

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

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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

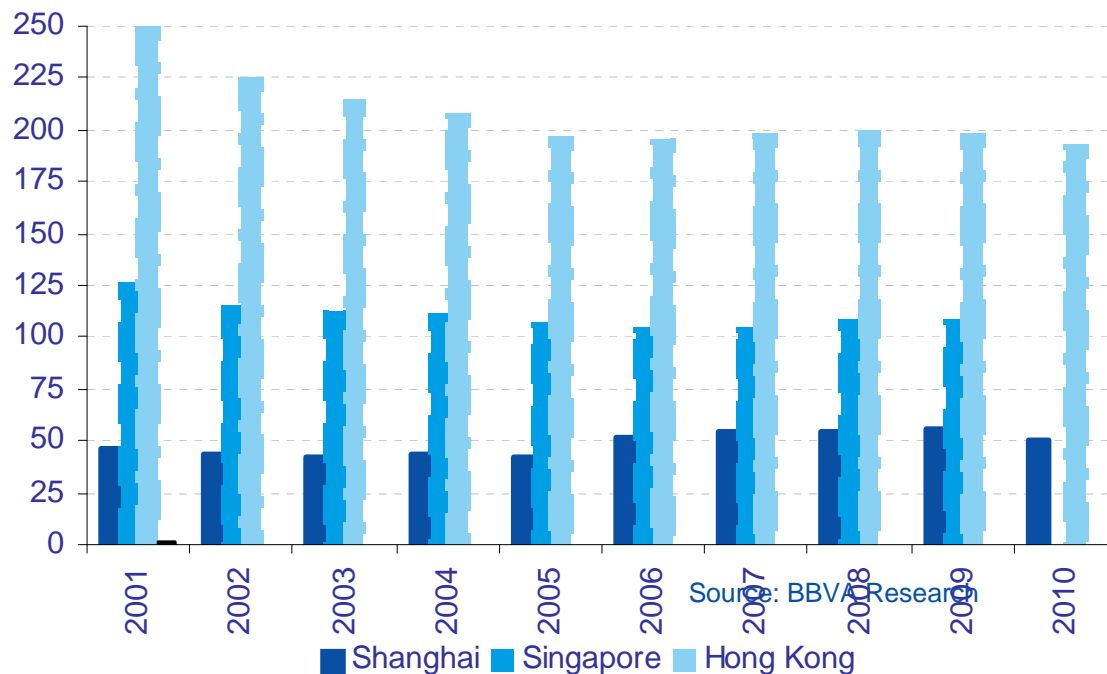
Why compare with Singapore and Shanghai?

- 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

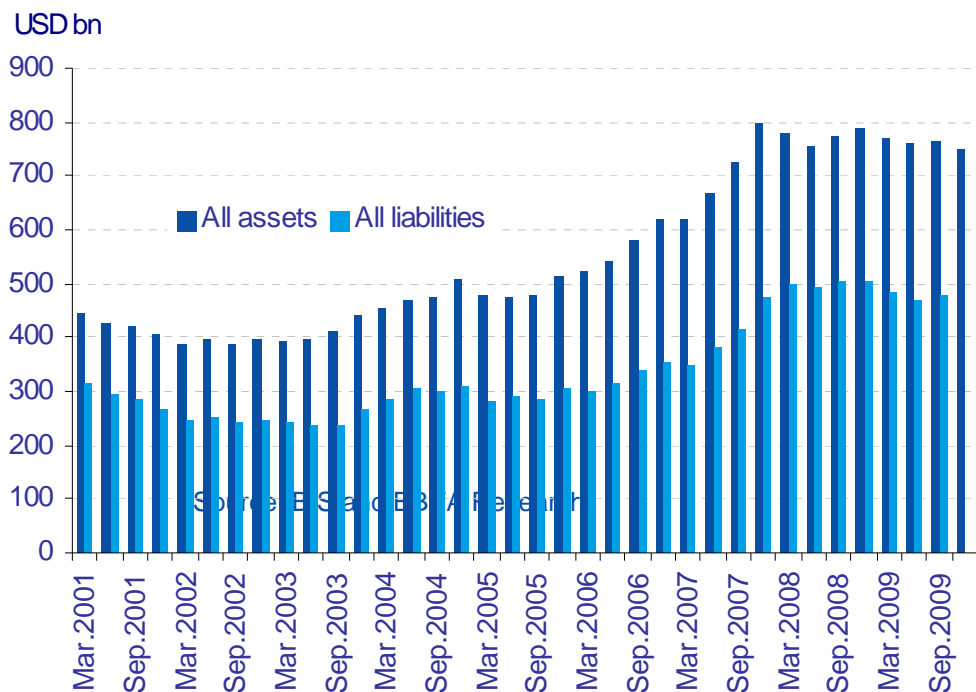


Note: Hong Kong's data include all authorized banks.

