

Overview

A. Introduction

The bond market in Hong Kong, China has for some time been a significant marketplace for issuers and investors in both domestic and foreign currencies. The range of product offerings, open access for issuers and investors (both domestic and international), and the significance of offshore Chinese renminbi bond issuances make the Hong Kong bond market one of the most frequented bond markets in Asia.

Public sector bonds come in the form of (i) Government Bonds, (ii) Exchange Fund Bills and Notes (EFBNs) issued by the Hong Kong Monetary Authority (HKMA); (iii) bonds issued by statutory bodies (e.g., Airport Authority Hong Kong and Hong Kong Housing Authority); and (iv) bonds issued by government-related corporations (e.g., Bauhinia Mortgage-Backed Securities Limited, Hong Kong Mortgage Corporation, and Hong Kong Link 2004 Limited).

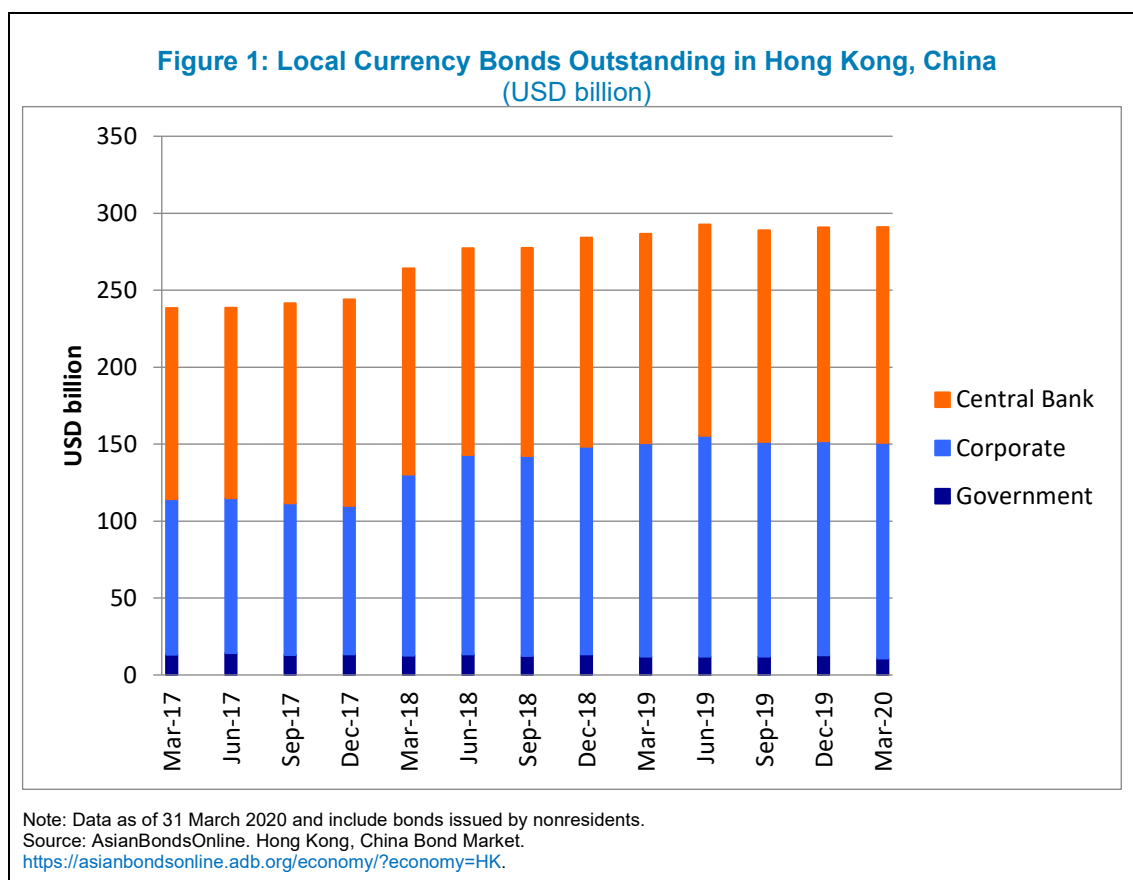
Starting in 2015, the tenors of bonds issued under the EFBN Programme and the Government Bond Programme were streamlined. The HKMA now only issues new EFBNs for tenors of 2 years or less, and new Government Bonds for tenors of 3 years or more. After the streamlining, there is now a unitary benchmark yield curve representing the long-run credit standing of the Government of the Hong Kong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), with EFBNs providing the benchmark yield for 2 years or less, and Government Bonds providing the benchmark yield for 3 years or more. A unitary benchmark yield curve provides a better reference for issuers in pricing their Hong Kong dollar issues.

