred back in the opposite direction the following business day. The interbank interest rate can then be inferred by the difference in the two transfer amounts.

Chart B3.2 shows the daily share of identified overnight interbank loans that exhibited realised stigma (i.e. inferred interbank rates higher than the DW rates). Higher shares were mainly observed during periods of relatively tight liquidity (i.e. Periods 1 and 3). However, even in these Periods, realised stigma was observed rather infrequently. It was primarily observed on days when liquidity conditions were particularly tight, such as in periods of seasonal funding demand, including period-ends⁴⁷ and dividend-related funding demand, and on days of other occasional demand, such as large-scale IPOs⁴⁸ and vibrant equity market activity.

Chart B3.2
Percentage of interbank loans above the DW rate



Source: HKMA staff estimates.

⁴⁶ The applicable DW rate for a bank depends on the percentage of its DW borrowing relative to the EFBNs it holds: (i) for the first 50% of DW borrowing, the applicable DW rate is the Base Rate; and, (ii) for the next 50%, the applicable DW rate is the higher of the Base Rate plus 5% or the overnight HIBOR for the day.

⁴⁷ Period-ends include month-, quarter- and year-ends.

⁴⁸ Fast Interface for New Issuance launched in November 2023, shortened Hong Kong's IPO settlement cycle from "T+5" to "T+2", helping relieve pressure on HKD liquidity during large IPOs.

Table B3.2 reports more statistics on how the stigma effect has evolved over time. Overnight interbank loans were less likely to exhibit realised stigma in Period 3 compared to those in Period 1 (Period 3 = 1.6% vs Period 1 = 4.4%). This can also be observed in Chart B3.2, in which the blue lines are fewer and shorter in Period 3 than in Period 1. Furthermore, for loans that did exhibit realised stigma, the sizes of the stigma spread were, on average, smaller in magnitude in Period 3 (Period 3 = 35.2bps vs Period 1 = 47.8bps), despite a higher Base Rate and lower Aggregate Balance, i.e. a tighter liquidity condition.

Table B3.2
Interbank loans above the DW rate

	Period		
	1	2	3
Share of interbank loans above DW rate (%)	4.42	0.19	1.60
Realised stigma spread (bps)	47.8	4.4	35.2

Notes: The top item focuses on the share of interbank loans borrowed above the DW rate, in terms of volume. The bottom item focuses on realised stigma spread, the volume weighted average spread above the DW rate, for all interbank loans borrowed above the DW rate.

Source: HKMA staff estimates.

Conclusion and implications

This study finds that not only has the HKMA's DW usage increased in recent times, but that the stigma effect associated with usage of the DW has also reduced in both frequency and magnitude in the recent period of tight liquidity compared with the previous period in 2018–2020. These trends coincide with the HKMA's communication efforts with banks to mitigate stigma, and the findings support the effectiveness of its communication efforts.

References

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