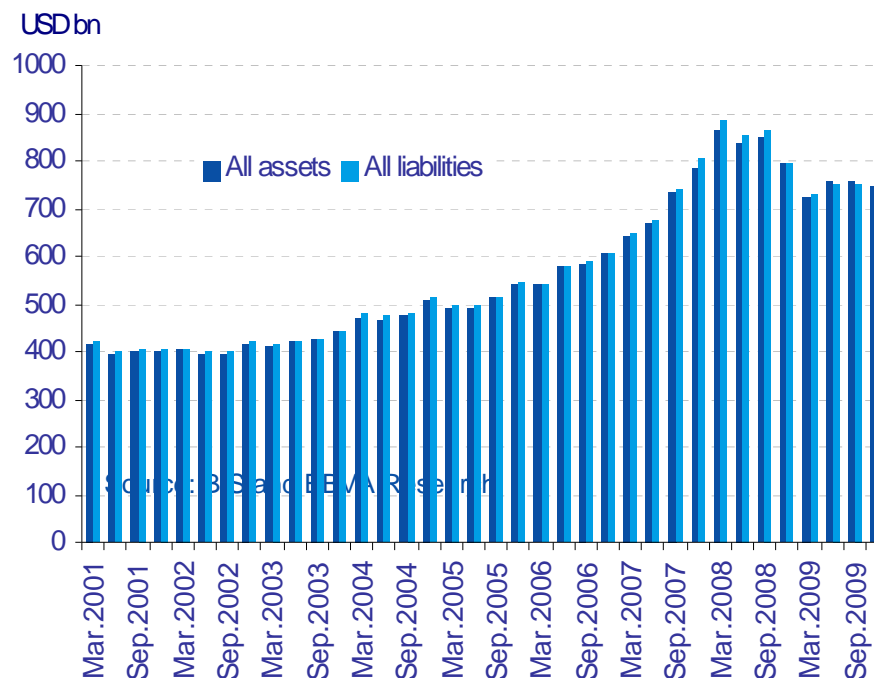
HK's cross-border operations are not bigger than those of SG

- **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



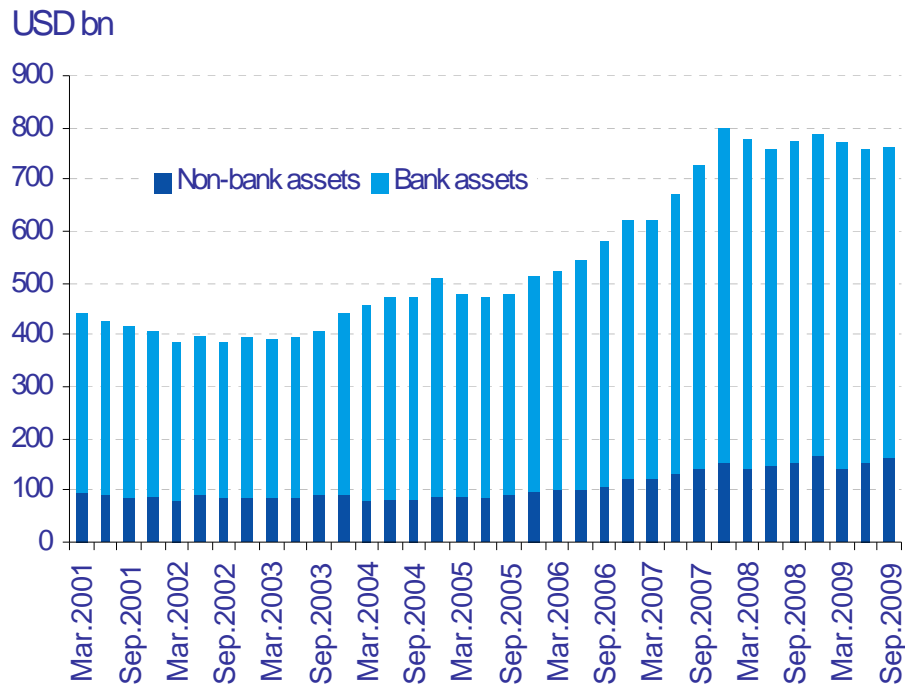
External positions of banks in Singapore



