

Economic and Banking Environment

For the third consecutive year, Hong Kong's economy has grown above its long-term trend-rate, underpinned by healthy growth in domestic demand and exports; and the outlook for 2007 remains favourable. The banking sector enjoyed another year of solid results despite the intensely competitive operating environment.

THE ECONOMY IN REVIEW

Overview

The Hong Kong economy grew above trend for the third consecutive year in 2006. Real GDP increased by 6.8% following remarkable growth of 7.5% in 2005 and 8.6% in 2004. Consumer spending and business equipment investment set the trend, while exports of goods and services put in solid performances (Table 1). Consumer price inflation picked up with the higher domestic demand and higher housing rents, although inflationary pressures were contained. Unemployment fell to its lowest point in six years.

Monetary conditions eased during the year with interest rates declining at both the wholesale and retail levels, reflecting abundant liquidity in the banking sector. Broad money and domestic credit picked up along with the increased economic activity. The loan-to-deposit ratio declined to a record low towards the end of the year.

Strong domestic demand

Private domestic demand rose briskly with the strong revival in consumer spending and business equipment investment. The steady rise in labour income and a strong rally in the stock market strengthened consumer confidence, pushing up private consumption by 5.1%

Table 1. GDP annual growth by expenditure components (%)

	2006					2005				
	Q1	Q2	Q3	Q4	Overall	Q1	Q2	Q3	Q4	Overall
Private Consumption Expenditure	4.8	5.4	4.4	5.8	5.1	3.7	2.5	4.0	3.1	3.3
Government Consumption Expenditure	1.1	-1.5	-1.1	2.4	0.3	-4.5	-2.3	-1.6	-3.9	-3.1
Gross Domestic Fixed Capital Formation	7.3	4.5	10.3	9.5	7.9	1.3	5.0	3.2	8.9	4.6
Change in Inventories ¹	1.3	0.7	-0.8	-0.2	0.2	-4.1	-3.2	0.7	2.7	-0.8
Net Exports of Goods ¹	0.2	-0.7	0.8	0.5	0.2	6.5	5.5	2.5	-0.7	3.3
Net Exports of Services ¹	2.1	1.6	2.3	1.6	1.9	2.0	2.8	2.4	2.5	2.4
GDP	8.0	5.5	6.7	7.0	6.8	6.3	7.5	8.4	7.8	7.5

¹ Percentage-point contribution to annual growth of GDP.

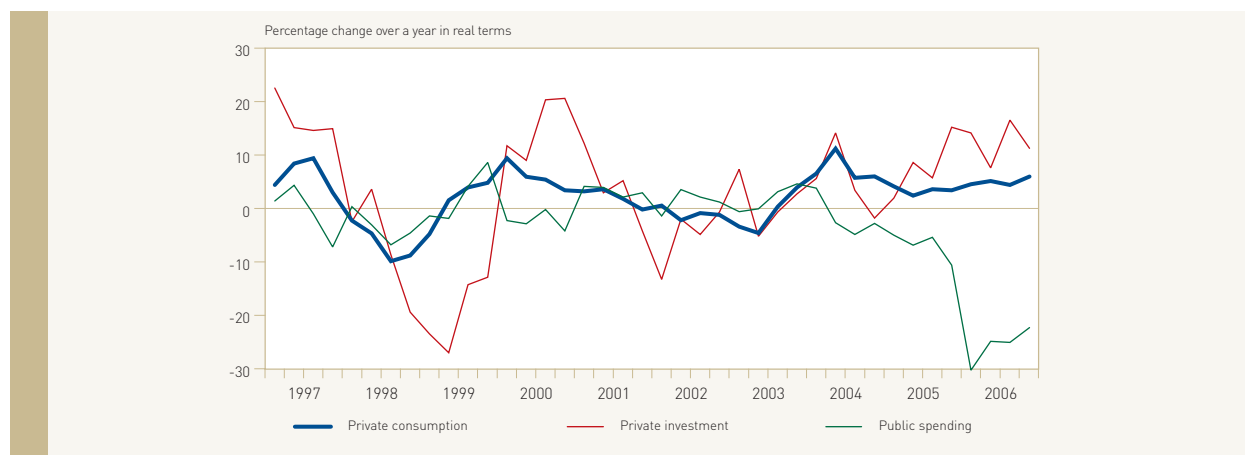
Source: Census and Statistics Department.

compared with 3.3% in 2005. Supportive monetary conditions boosted business investment, with growth in equipment spending rising by 17.2% compared with 12.9% in 2005, the fastest pace of expansion since 2000. However, construction spending remained subdued and the Government continued to cut its costs by reducing public expenditure (Chart 1).

Solid export growth

Exports of goods and services remained robust in 2006 with increased cross-border trade with the Mainland and solid import demand from other major trading partners, including the US and the European Union. Merchandise exports increased by 10.2% after rising by 11.2% in 2005, mainly driven by strong growth in re-exports. Mainland China remained Hong Kong's largest trading partner, followed by the US and European Union (Table 2).

Chart 1. Domestic demand



Source: Census and Statistics Department.

Table 2. Merchandise exports by major trading partners¹

	Share %	2006					2005				
		Q1	Q2	Q3	Q4	Overall	Q1	Q2	Q3	Q4	Overall
Mainland China	47	18	8	13	17	14	12	15	14	14	14
United States	15	4	0	1	7	3	6	7	8	2	6
European Union	14	9	4	2	6	5	22	20	16	13	17
Japan	5	7	2	0	-2	1	12	12	13	6	10
ASEAN ⁵ + Korea	7	8	2	13	7	8	6	8	6	9	7
Taiwan	2	4	-7	9	7	3	-3	4	7	3	3
Others	10	11	7	9	17	11	5	7	15	5	8
Total	100	12	5	8	12	9	11	12	13	10	11

¹ Figures are percentage changes year on year except for major export markets' shares in Hong Kong's total exports.
² ASEAN⁵: the Philippines, Malaysia, Indonesia, Singapore and Thailand.

