

# Hong Kong as international banking centre: How does it compare with Singapore and Shanghai?

Alicia Garcia Herrero, BBVA & Lingnan U.  
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# Why look into the banking system?

- Asia's financial system is very dependent on bank finance
  - Less so stock market finance even less so bond issuance
- Cross-border banking flows are very large in Asia
- Banking tends to be more labor intensive than other sectors
  - Very relevant for host countries in terms of job creation

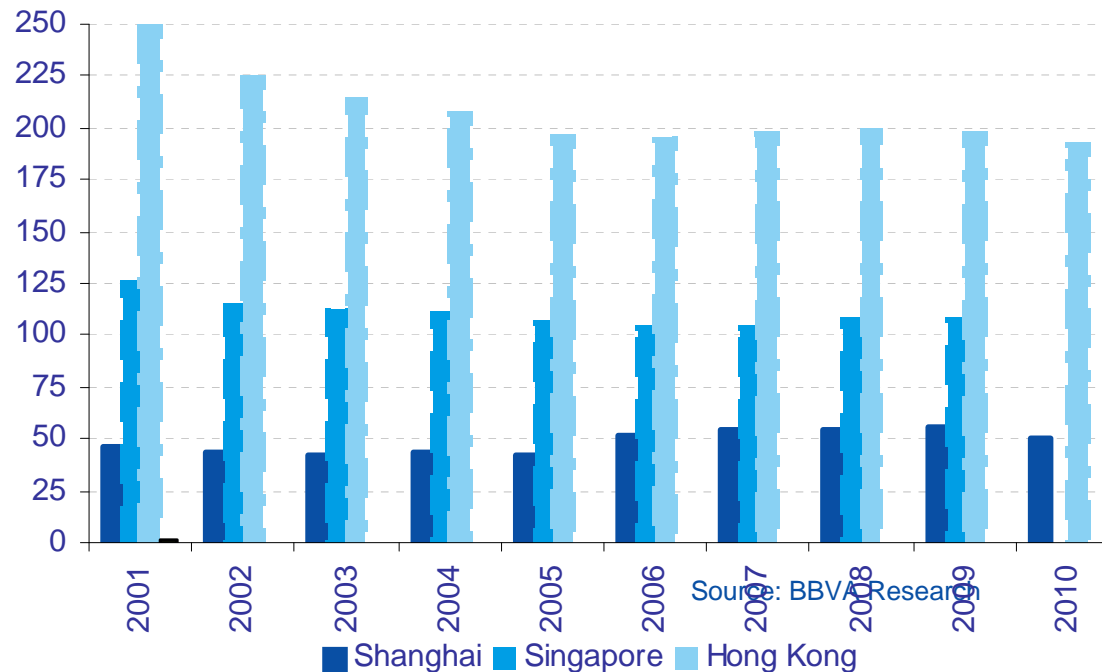
# Why compare with Singapore and Shanghai?

- Singapore (SG) has moved very fast towards becoming a regional banking center. Stronger in FOREX, derivatives, corporate banking.
  - It is also an off-shore financial center like Hong Kong
- Shanghai's (SH) banking system is experiencing huge growth but Mainland committed. Hong Kong seems to be focusing much more than before on Mainland-related instruments also

# HK has many more foreign participants

70 of global 100 banks operate in HK

Foreign banks in Hong Kong, Singapore and Shanghai

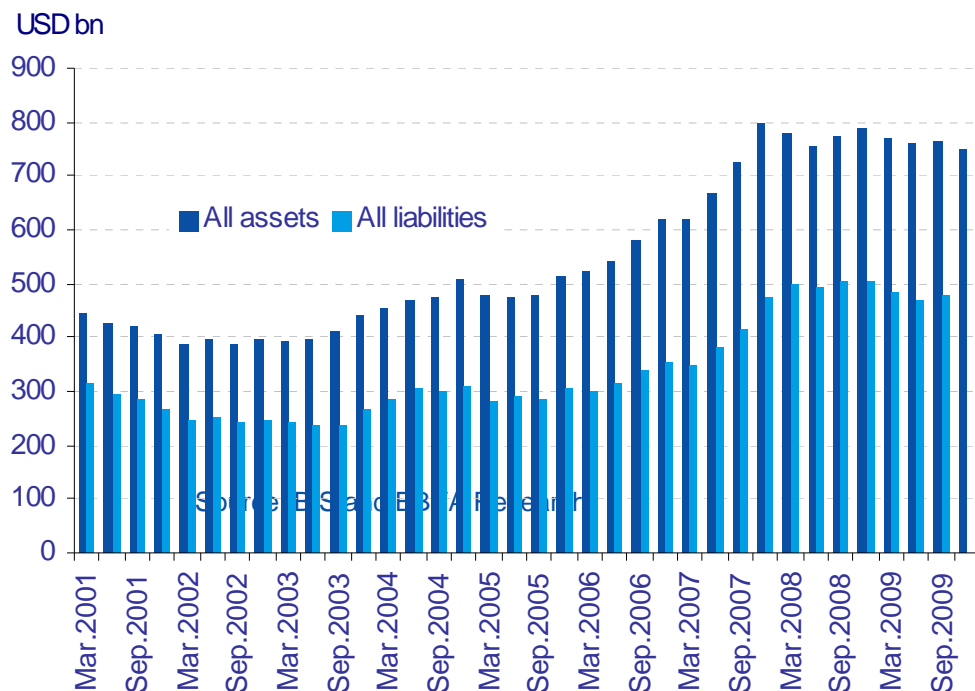


Note: Hong Kong's data include all authorized banks.

