

Economic and Banking Environment



Photo: © Lau Kwok Leung Paul

Flocks of waders over Inner Deep Bay, to the north of Hong Kong, on a spring afternoon.

Performance of the economy in 2000

Hong Kong enjoyed a strong economic recovery in 2000. Real Gross Domestic Product grew by 10.5% during the year, helped by a robust external trade performance and reviving domestic demand. Local financial markets continued to be broadly stable in 2000.

Prospects for 2001

Given the slowdown in the US economy, and its effects on the region, Hong Kong's economic growth is expected to moderate in 2001.

Banknotes

A comprehensive review of the design of Hong Kong's banknotes is in progress. Following concerns about counterfeit notes, new security features were added to the HSBC \$1,000 note in December.



The new HSBC \$1,000 banknote.

Hong Kong's economy in 2000		
	1999	2000
Economic Growth and Inflation		
– Real growth in Gross Domestic Product (%)	3.1	10.5^(a)
of which:		
Real growth in private consumption expenditure (%)	0.7	5.4^(a)
Real growth in gross domestic fixed capital formation (%)	-17.4	8.8^(a)
Real growth in exports (%)	4.2	16.7^(a)
Real growth in imports (%)	0.1	16.7^(a)
– Composite Consumer Price Index (annual change,%)	-4.0	-3.7
Labour Market		
– Employment (annual change,%)	-0.5	2.6
– Unemployment rate (annual average,%)	6.3	5.0
Money Supply (annual change,%)		
– Hong Kong dollar money supply (M1)	15.2	-0.7
– Hong Kong dollar money supply (M2) ^(b)	5.3	3.9
– Hong Kong dollar money supply (M3) ^(b)	5.3	4.0
Interest Rates (end of year,%)		
– Savings deposit rate	3.75	4.75
– Best lending rate	8.50	9.50
– Three-month interbank rate	5.69	5.75
Exchange Rates (end of year)		
– Hong Kong dollar/US dollar	7.771	7.796
– Trade-weighted effective exchange rate index	131.5	136.0
Hang Seng Index (end of year)		
	16,962	15,096

(a) The estimates are preliminary.

(b) Adjusted to include foreign currency swap deposits.

| Performance of the banking sector in 2000 |

In general, local banks' profits rebounded sharply in 2000 and the asset quality of banks continued to improve. The banking environment, however, became more competitive and difficult. Despite banks' increased willingness to lend amid plentiful liquidity, domestic loan growth remained sluggish. Competition intensified for the limited amount of new business, particularly mortgage business, resulting in aggressive price-cutting strategies and further contraction in lending margins.

Diversification and consolidation

In the light of increasing competition, various banks have begun to place greater emphasis on promoting other financial products and services and exploring the use of new technology, such as the Internet, to broaden income sources and reduce costs. There has also been added impetus for banks to consider consolidation through mergers and acquisitions, in order to achieve growth and economies of scale.

Prospects for the banking sector in 2001 and beyond

Looking ahead, the operating environment for banks is becoming increasingly complex, as banks face the risks and opportunities brought about by financial liberalisation and technological advance.

- China's prospective accession to the World Trade Organisation is expected to generate new business for banks in Hong Kong
- Further developments in Internet banking will provide banks with the opportunity to reduce costs and increase revenue through more effective marketing
- The changes in the competitive environment add to the pressure for consolidation.

Performance ratios of Hong Kong's banking sector in 2000

	All authorized institutions		All local banks	
	1999	2000	1999	2000
Profitability (%)				
– Growth of pre-tax operating profit	N.A.	N.A.	15.2	37.8
– Growth of post-tax profit	N.A.	N.A.	22.6	29.8
– Return on assets (operating profit)	0.42	0.84	1.29	1.67
– Return on assets (post-tax profit)	0.39	0.77	1.19	1.44
– Net interest margin	1.34	1.42	2.29	2.33
Business Profile (%)				
– Growth in total loans and advances	-14.9	-12.5	N.A.	N.A.
– Growth in customer deposits (all currencies)	7.6	9.6	N.A.	N.A.
– Hong Kong dollar loan to deposit ratio	91.3	89.4	68.4	69.8
Asset Quality (%)				
– Bad debt charge to average total assets	0.64	0.26	0.59	0.29
– Overdue >3 months and rescheduled loans to total loans ¹	5.72	5.12	6.96	5.49
Capital Adequacy Ratio (%) ²	N.A.	N.A.	18.7	17.9

1 Figures related to Hong Kong office(s) and in the case of local AIs include overseas branches.

2 Consolidated ratios for all locally incorporated institutions.