SG is becoming a bigger center for corporate lending

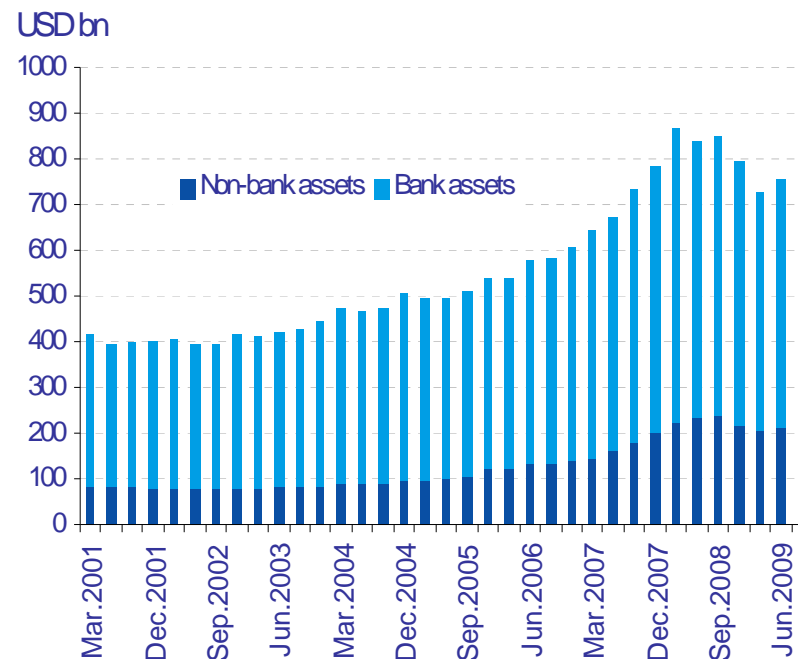
SG also doing better in international private banking

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

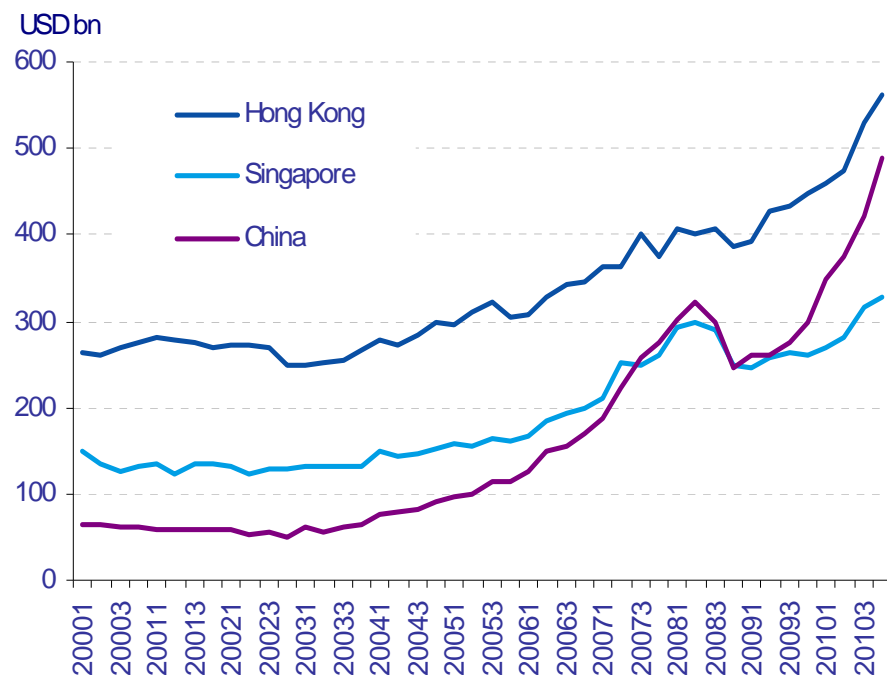
Cross border loans from abroad and local lending by foreign subsidiaries operating in HK, SG and SH have grown enormously