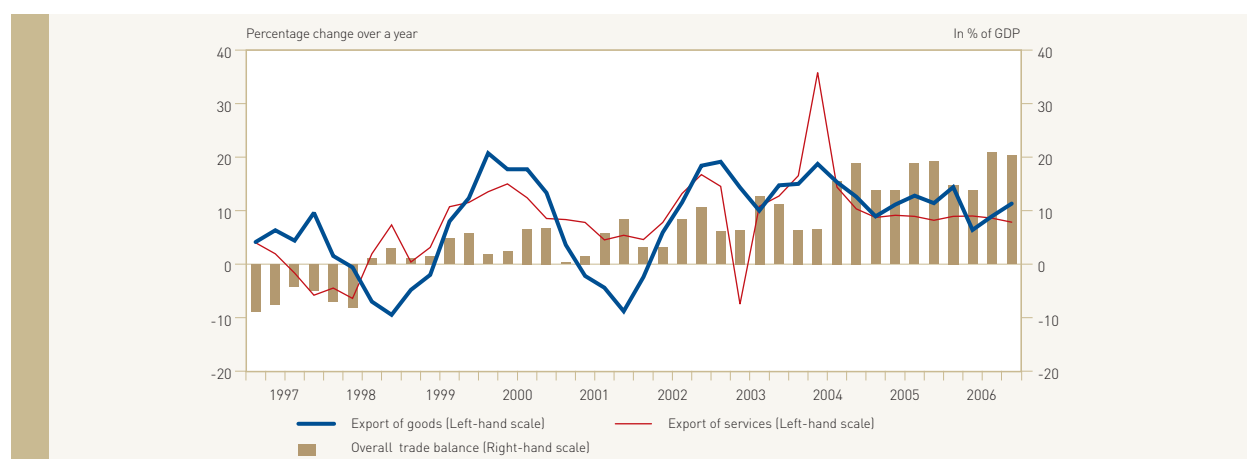
Source: Census and Statistics Department.

Retained imports of goods rose an impressive 8.0% compared with a 1.6% growth in 2005, reflecting the stronger domestic demand. The merchandise trade deficit in real terms narrowed to HK\$7.8 billion (0.4% of real GDP) in 2006 from HK\$11.4 billion (0.7% of real GDP) in 2005, as exports grew faster than imports. Benefiting from strong growth in trade intermediation, exports of services (particularly cross-border transportation and trade-related services) increased faster than imports of services, resulting in an overall trade surplus of HK\$303.6 billion (17.5% of real GDP), compared with HK\$269.5 billion (16.6% of real GDP) in 2005 (Chart 2).

Inflation rising slowly

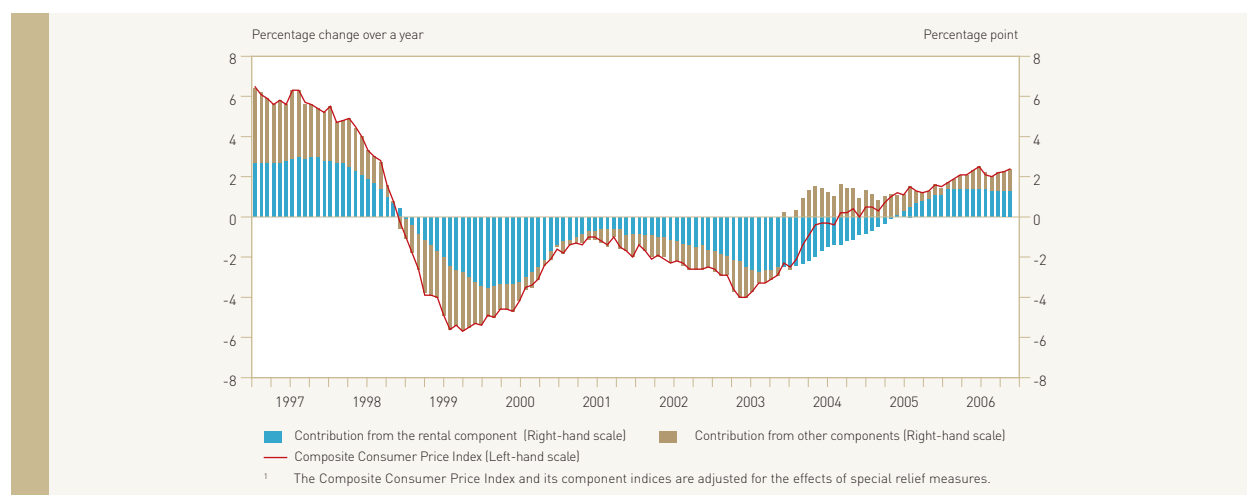
Consumer price inflation continued to rise gradually in 2006, reflecting robust growth in aggregate demand and higher housing costs feeding into the consumer price index. However, inflationary pressures remained contained. The Composite Consumer Price Index (CCPI) inflation rose to 2.0% from 1.0% in 2005, mainly as a result of higher residential rents (Chart 3). If the housing component is excluded, CCPI inflation eased to 0.9% from 1.1% in 2005, because of a fall in prices of non-food tradable goods, particularly durable goods, such as computers and home appliances, which declined by 6.4% in 2006 after falling 3.2% the previous year.

Chart 2. Overall trade balance and export growth (in real terms)



Source: Census and Statistics Department.

Chart 3. Consumer prices¹



¹ The Composite Consumer Price Index and its component indices are adjusted for the effects of special relief measures.

Sources: Census and Statistics Department and staff estimates.

Improving labour market

Business expansion increased the demand for labour, further pushing down the seasonally adjusted unemployment rate from 5.2% in January to 4.4% in December, the lowest in six years. The fall in the unemployment rate was driven by faster growth in employment than in the labour force. This was most evident in the financial and social and personal service sectors (Chart 4).