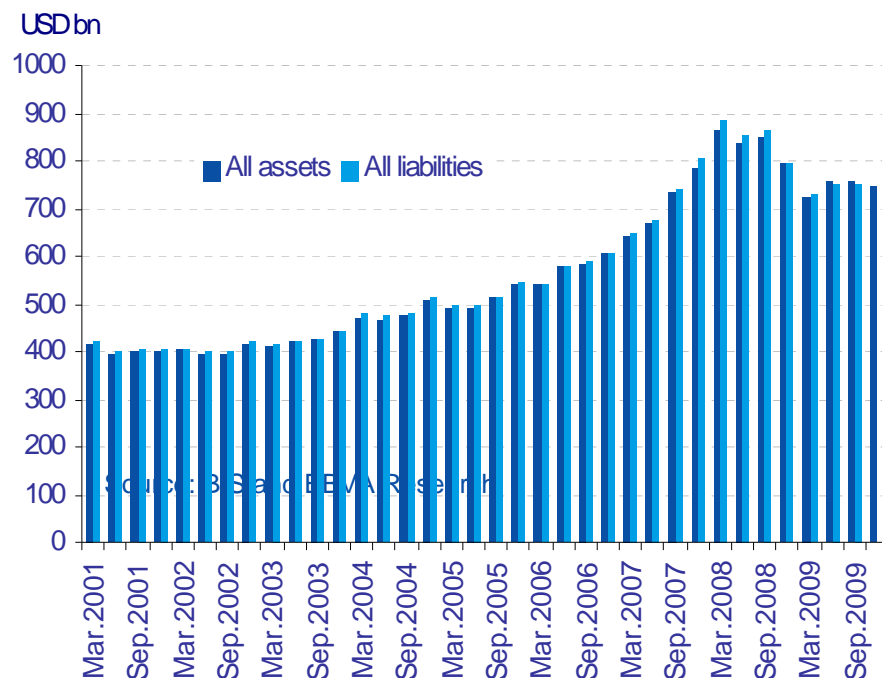
# HK's cross-border operations are not bigger than those of SG

- **External or cross-border positions** measures cross-border claims and liabilities of all banking offices located in the resident country, regardless of whether they are domestic or foreign.

## External positions of banks in Hong Kong



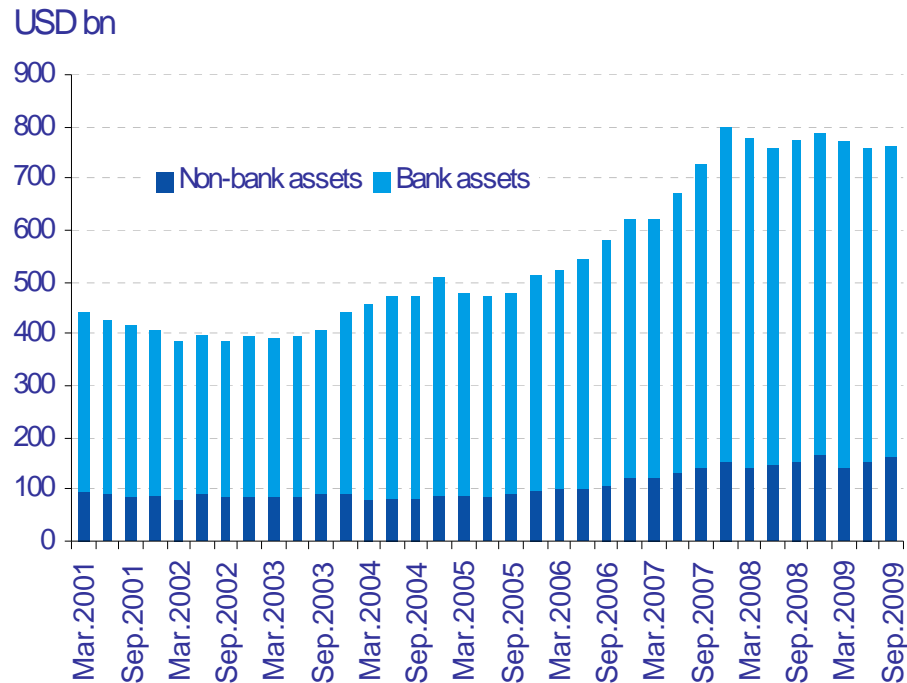
## External positions of banks in Singapore