- 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



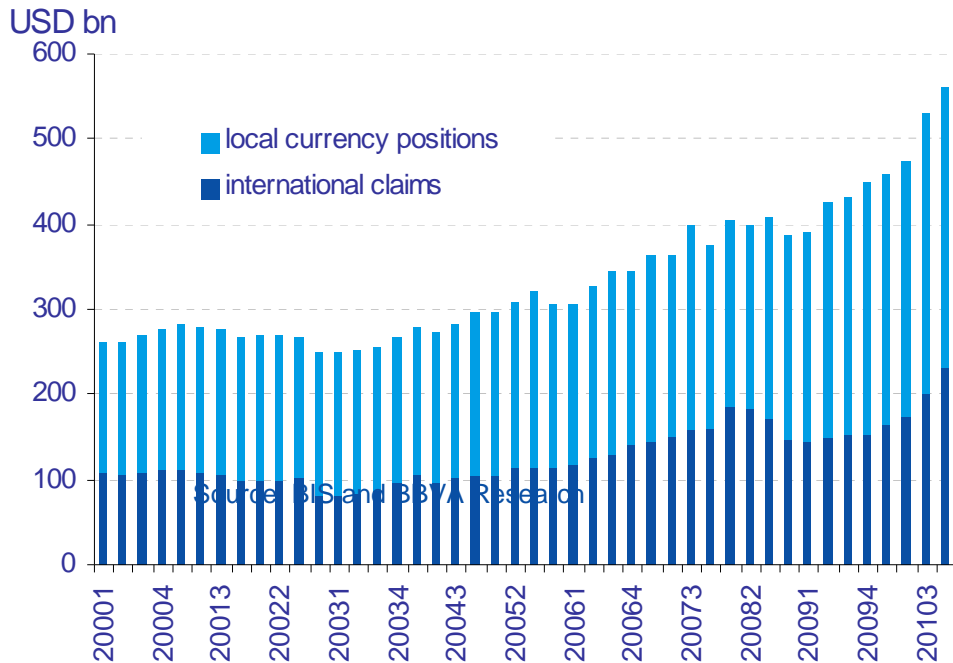
Source: BIS and BBVA Research

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.

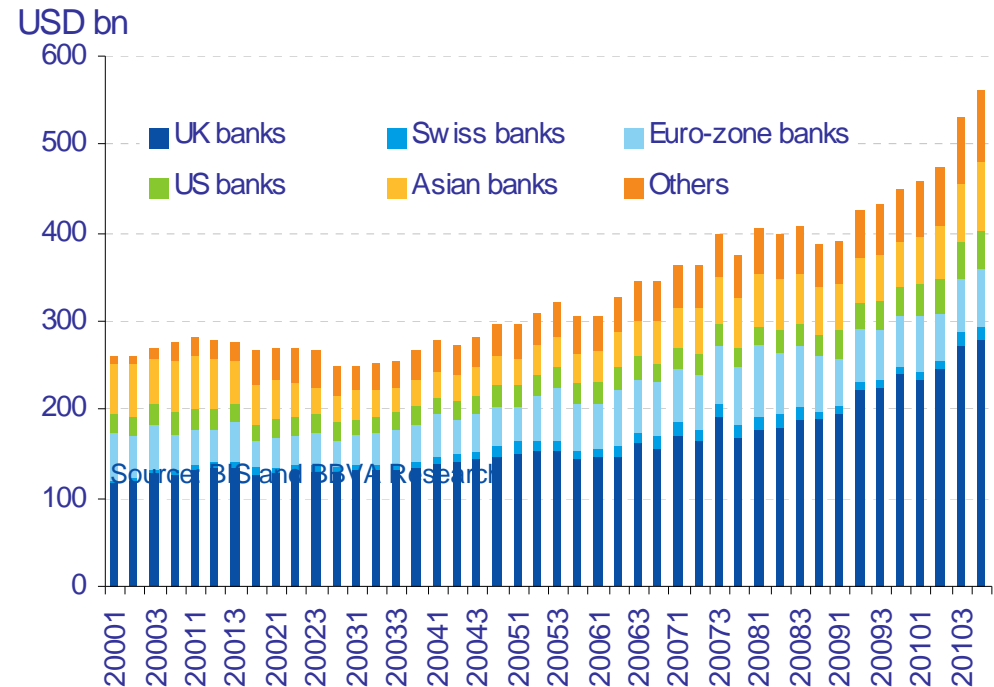
Foreign bank finance in HK: mainly from UK subsidiaries

