

Press Release

LCQ16: The US dollar loan-to-deposit ratio of banks in Hong Kong

Wednesday, March 19, 2014

Following is a question by the Hon Ng Leung-sing and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 19):

Question:

According to the statistics published by the Hong Kong Monetary Authority (HKMA) in January this year, the US dollar (USD) loan-to-deposit ratio of banks in Hong Kong rose continuously from about 30 per cent at the end of 2009 to about 85 per cent at the end of 2013. In this connection, will the Government inform this Council if it has assessed:

- (1) the causes of the aforesaid upward trend and whether this trend will continue in the next few years;
- (2) whether there is a mismatch between the supply of and demand for US dollars in the current financial system; if so, the causes of that; and
- (3) the impact of a high US dollar loan-to-deposit ratio on the status of Hong Kong as an international financial centre?

Reply:

President,

As an international financial centre, Hong Kong serves as a global hub for financial intermediation where local and international corporates can utilise our efficient platforms for raising funds.

According to the analysis of the HKMA, the increase in the Hong Kong banking sector's USD loan-to-deposit ratio in the past few years was mainly due to an increase in USD loan demand arising from the global low interest rate environment, the expansion of regional economic activities, as well as the growing overseas operations, or mergers and acquisitions, of Mainland

enterprises. The relevant USD loans were mainly driven by foreign bank branches in Hong Kong, reflecting their credit risk appetite towards business opportunities in Hong Kong. As such loan growth was mainly financed by USD funds provided by the head office of the foreign branches and through interbank borrowing, these branches did not actively solicit USD deposits locally, leading to an increase in their USD loan-to-deposit ratio.

The liquidity position of local banks remains robust, with the overall loan-to-deposit and the USD loan-to-deposit ratio standing at 59 per cent and 54 per cent respectively at the end of January 2014. The HKMA monitors regularly the level of currency mismatch of the banking system as an integral part of liquidity risk management. So far, the HKMA does not consider the degree of currency mismatch significant.

As more local and international corporates utilise our efficient platforms for raising USD funds, it will enhance the role of Hong Kong as an international financial centre. The HKMA will continue to monitor closely the possible impact of credit growth on the liquidity and credit risk management of banks. In October 2013, the HKMA has introduced the Stable Funding Requirement to strengthen the liquidity risk management of banks. The HKMA has also reminded banks to step up their credit risk assessment and management processes, and to ensure that sufficient credit risk management resources have been devoted to manage a larger loan book.

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