# SG is becoming a bigger center for corporate lending

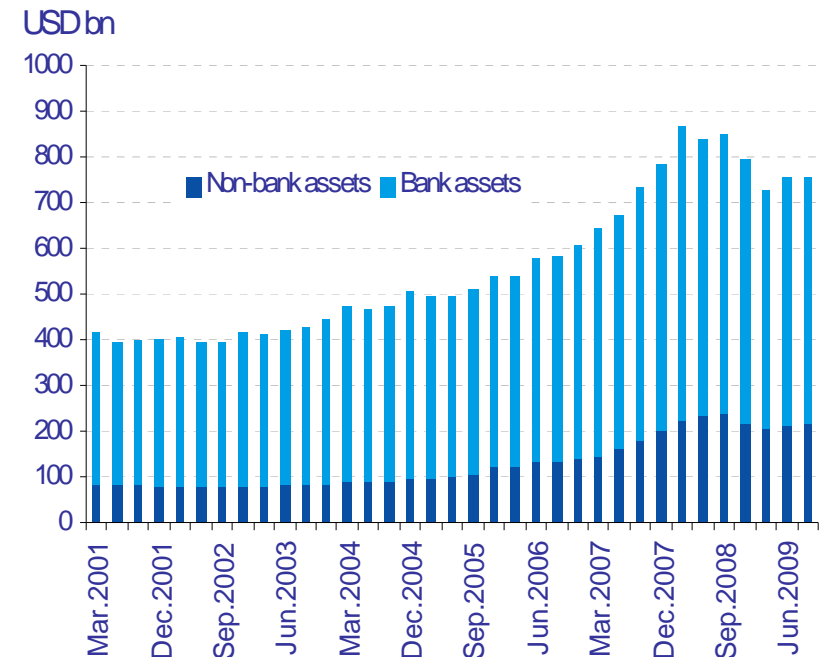
SG also doing better in international private banking

External positions of banks in Hong Kong - Assets



Source: BIS and BBVA Research

External positions of banks in Singapore - Assets



Source: BIS and BBVA Research

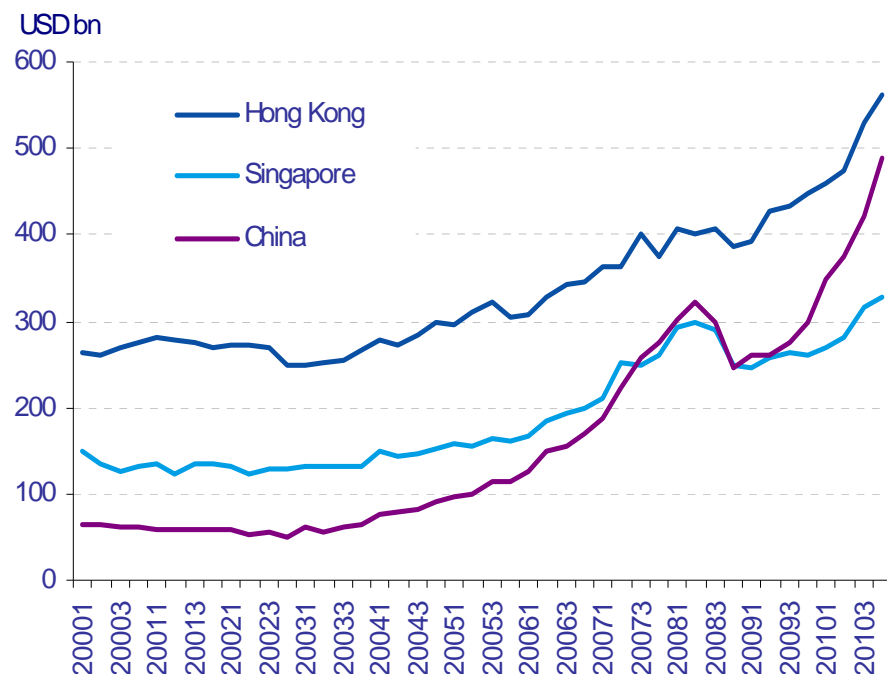
# SH: the star in receiving bank finance

Cross border loans from abroad and local lending by foreign subsidiaries operating in HK, SG and SH have grown enormously

- Hong Kong increased by 1.14 times.
  - Singapore increased by 1.19 times.
  - China increased by 6.6 times.
- Only in 2001 foreign claims on China was 50% of those of Singapore and 25% of those of Hong Kong.

As a consequence, foreign bank claims on China are now very close to those Hong Kong and larger than those of SG.