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

Foreign claims on Hong Kong



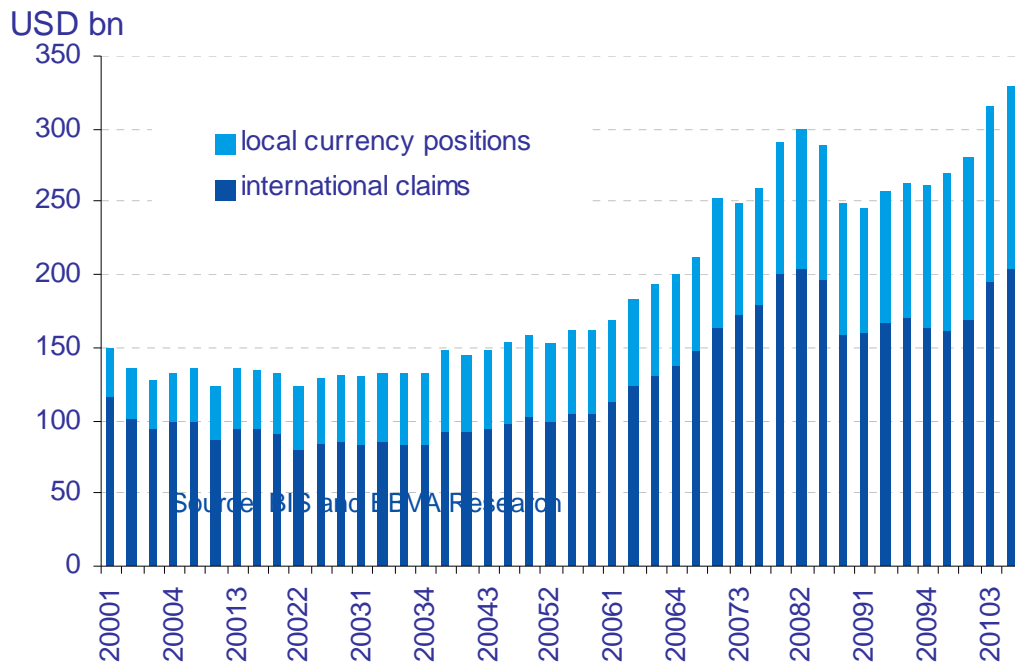
Foreign claims on Hong Kong by origins



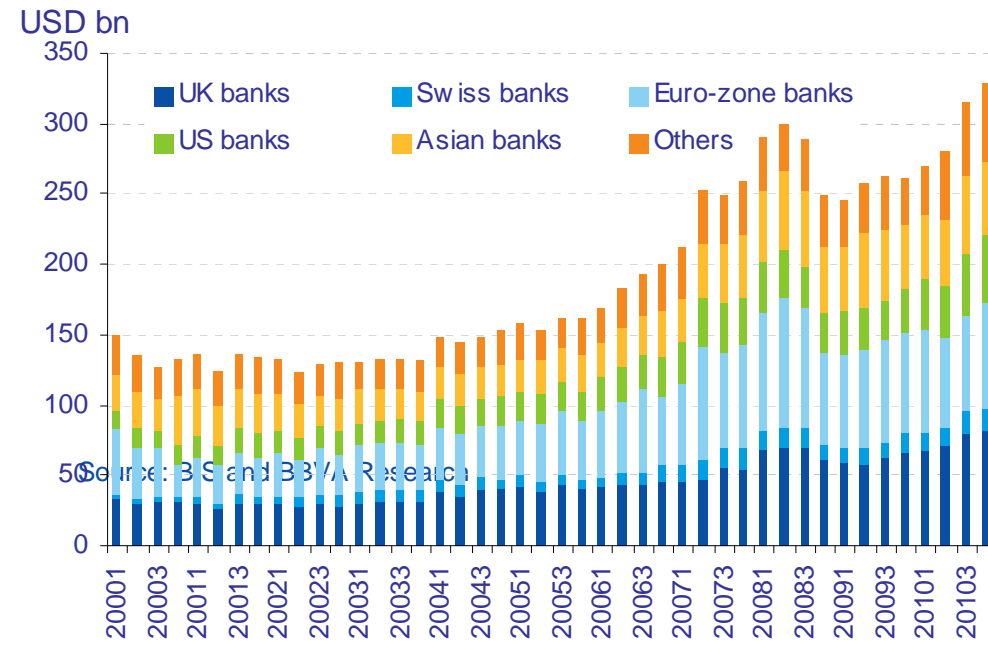
Foreign bank finance in SG is mainly cross-border and well distributed across nationalities