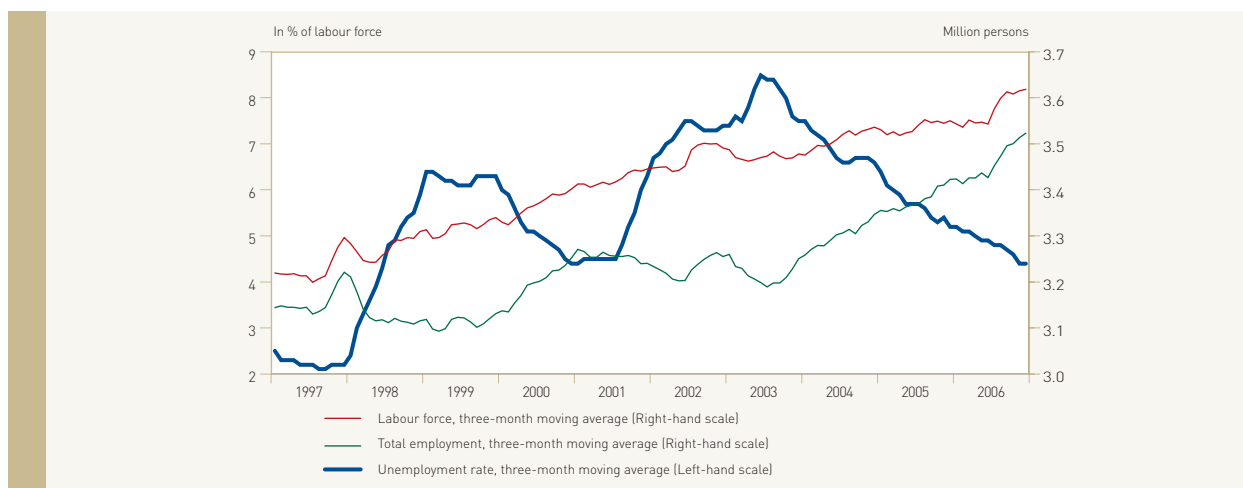
The continued expansion in employment led to increases in labour earnings. The nominal payroll per worker, which includes wages and other non-regular allowances

and bonuses, increased by 2.4% in 2006, after growing by 3.5% in 2005. However, unit labour costs remained largely stable, as the rise in labour productivity offset increased earnings.

Strong asset market performance

The residential property market picked up modestly during the year with house prices rising by 0.7% year on year in 2006 after rising by 17.9% in 2005. As private housing demand moderated, key property developers reduced the premium of house prices in the primary market over those in the secondary market to attract new home buyers. While prices of medium-sized residential flats remained largely stable during the year,

Chart 4. Labour market conditions



Source: Census and Statistics Department.

those for larger flats continued to pick up, with prices for luxury flats located in certain prime locations rising close to the peak levels of 1997. But there were no major signs of overheating in the property market. The stabilisation of house prices and intensified competition in the mortgage market stimulated residential property transactions in the second half of 2006, with the number of Sale and Purchase Agreements rising by 6.8% from the first half.

The local stock market staged a strong rally in the second half of 2006, supported by Hong Kong's robust economic performance, the pause in the monetary tightening cycle in the US and sizable capital inflows driven by increased initial public offering (IPO) activities. The Hang Seng Index climbed to a record high of 20,001

towards the end of the year. In 2006, the stock market increased by 34%, the largest annual gain since 2003. The H-share index had an even more dramatic rise of 94%, reflecting rising demand for shares of Chinese enterprises listed on the domestic market.

Notes and coins

At the end of 2006, the total value of banknotes in circulation was \$157,385 million, an increase of 5.4% from a year ago (Charts 5, 6, 7). The total value of government-issued notes and coins in circulation amounted to \$6,633 million, an increase of 2.3% (Charts 8 and 9). The value of \$10 notes issued by the Government in circulation reached \$1,515 million, an increase of 4.7% from 2005.