Foreign claims on Hong Kong, Singapore and China



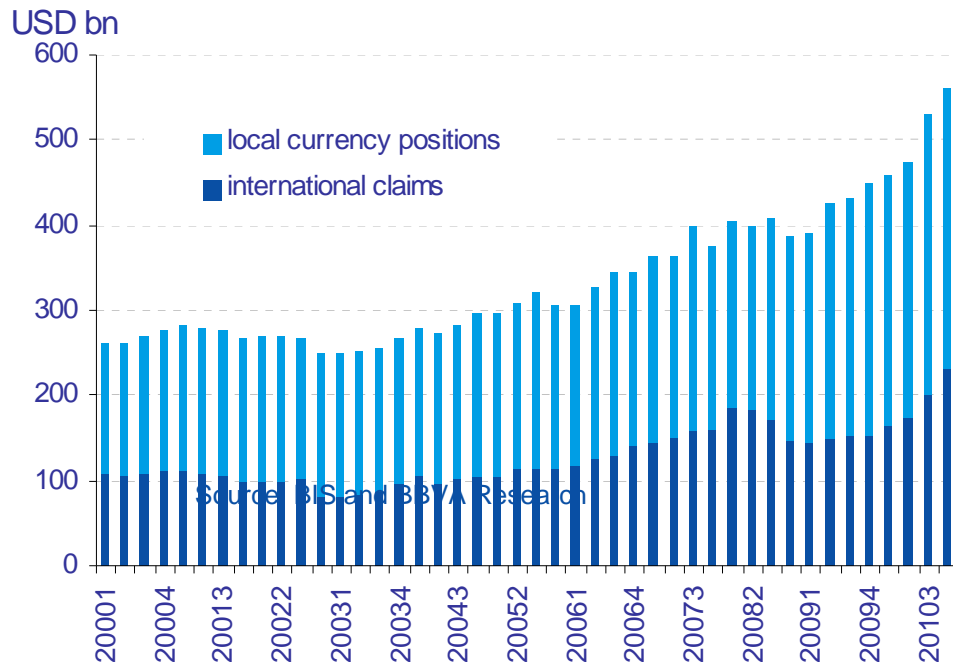
Source: BIS and BBVA Research

**Foreign claims** consist of international claims (or external claims plus local claims of foreign affiliates in foreign currency) and local claims of foreign affiliates in local currency.

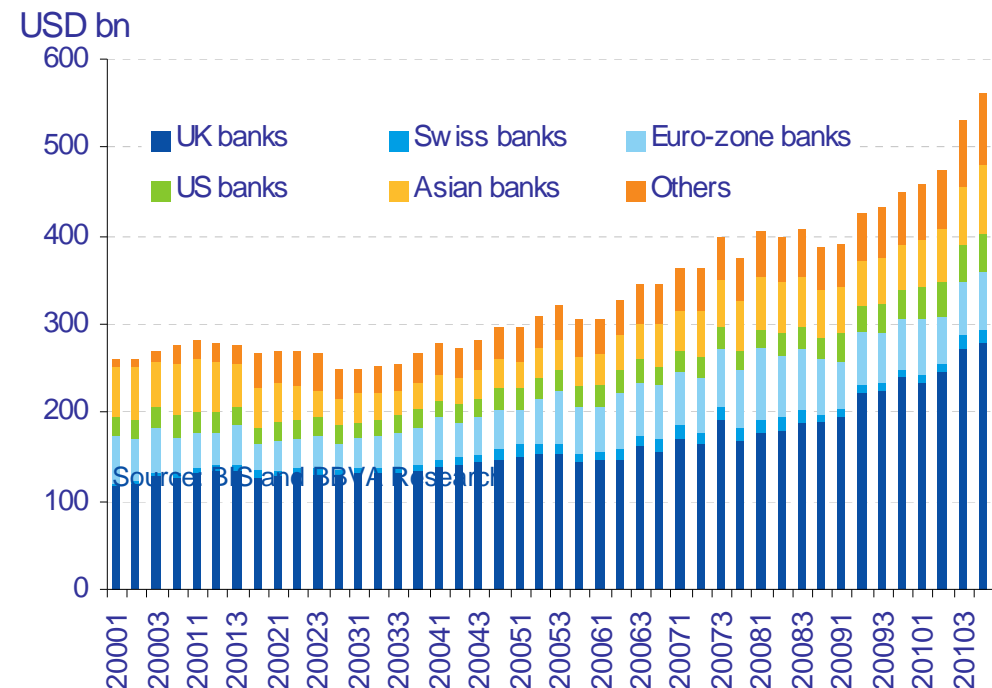
# Foreign bank finance in HK: mainly from UK subsidiaries

- Cross border is 40% and subsidiaries 60% of foreign claims
- UK banks account for 50% of total