- 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



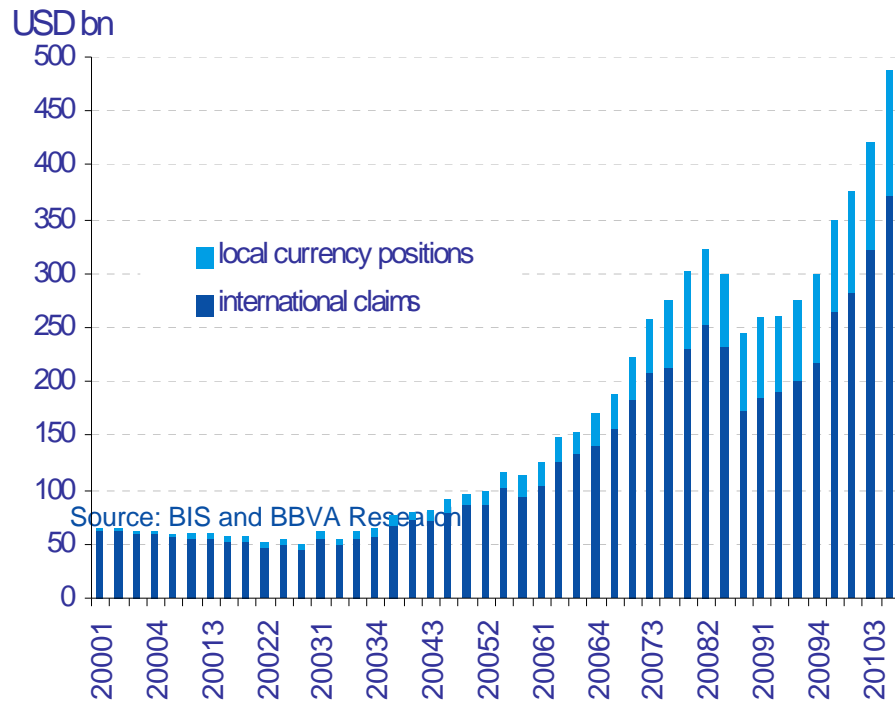
Foreign claims on Singapore by origins



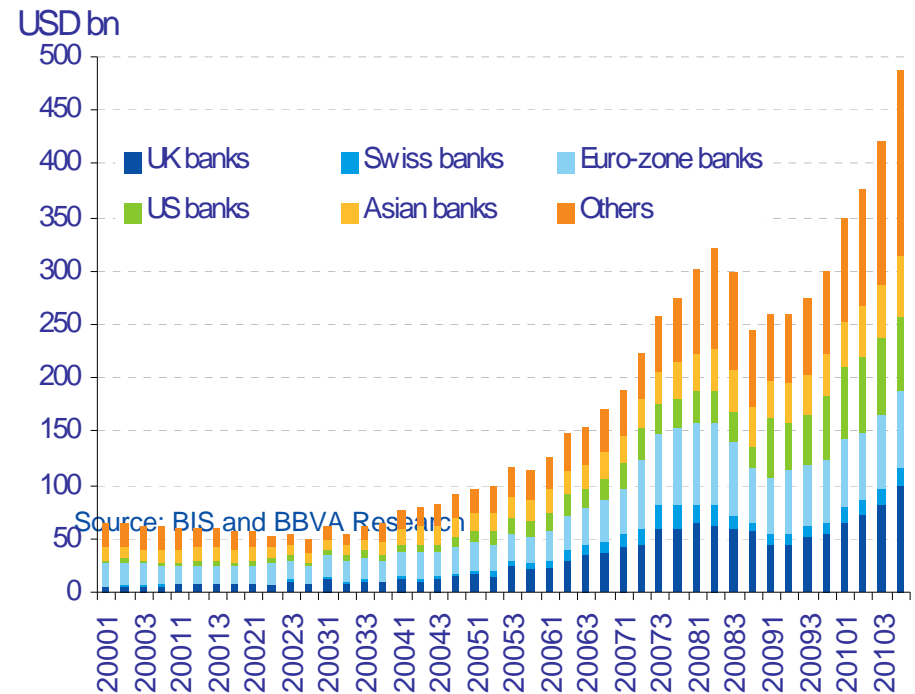
Foreign finance in China is mainly cross-border