Chart 5. Banknotes in circulation by note-issuing banks at the end of 2006

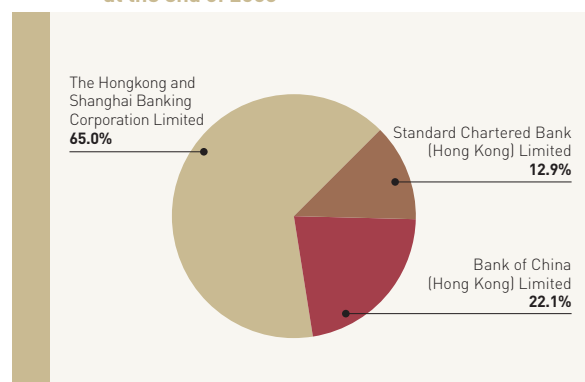


Chart 6. Distribution of banknotes in circulation at the end of 2006

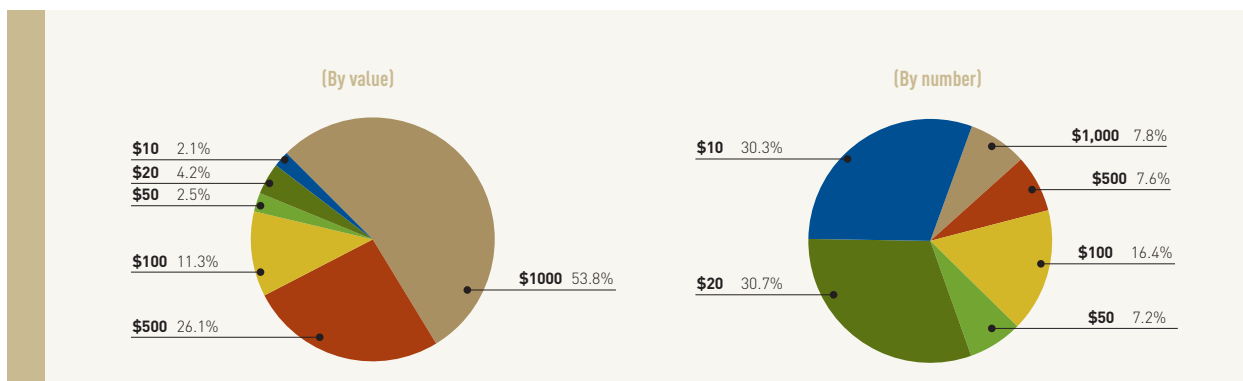


Chart 7. Banknotes in circulation at the end of year

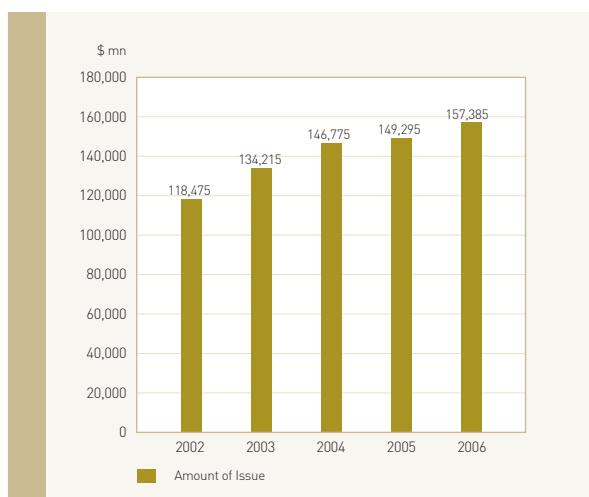
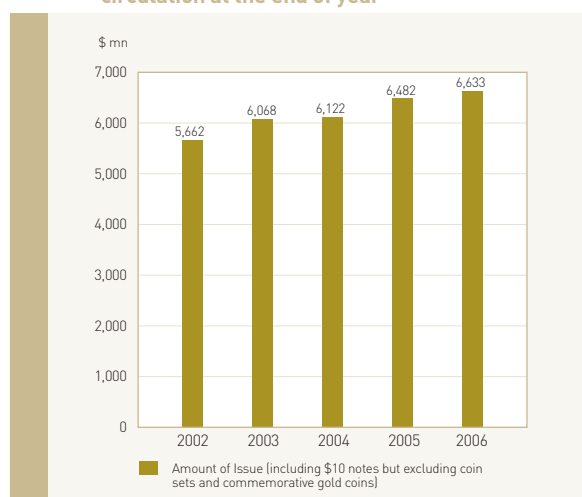


Chart 8. Government-issued notes and coins in circulation at the end of year



Hong Kong banknotes

The latest series of banknotes was issued in 2003/2004 by the three note-issuing banks. Additional security features are incorporated in the series to combat counterfeiting.

[📄](#) > Consumer Information > New Hong Kong Banknotes

Public education programmes on the security features of banknotes continued to be well received. During the year, 37 seminars were organised for about 2,800 bank tellers, retail cashiers, moneychangers and cash-handling staff of chain stores and hotels. Participants found the seminars useful in providing them with knowledge and skills for authenticating banknotes. To promote

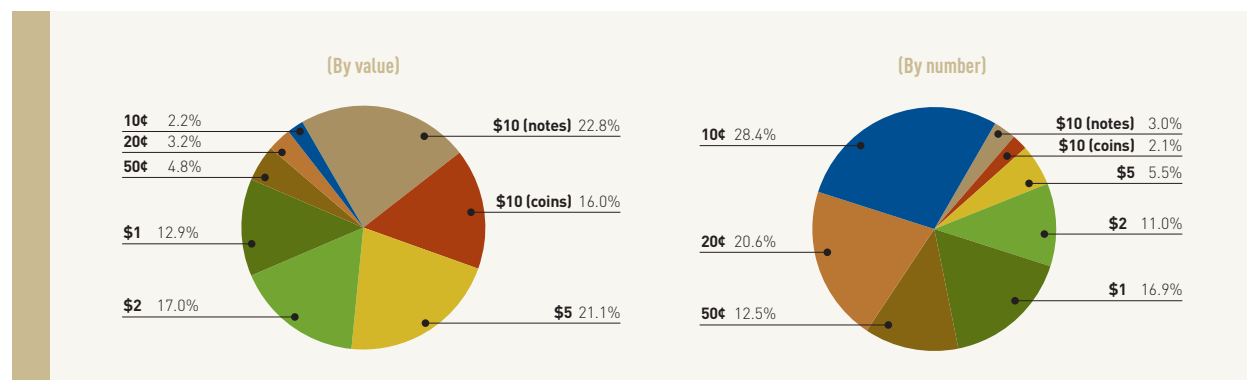
conservation and more cost-effective inventory management, the HKMA worked with the three note-issuing banks to encourage the public to use “good-as-new” notes instead of brand new ones for *lai see* (gifts at Chinese New Year). A naming and slogan competition held for primary school students saw the introduction of the new Chinese name, “ying-san note” (迎新鈔票), on posters as part of the campaign by the note-issuing banks to promote the use of “good-as-new” notes.

Coin replacement programme

The programme to withdraw coins bearing the Queen’s Head design continued. In 2006, 34 million coins were removed from circulation.

[📄](#) > Consumer Information > Notes & Coins

Chart 9. Government-issued notes and coins in circulation at the end of 2006



OUTLOOK FOR THE ECONOMY

Favourable growth forecast

The outlook for 2007 remains favourable, as the Hong Kong economy will continue to benefit from the Mainland's strong economic performance given their close economic and financial ties. However, as global growth is expected to moderate in 2007, led by the slowdown in the US, a reduction in Hong Kong's export growth is likely. The market consensus is for real GDP growth to decline to 5.3% in 2007 from 6.8% in 2006, partly due to a moderation in growth in the economies of Hong Kong's main trading partners. Nevertheless, given a gradual appreciation of the renminbi and an expected weakening in the US dollar over the medium term, because of its sizable current account deficit and the halt in interest rate increases, the Hong Kong dollar effective exchange rate is likely to depreciate. This will offset part of the negative effect from weaker external demand. Domestic demand is expected to grow at a solid pace. Favourable labour market conditions and a steady rise in household income will continue to support consumer spending, while supportive monetary conditions will boost business investment.