## Foreign claims on Hong Kong



## Foreign claims on Hong Kong by origins

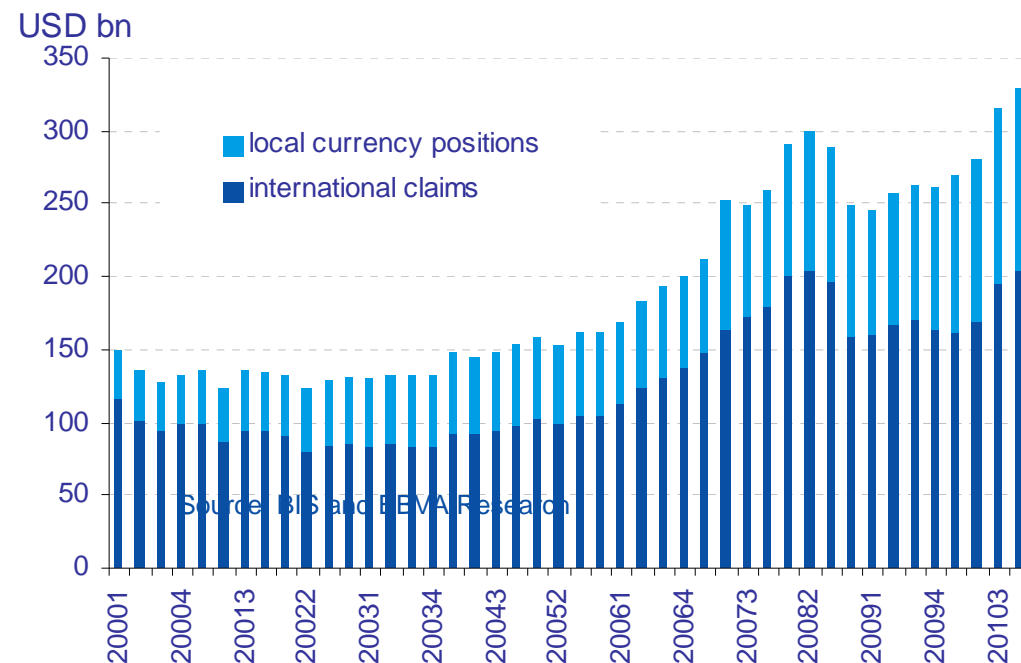




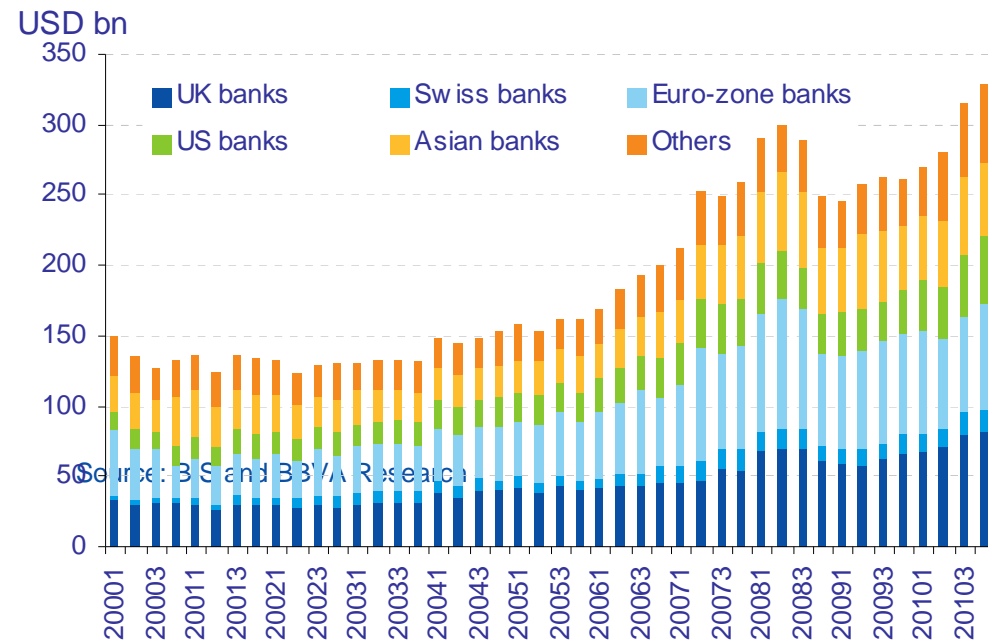
# Foreign bank finance in SG is mainly cross-border and well distributed across nationalities

- Cross border is over 60%. Local lending by foreign subsidiaries growing though.
- Foreign claims are from diverse sources: UK (25%), Euro-zone (23%), US (15%), and Asia (16%).

## Foreign claims on Singapore



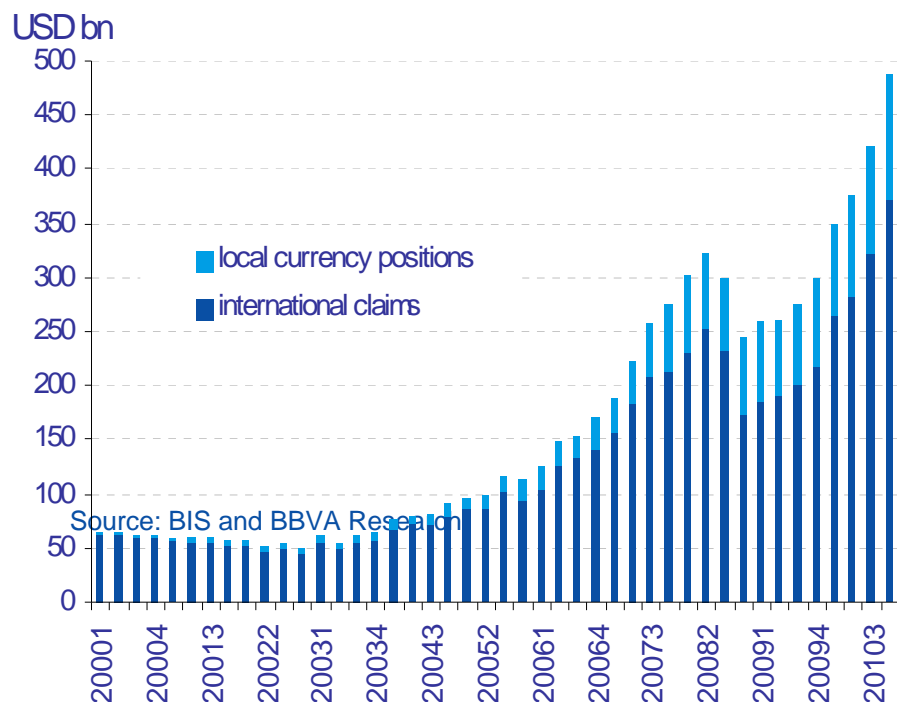
## Foreign claims on Singapore by origins