The Central Moneymarkets Unit (CMU) was set up primarily to provide computerized clearing and settlement facilities for EFBNs, which provide benchmark yields that guide private debt pricing. In December 1993, the HKMA extended this service to other Hong Kong dollar debt securities. Since December 1994, the CMU has been linked to international clearing systems such as Clearstream and Euroclear, which has helped promote Hong Kong dollar debt securities to overseas issuers and investors. The CMU is also available for foreign currency-denominated debt, including Australian dollars, Chinese renminbi, euros, New Zealand dollars, Singapore dollars, and United States (US) dollars.

In December 1996, an interface between the CMU and the real-time gross settlement interbank payment system was established. This enables the CMU system to provide its members with real-time and end-of-day delivery-versus-payment services.

Bond trading takes place mostly through over-the-counter markets. However, some bonds are also listed and may be traded on the securities market of Hong Kong Exchanges and Clearing Limited, which is the holding company that owns the Stock Exchange of Hong Kong Limited (SEHK), which operates the stock exchange in Hong Kong, China.

In the Hong Kong dollar debt market, the total value of outstanding Hong Kong dollar debt instruments remained stable over the 15 months prior to March 2020 after having gradually increased in the preceding 15-month period (Figure 1). Outstanding Hong Kong dollar debt has increased significantly since 2015, the last year for which data was included in the *ASEAN+3 Bond Market Guide 2016: Hong Kong, China*.



The HKMA continues to implement the Government Bond Programme to promote the further and sustainable development of the local bond market. In May 2019, the Government of the HKSAR of the PRC successfully offered its inaugural green bond under the Government Green Bond Programme, with an issuance size of USD1 billion and a tenor of 5 years. At the end of 2019, the total outstanding amount of 13 issues of institutional bonds stood at HKD91.3 billion. In addition, two *Sukuk* (Islamic bonds) issued under the Government Bond Programme were outstanding, each with an issuance size of USD1 billion.³

The government issued the fourth batch of Silver Bonds in 2019, an inflation-linked bond with a minimum annual interest rate of 3% that targets Hong Kong, China residents aged 65 or above. The size of the issuance was HKD3 billion, with a tenor of 3 years. The number of valid applications was 56,564, with a total subscription of more than HKD7.9 billion.

³ Selected statements and data adapted from the Hong Kong Monetary Authority. 2020. *Quarterly Bulletin March 2020*. No. 102. Hong Kong, China.

A decrease in bond issuance by overseas issuers, mainly financial institutions and corporates, was observed in 2019, while multilateral development banks also reduced their issuances. Local corporates expanded their funding scale in the Hong Kong debt market, with their issuance volume up 14% from 2018. Meanwhile, statutory bodies and government-owned corporations roughly maintained their issuance size in the Hong Kong dollar bond market in 2019, while Authorized Institutions' fund-raising activities to support their short-term funding needs decreased 6% year-on-year. The total issuance volume in the Hong Kong dollar debt market in 2019 stood at HKD4.184 trillion.

In the 2020–21 Budget, the government announced its plan to issue green bonds totaling HKD66 billion within the next 5 years, in line with the market situation. The government also announced that it would resume the issuance of iBonds (inflation-linked bonds) and continue to issue Silver Bonds to promote the development of the retail bond market and the silver market.

The HKMA will continue to support the development of the local bond market through implementation of the Government Bond Programme, Government Green Bond Programme, and various other initiatives.

The regulatory environment is also conducive to the implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) developed by the ASEAN+3 Bond Market Forum (ABMF) under the guidance of the Asian Development Bank (ADB). The key features of the Hong Kong bond market are further enhanced by the acceptance of governing laws other than those of Hong Kong, China for professional bond and note issuances, and documentation and disclosure standards close to those of international markets. Further details on AMBIF can be found in the ABMF Report on the implementation of AMBIF, published by ADB.⁴

Information on recent initiatives and developments with relevance for the Hong Kong bond market can be found in the update to Chapter X in this note.

⁴ See ADB. 2015. *Implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework: ASEAN+3 Bond Market Forum Sub-Forum 1 Phase 3 Report*. Manila.
<https://www.adb.org/publications/implementation-ambif-asean3-bond-market-forum-sf1-p3>.