Inflationary pressures to remain contained

Consumer price inflation is expected to pick up modestly in 2007, partly reflecting rising domestic demand and higher import prices against a general weakness in the US dollar and the continued appreciation of the renminbi. The market consensus is that CCPI inflation will increase to 2.3% in 2007 from 2.0% in 2006. But the risk of a

substantial rise is small. The recent moderation in house price inflation, if sustained, will restrain growth in residential rents, which have a weighting of more than one-quarter in the CCPI basket. On the supply side, there has been little upward pressure on unit labour costs, while the inflation rate of retained imports moderated to 5.0% in 2006 from 8.4% in 2005.

Uncertainties and risks

The benign economic outlook for Hong Kong is subject to a number of uncertainties, mainly reflecting risks from the external environment. First, housing market weakness in the US may be more prolonged than some recent indicators suggest. If this leads to a significant slowdown in domestic demand in the US, the export growth of its major trading partners will be reduced. This would have a particularly adverse effect on re-export trade between Hong Kong and the Mainland. Secondly, persistent underlying inflationary pressures in major economies could prompt further monetary tightening. If this occurred in the US, it would lead to tighter monetary conditions in Hong Kong given the Linked Exchange Rate system, and business spending growth might slow as a result. Thirdly, ample global liquidity and the recent strong rally in financial asset prices in emerging economies suggest that market participants may have under-priced the risks in these markets. Any sharp reversal in international capital flows could increase financial market volatility in Hong Kong, which may undermine consumer and business confidence. Finally, medium-term risk factors persist, such as sizable global

imbalances, rising trade protectionism and the risks of overheating in the Mainland economy. Any adverse development in these risk factors would have a significant impact on the Hong Kong economy through the trade and financial channels.

 > Publications > Half-Yearly Monetary and Financial Stability Report

 > Statistics

PERFORMANCE OF THE BANKING SECTOR

The banking sector achieved another year of solid results in 2006 despite the operating environment remaining intensely competitive, mainly because of abundant liquidity. Profitability was supported by improved net interest margins and sustained loan growth, which led to an increase in net interest income. This, together with an increase in income from fees and commissions, more than offset a contraction in treasury income, increased operating expenses and an increase in new provisions for bad and doubtful debts.

Overall asset quality remained good despite the increase in new debt provisions. Although the quality of the credit card portfolio weakened slightly alongside higher levels

of personal bankruptcies, the increase in impairment allowances was small by historical standards. With the rise in property values, the number of negative-equity residential mortgages has declined further.

Sound profitability and asset quality, combined with high levels of liquidity and high levels of capital suggest the banking industry is well placed to continue to support economic growth.

Interest rate trends

Interbank and deposit rates increased

While Hong Kong dollar interest rates increased in 2006, ample liquidity in the banking system meant they did not reflect the full extent of the increases in the US Fed funds target rate during the year. One-month Hong Kong Interbank Offer Rate (HIBOR) rose to an annual average of 4.12% from 2.91% in 2005 and the one-month time deposit rate rose to 2.70% from 1.26% (Table 3).

However, after raising their best lending rates by 25 basis points in the first half of the year, banks reversed this rate increase in the fourth quarter to leave their best lending rates at either 7.75% or 8.00% — the same level as at the beginning of the year. Nevertheless, the average best lending rate was higher for the year as a

Table 3. Hong Kong-dollar interest-rate movements (period average figures)

% per annum	Time deposits			HIBOR			Savings deposits	Best lending rate*
	1-month	3-month	12-month	1-month	3-month	12-month		
Q1-2006	2.63	2.78	3.04	3.98	4.15	4.45	2.39	7.76
Q2-2006	2.78	2.84	3.09	4.40	4.59	4.82	2.63	8.00
Q3-2006	2.77	2.83	3.06	4.05	4.29	4.63	2.59	8.00
Q4-2006	2.62	2.68	2.90	4.05	4.05	4.18	2.40	7.85
2005	1.26	1.35	1.72	2.91	3.06	3.44	0.97	6.11
2006	2.70	2.78	3.02	4.12	4.27	4.52	2.50	7.90

* Best lending rate refers to the rate quoted by The Hongkong and Shanghai Banking Corporation Limited.

whole resulting in the spread between the annual average best lending rate and the annual average one-month HIBOR widening to 378 basis points compared with 320 basis points in 2005. In addition, the spread between the annual average best lending rate and the average one-month time deposit rate expanded to 520 basis points from 485 basis points.

Profitability trends

The aggregate pre-tax operating profits of the retail banks' Hong Kong offices increased by 10.1% (Chart 10), although the post-tax return on average assets fell to 1.35% from 1.40% in 2005 (Chart 11) as assets increased at a faster rate than profits.

Chart 10. Year-on-year growth in retail banks' operating profit before tax

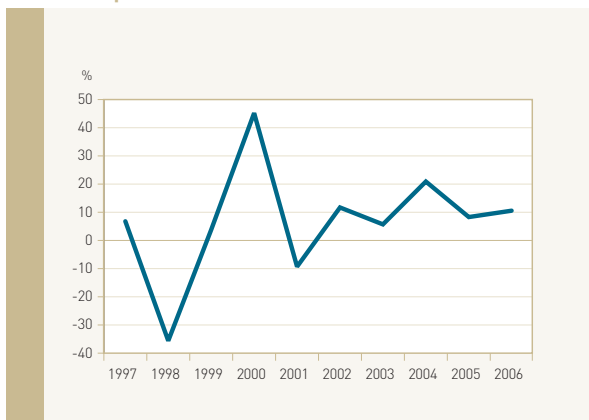


Chart 11. Retail banks' return on assets (after-tax profit)



^r Figure revised.