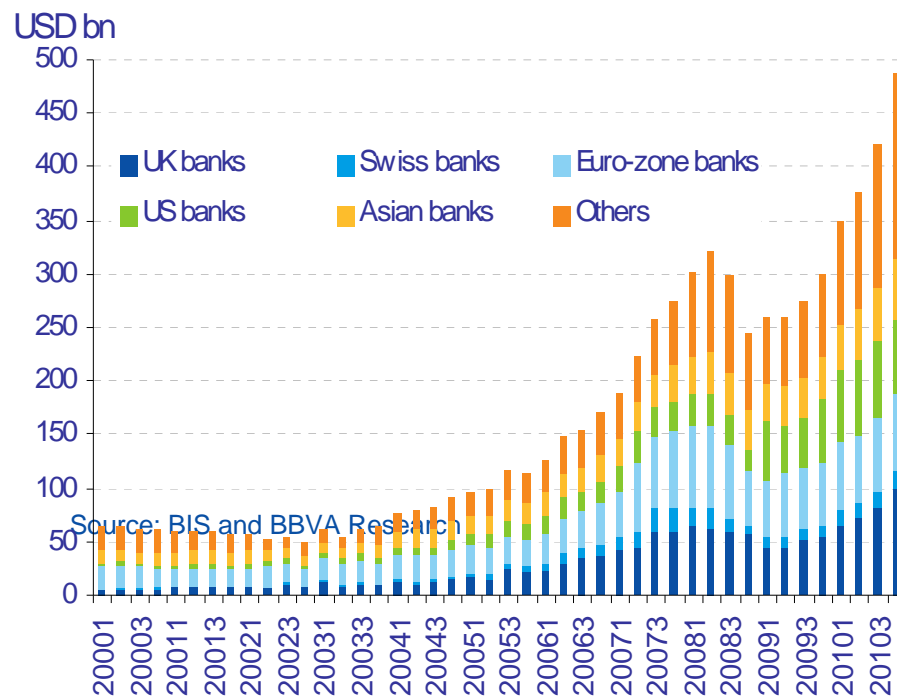
# Foreign finance in China is mainly cross-border

- International claims account for more than 80%. Foreign claims are from diverse sources: UK (20%), Euro-zone (15%), US (14%), and Asia (11%).

## Foreign claims on China



## Foreign claims on China by origins

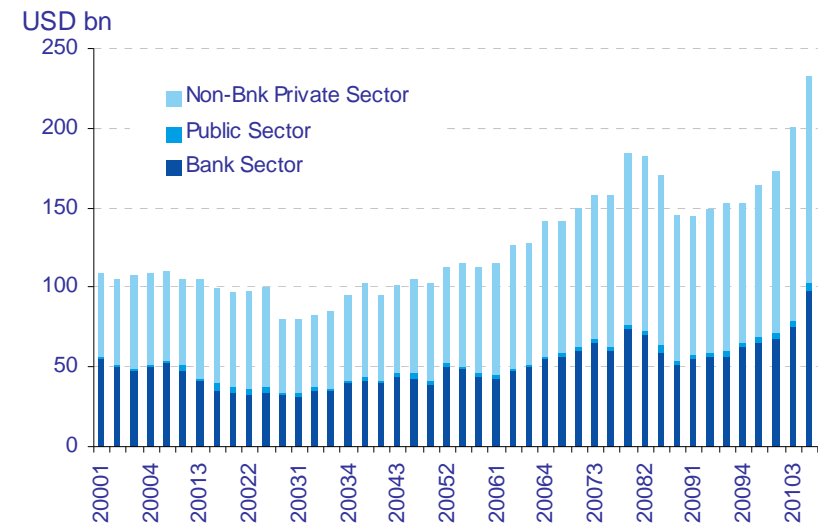


# Most of the cross-border in HK is interbank

International claims mainly consist of claims on bank sector and non-bank private sector (public sector virtually not borrowing from banks abroad)

- bank sector: 42%
- non-bank private sector: 56%

International claims on Hong Kong by sectors

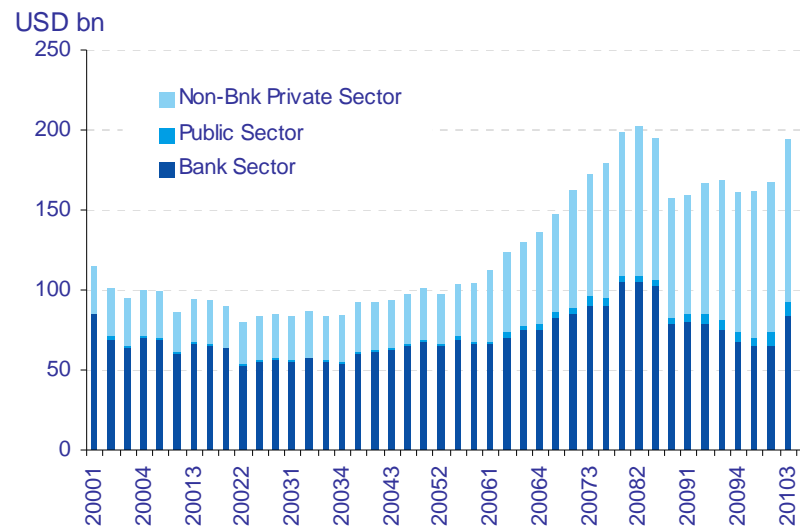


Source: BIS and BBVA Research

# SG's cross bordering borrowing more directed towards SG's corporates

- Virtually no lending from government
- bank sector: 43%
- non-bank private sector: 53%