- 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

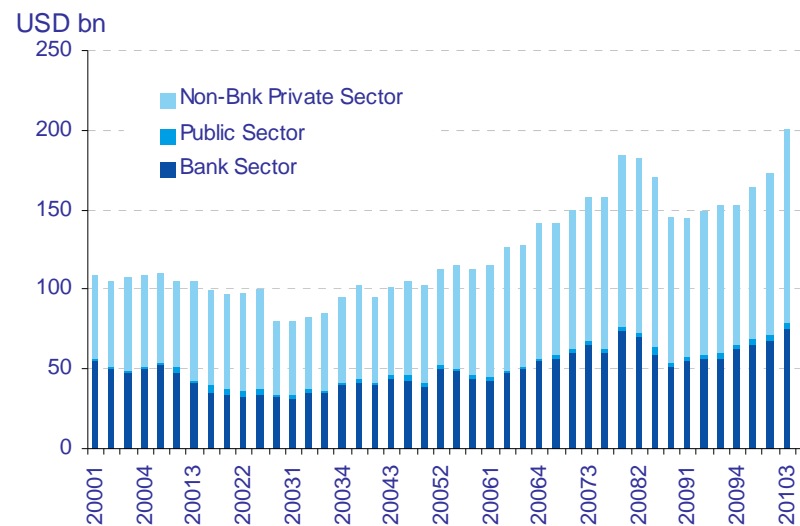


Most of the cross-border in HK is interbank

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

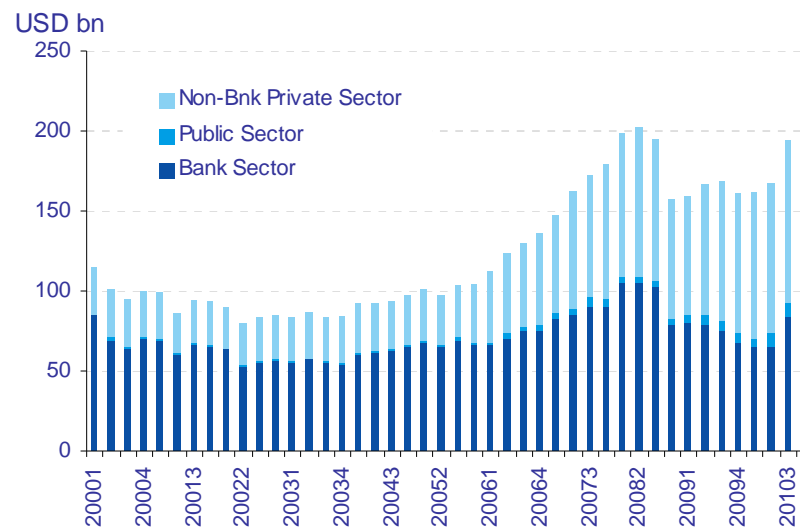


Source: BIS and BBVA Research

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

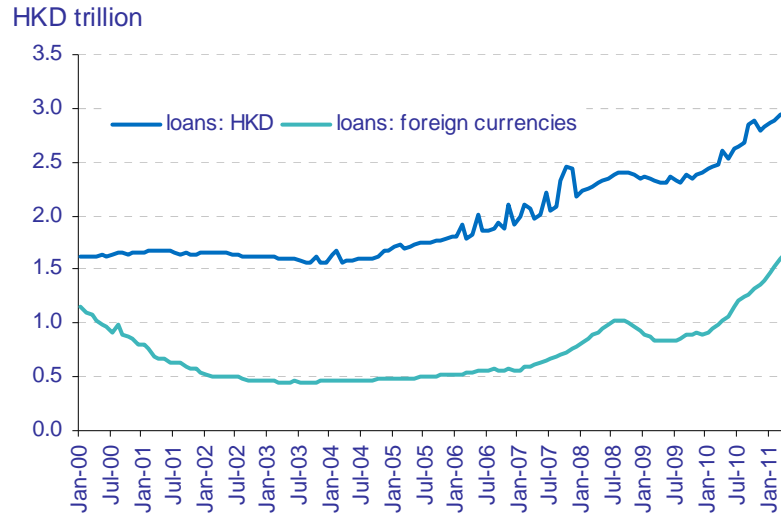


Source: BIS and BBVA Research

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

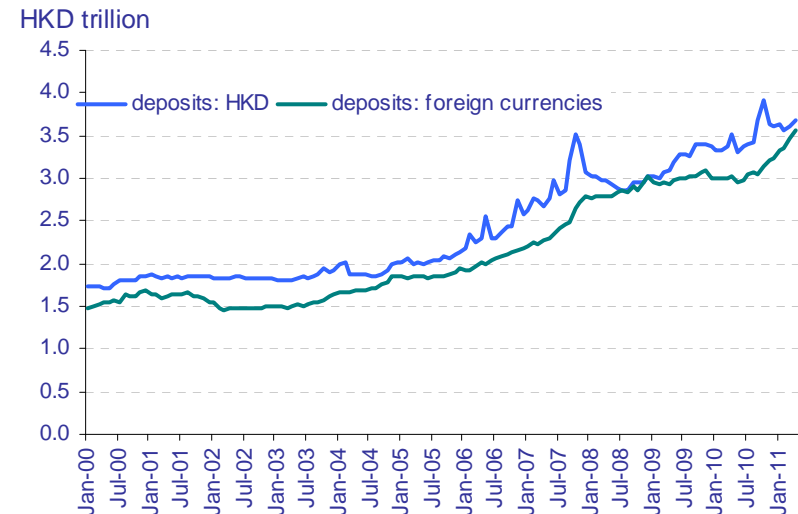
Related to exponential growth of RMB deposits/RMB settlements