The main contributor to profit growth was an increase in net interest income as a result of an expansion of assets and a recovery in interest margins, which widened to 1.80% from 1.68% in 2005 (Chart 12). By contrast, non-interest income grew at a slower rate in 2006 as most of the increase in income from fees and commissions was offset by a contraction in treasury income. Because of the faster increase in net interest income than non-interest income, the proportion of retail banks' non-interest income to total income decreased to 38.4% from 41.1%^r in 2005. The share of income from fees and commissions rose to 22.7% from 22.1% in 2005, while the share of income from treasury operations dropped to 7.7% from 9.0%^r in 2005. Retail banks' overall bad debt charge increased compared with 2005. Nevertheless, it was only a small proportion of average total assets, 0.01% compared with -0.01% (a net debt provision write-back) in 2005 (Chart 13).

Chart 12. Retail banks' net interest margin

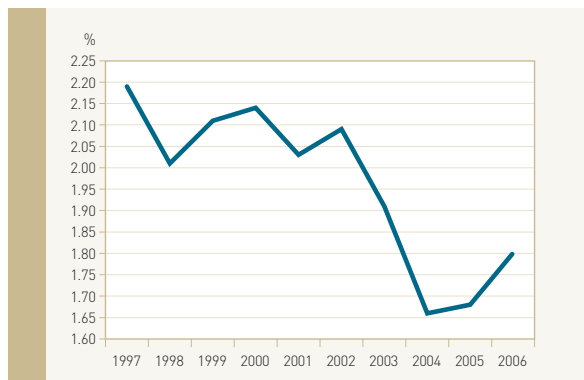
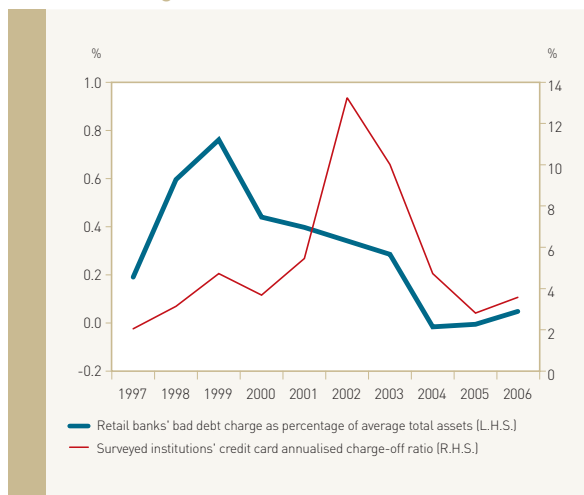


Chart 13. Charge-off ratios



Operating costs continued to rise, due largely to increases in staff expenses caused by additional recruitment for business expansion and pay rises. There was also a general increase in other expenses relating to business expansion and system improvements. The faster increase in operating costs than in income resulted in an increase in retail banks' cost-to-income ratio to 42.7% from 41.8%^r in 2005 (Chart 14).

Balance sheet trends

Total assets of the banking sector and the retail banks expanded by 14.6% and 12.9% respectively. Retail banks' deposit liabilities also registered a sharp increase of 15.6%. The increase in deposits was more pronounced in the second half of the year.

Domestic loan demand higher

Retail banks' total lending rose by 4.0% in 2006. Domestic lending increased by 2.8% (Chart 15), mainly in property lending, share finance and trade finance, compared with an increase of 9.0%^r in 2005. Loans for use outside Hong Kong also rose by 29.1%.

Growth in property lending slowed to 2.1% from 7.6% in 2005. Within this trend, loans for property investment and property development increased by 5.5% and 9.7% respectively, compared with 17.1% and 14.0%^r in 2005. Residential mortgage loans decreased by 0.9% following an increase of 2.2%^r in 2005.

Trade-financing loans rose by 8.1% following an increase of 10.2%^r in 2005. However, loans to the manufacturing sector fell by 1.5% after an increase of 11.7%^r in 2005. Lending to the wholesale and retail trade sector grew by 7.6%. Because of the buoyant conditions in the domestic stock market and a number of large-scale IPOs in the second half of the year, loans to stockbrokers increased by 28.2%, following a decline of 0.1% in 2005. Loans to non-stockbroking companies and individuals to purchase shares also rose by 32.5% following an increase of 42.8%^r in 2005. Lending to the information technology sector decreased by 12.9%, with much of the decrease attributable to lending to the telecommunication sector, which fell by 16.4% after increasing by 23.8%^r the previous year. Lending to the electricity and gas sector also decreased, by 13.1%.

Chart 14. Retail banks' cost-to-income ratio

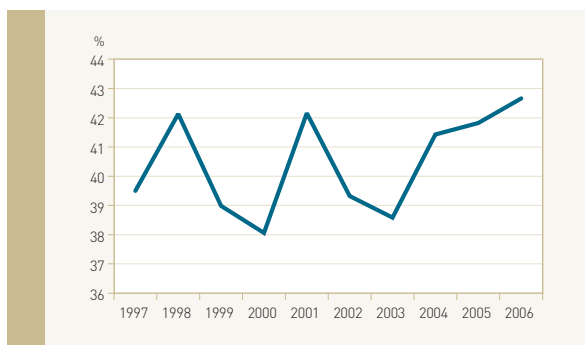
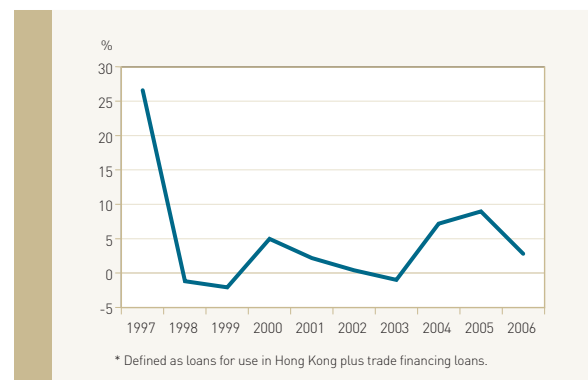


Chart 15. Retail banks' year-on-year growth of loans to customers inside Hong Kong*



^r Figure revised.