International claims on Singapore by sectors



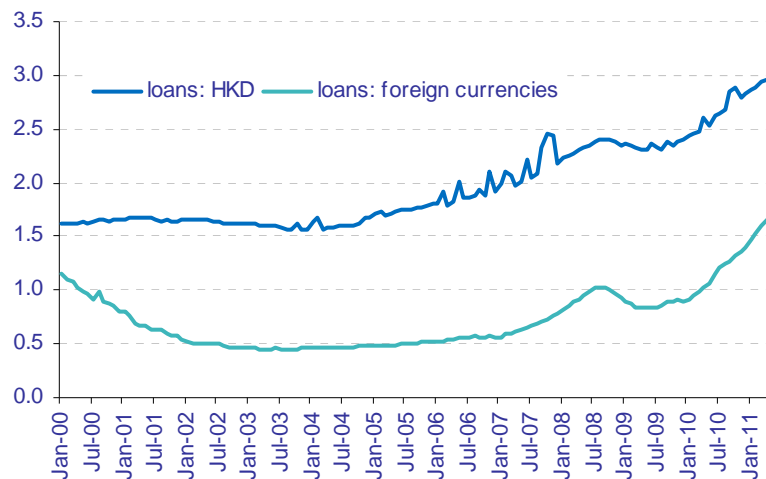
Source: BIS and BBVA Research

# As for the currency composition, HK's is growing more into foreign currency

Related to exponential growth of RMB deposits/RMB settlements

## Hong Kong bank loans by type

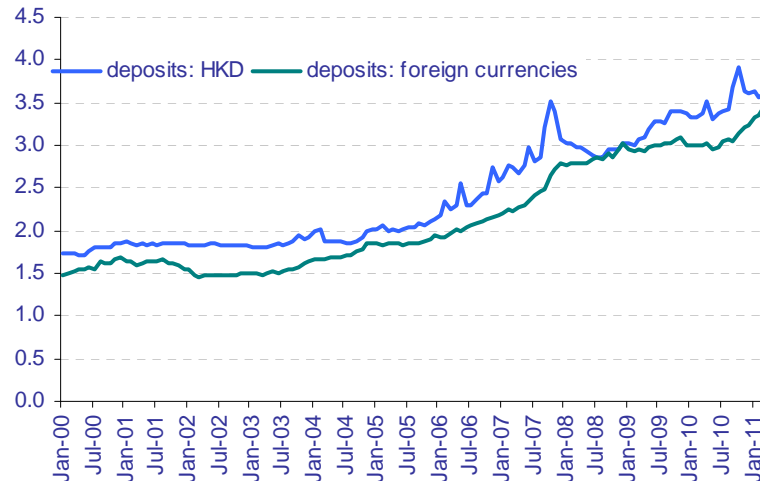
HKD trillion



Source: CEIC and BBVA Research

## Hong Kong bank deposits by type

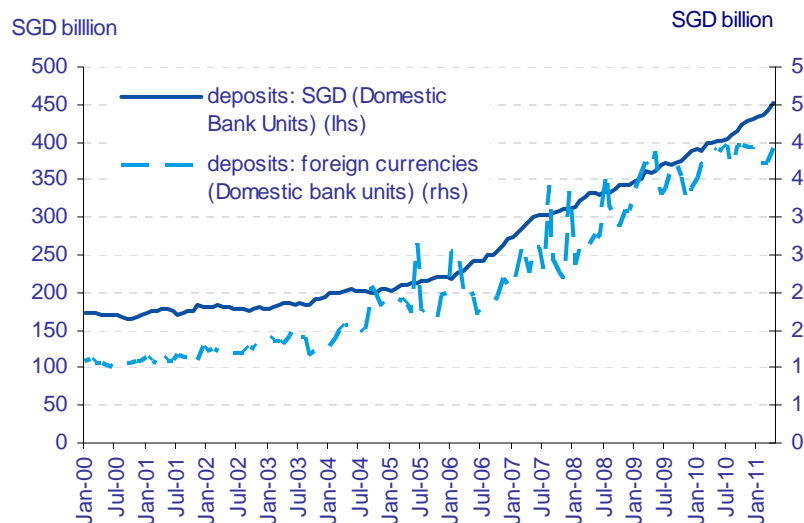
HKD trillion



Source: CEIC and BBVA Research

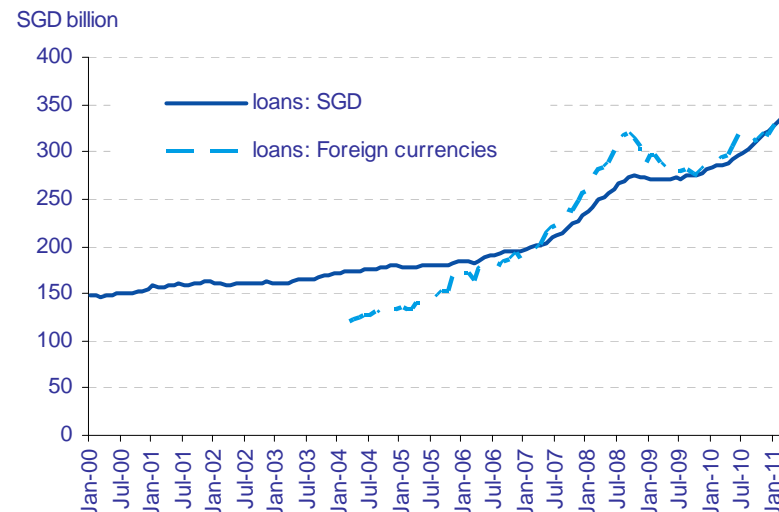
# SG is not growing foreign position on asset side as fast as HK