Hong Kong bank loans by type



Source: CEIC and BBVA Research

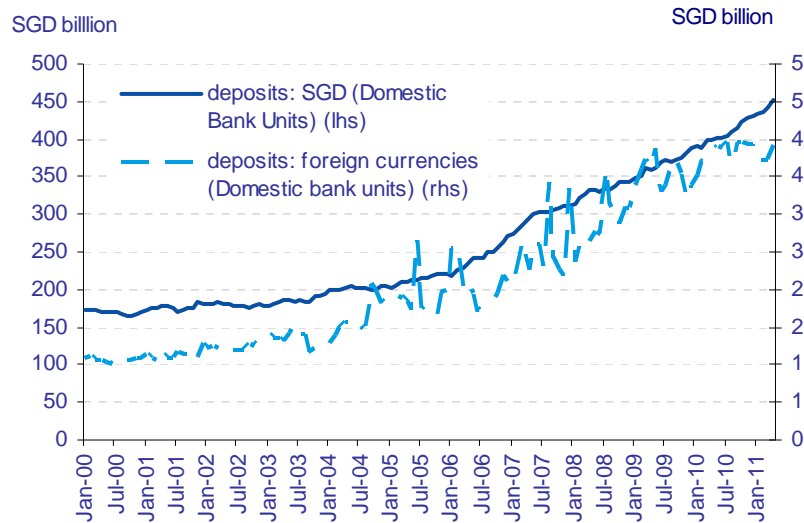
Hong Kong bank deposits by type



Source: CEIC and BBVA Research

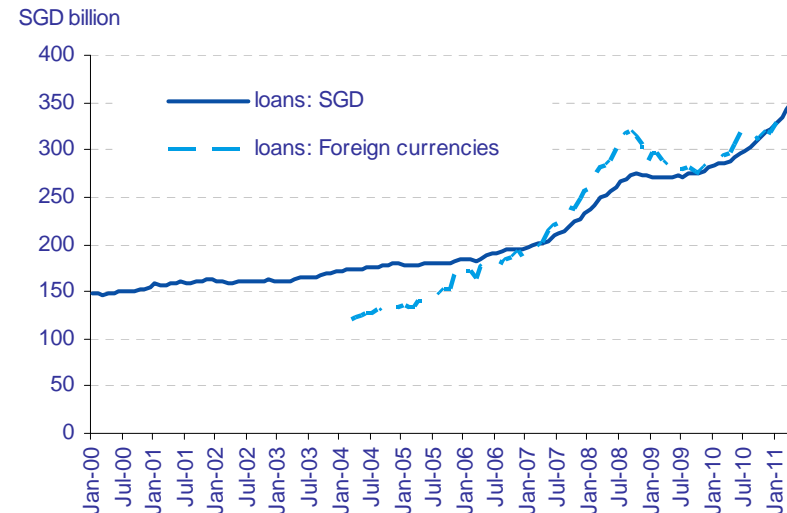
SG is not growing foreign position on asset side as fast as HK

Singapore bank loans by type



Source: CEIC and BBVA Research

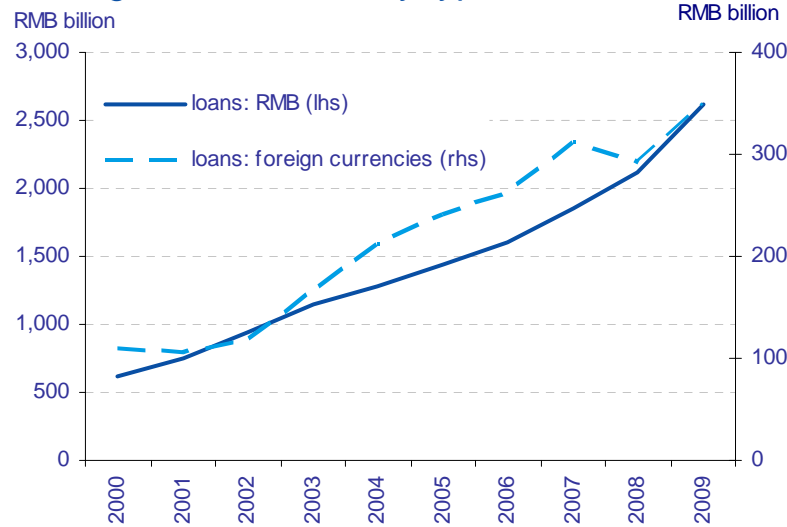
Singapore bank deposits by type



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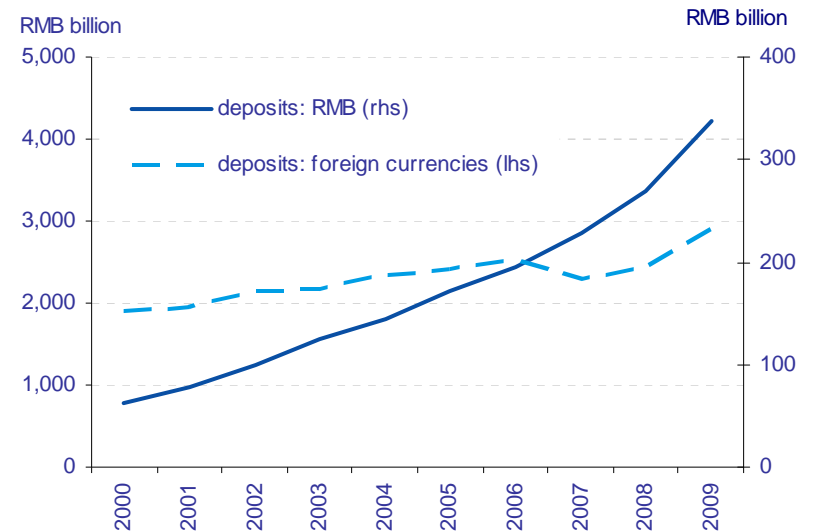
SG obviously not due to controls

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