Credit card lending expanded. According to the regular survey of authorized institutions active in credit card business, total credit card receivables rose by 6.1% after an increase of 14.9% in 2005. The increase was largely due to festive spending and payment of salary tax by credit card at the end of 2006.

Following the adoption in the third quarter of a revised reporting framework for non-bank China exposures, retail banks' non-bank China exposures stood at \$420.2 billion, or 7.2% of their total assets at the end of 2006. This compared with \$142.1 billion^r (2.8% of total assets) reported under the old framework at the end of 2005. For the banking sector as a whole, the exposures were \$545.7 billion (5.9% of total assets).

Holdings of negotiable debt instruments increase

The high levels of liquidity in the banking system were reflected by increased holdings of negotiable debt instruments (NDIs, excluding negotiable debt certificates of deposits (NCDs)). Holdings of NDIs by retail banks grew at a rate of 23.2% compared with 6.2%^r in 2005. NDIs denominated in Hong Kong dollars increased by

33.6% and foreign currency NDIs by 18.1% (Chart 16). A majority of NDIs (54.6%) were issued by corporates, while 24.2% were issued by governments and 21.2% by banks (Chart 17). The share of retail banks' total holdings of NDIs to their total assets increased to about 24% at the end of 2006 from 22% a year ago.

By contrast, outstanding NCDs issued decreased by 12.7% in 2006 after rising 1.6% in 2005. The proportion of outstanding NCDs held by retail banks fell to 26.4% at the end of 2006, compared with 26.9% a year ago.

Customer deposits expand

Retail banks' customer deposits expanded by 15.6% after increasing 3.1% in 2005 (Chart 18). Most of the increase, particularly in Hong Kong dollar deposits, took place in the second half of the year. With the 19.2% increase in Hong Kong dollar deposits (Chart 19) outweighing the 10.6% increase in foreign currency deposits, the proportion of Hong Kong dollar deposits to total deposits increased to 61% from 59% at the end of 2005. Deposit growth tended to be greatest at shorter maturities, reflecting the increased transaction demand for money

Chart 16. Negotiable debt instruments held by retail banks (currency breakdown)

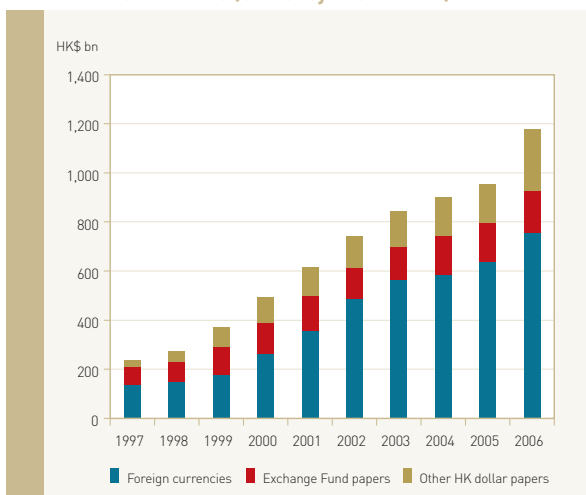
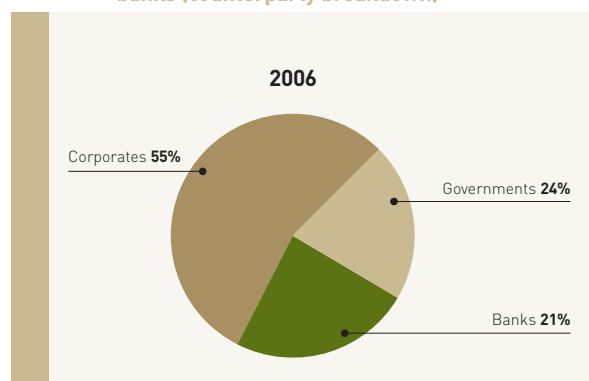


Chart 17. Negotiable debt instruments held by retail banks (counterparty breakdown)



^r Figure revised.

arising from the strong domestic stock market and IPO activities in 2006. Demand deposits recorded an increase of 17.2% after a decrease of 17.0% in 2005, while savings deposits increased by 19.3% following a decrease of 21.2% in 2005. However, growth in time deposits slowed to 13.3% compared with 30.1% in 2005. At the end of 2006, savings and demand deposits together accounted for 42.3% of total deposits, up from 41.1% a year ago.

Retail banks remain highly liquid

With deposits increasing at a much faster rate than loans, retail banks remained highly liquid in 2006. Their loan-to-deposit ratios in all currencies and in Hong Kong dollars both decreased to 47.9% from 53.2% and to 69.1% from 78.8%, respectively.

Improvement in asset quality continues

The asset quality of retail banks continued to improve with all major problem-loan ratios declining compared with a year ago. The classified loan ratio and the ratio of loans overdue for more than three months dropped to new lows of 1.11% and 0.54% respectively from 1.37%^r and 0.68%^r at the end of 2005. With both the overdue and the rescheduled loan ratios decreasing, the combined ratio of overdue and rescheduled loans decreased to 0.80% from 0.92% (Chart 20).

The asset quality of banks' residential mortgage portfolios continued to hold up well with the mortgage delinquency ratio staying at a low level of 0.20% and the rescheduled loan ratio declining to 0.26% from 0.35% at the end of 2005 (Chart 21). The quality of the mortgage

Chart 18. Year-on-year growth in retail banks' total customer deposits

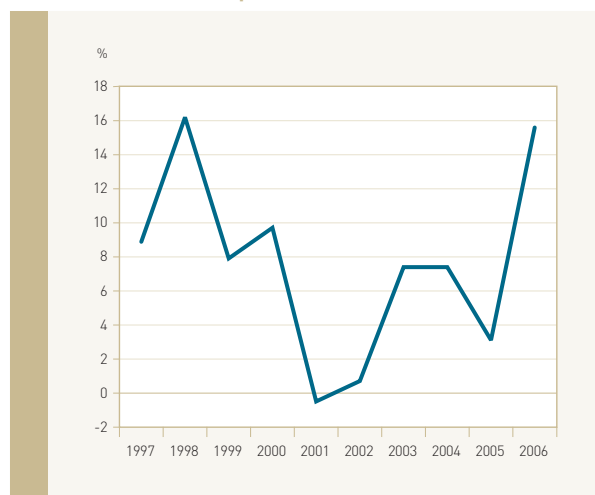


Chart 19. Year-on-year growth in retail banks' Hong Kong dollar deposits*



^r Figure revised.

portfolio was underpinned by increased property values, improved labour market conditions and higher household income levels.