## Singapore bank loans by type



Source: CEIC and BBVA Research

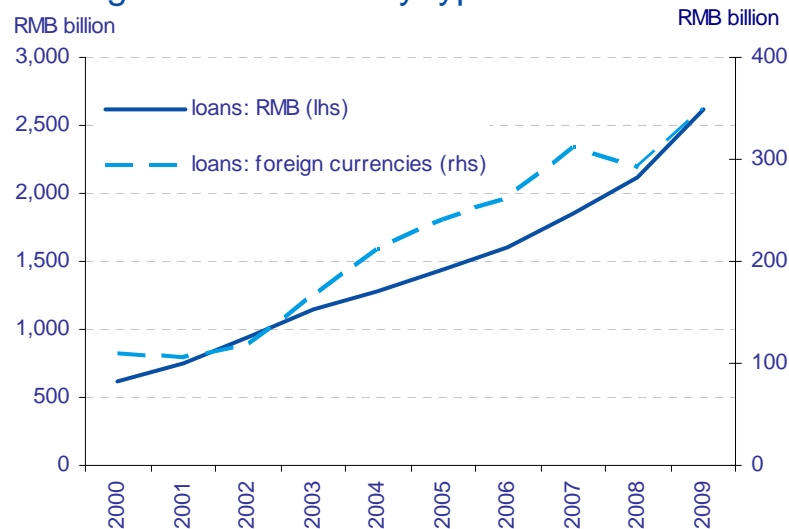
## Singapore bank deposits by type



Source: CEIC and BBVA Research

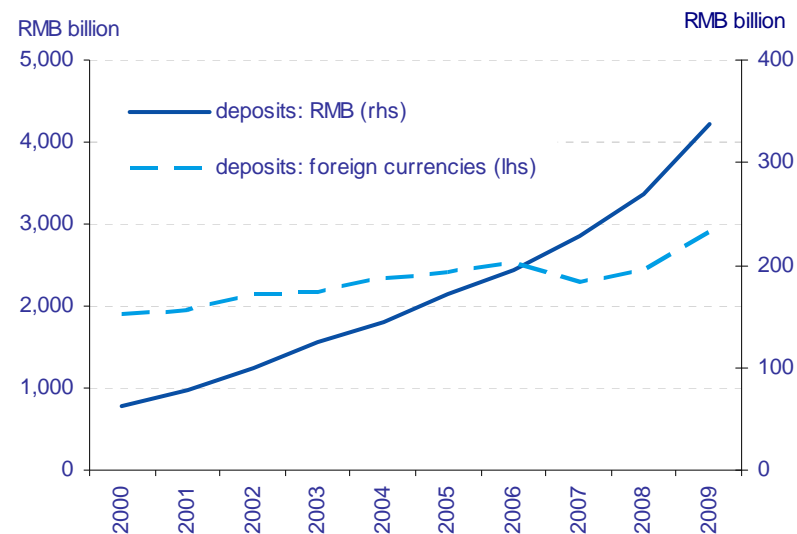
# SG obviously not due to controls

## Shanghai bank loans by type



Source: CEIC and BBVA Research

## Shanghai bank deposits by type



Source: CEIC and BBVA Research

# Hong Kong's special niche: CH

- HK banks are easier to access China's market than foreign banks: Closer Economic Partnership Arrangements (CEPA)
- HK is the base for Chinese banks to go abroad and conduct overseas business
- HK also clearly chosen to be the place to experiment with RMB internationalization
- Although other centers can do RMB settlements, HK still special
  - RMB denominated Bond issuance
  - HKMA swap line and special relation with PBoC



# HK & SH : more complementary than competitors

- Shanghai will inevitably grow as a major international financial center, with the rising of China's economy in the world.
  - However, more similar to Tokyo or NY than to HK
- Hong Kong can serve as a main international offshore financial center for China, Asia, and the world.
- Furthermore, Hong Kong due to be more integrated with the Pearl River Delta
  - Focused on wealth management of Guangdong individuals
  - Trade finance and special solutions for Pearl River Delta

# Some conclusions

- HK is in a great position
  - Many foreign banks operating
  - CH uses it as laboratory for RMB internationalization
- However, complacency should be avoided
  - The old UK banks are still the major source of finance
  - Not enough happening on new markets/segments
    - At least compared to the speed of change in SG (real competitor except for CH niche)
- SH should not be seen as a competitor (room for both)
  - On-shore vs off-shore
- Therefore, future still bright but some requirements needed
  1. More favorable tax environment;
  2. Secrecy for banking operations to maintain off-shore banking role;
  3. Continue to foster as many branches and subsidiaries as possible
  4. CH is important but diversification should also be a target

# Thank you