In line with the increase in property values, the outstanding number of residential mortgage loans in negative equity decreased by 23.1% to about 8,400 cases by the end of 2006 from some 11,000 cases at the end of 2005. Compared with the peak of 106,000 cases in June 2003, the number of negative equity cases has fallen by 92%.

In parallel with the increase in the number of bankruptcy petitions in 2006, the overall quality of banks' credit card portfolios weakened slightly. The credit card charge-off ratio for the year rose to 2.91% from 2.81% in 2005 (Chart 13), and the credit card delinquency ratio remained stable at 0.37% (Chart 21). Together with the

outstanding rescheduled credit card receivables, which fell to \$52 million from \$60 million at the end of 2005 (0.1% of total receivables within the card portfolio), the combined delinquent and rescheduled ratio declined to 0.44% at the end of the year.

[Press Releases](#) > [Residential Mortgage Survey](#)

[Press Releases](#) > [Credit Card Lending Survey](#)

Strong capital ratio

As growth in capital base outpaced that of risk-weighted assets, the average consolidated capital adequacy ratio of all locally incorporated authorized institutions increased to 15.0% at the end of 2006, well above the statutory minimum of 8% (Chart 22).

As a result of a faster increase in risk-weighted assets, the tier-one capital adequacy ratio decreased to 13.1% at the end of 2006, compared with 13.3% at the end of 2005 (Chart 22).

Chart 20. Retail banks' gross classified loans and combined overdue and rescheduled loans as a percentage of total loans

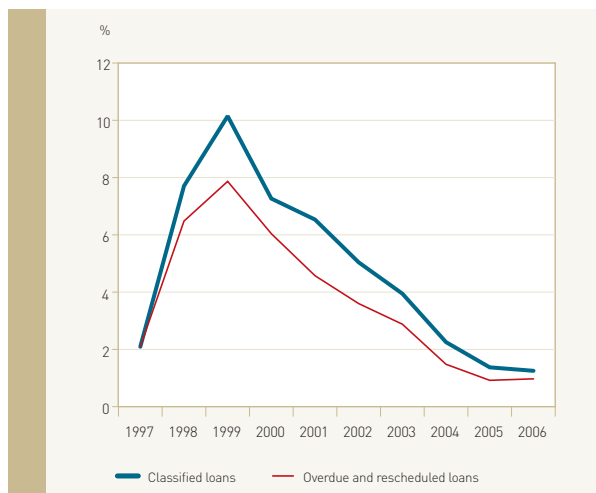
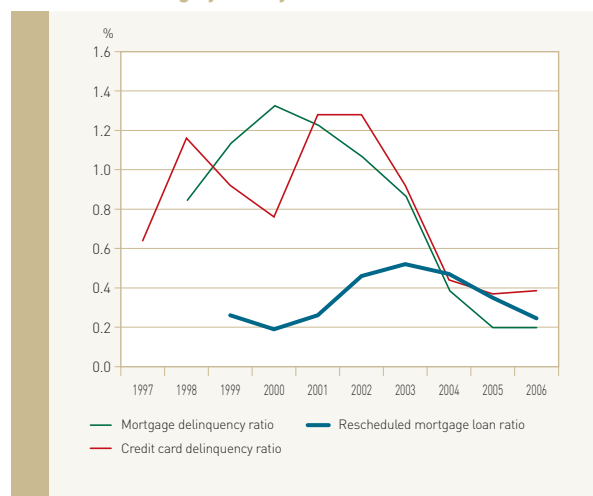


Chart 21. Asset quality of credit card and mortgage lending by surveyed institutions



PROSPECTS FOR 2007

The banking sector remains well capitalised, highly liquid, and financially resilient with good asset quality. The recovery in the net interest margin during 2006 is likely to be important in underpinning future profitability, while high levels of liquidity and capital give banks a sound platform to continue to support economic growth. In addition, the benefits of the new Basel II capital adequacy regime should start to become apparent in 2007, particularly in the substantial up-grading of banks' risk management practices which the new framework involves.

Despite these many positives, there are, however, a number of risks that will require close monitoring. The ample liquidity conditions experienced in 2006 may not persist throughout 2007. While banks are sufficiently liquid to absorb the consequences of any large-scale outflow of funds, a change in the direction of capital flows will have implications for domestic interest rates and, consequently, for asset quality. Banks need to monitor their interest rate risks and to assess the impact of any sudden shift in domestic interest rates on their main borrowers and asset classes.

Ample liquidity has also encouraged intense competition in some markets, for example for residential mortgage loans. If current levels of liquidity persist, banks will need to remain vigilant that the resulting competition for lending does not drive margins below an adequate risk-adjusted return or that it does not lead to excessive relaxation of credit underwriting standards. If demand for IPO-related lending, which accounted for a substantial part of domestic loan growth in 2006, slackens in the year ahead, competition in other markets may become more intense.

Finally, banks are likely to continue to look for profit opportunities outside Hong Kong during 2007, including the Mainland. Such expansion partly reflects the commercial reality that Hong Kong is now a mature banking market and, as such, returns may be modest compared with those that can be made elsewhere. Nonetheless, cross-border expansion places a particularly high premium on banks' ability to identify, manage and control the associated risks.

Chart 22. Consolidated capital adequacy ratio of all locally incorporated AIs

