

HKSAR BANKERS IN DEEP TROUBLE: STAND BY FOR MORE BAD NEWS

It is a fairly safe bet to state that banks, whose main business is derived from the customers with borrowing requirements in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), will have a very difficult time, this calendar year.

Profits of most HKSAR banks are likely to sag, dramatically, in addition to the poor profits' showings of the past few years.

According to TOLFIN (TARGET's Computerised On-Line Financial Service)*, Hongkong dollar deposits hit \$HK1,708.20 billion as at the end of May.

At the same time, foreign currency deposits in the HKSAR hit \$HK1,281.70 billion, as at the end of May.

Comparing the May 1999 statistics of Hongkong dollar deposits and the May 1999 foreign currency deposits in all HKSAR authorized institutions, indicates a gain of about \$HK166.60 billion (about 10.80 percent) and \$HK152.70 billion (about 13.52 percent), respectively.

What these 2 meaningful statistics indicate, in very simple terms, is that people prefer to keep cash in the bank, rather than make new investment commitments.

In short, it is a generally held belief that, at this time, cash is king.

But the situation has not just occurred since, according to TOLFIN, it is a continuation of an ever-increasing trend in the HKSAR in respect of Hongkong dollar deposits.

The following little table illustrates the point:

HONGKONG DOLLAR DEPOSITS

March 1999 (\$HK billion)	February 1999 (% increase)	April 1999 (\$HK billion)	March 1999 (% increase)	May 1999 (\$HK billion)	April 1999 (% increase)
1,683.50	8.30	1,715.70	8.10	1,708.20	10.00

In simplistic terms, banks in the HKSAR are awash with money and don't have a place to put it so in order to make a decent return.

This is clearly borne out by noting that the Loans to Advances in all HKSAR institutions fell to about \$HK2,947 billion in May. That is a fall of about \$HK712.70 billion, or about 19.47 percent, compared with the May 1998 statistic.

This situation is considered, by most banking institutions in the HKSAR, to be one of excessive liquidity. Hence, there is fierce competition for mortgage financing.

As TARGET has stated for the past 4 months or so, despite what appears to be a stock market, which, sporadically, is gaining in strength, the economic fundamentals in the HKSAR are fragile, to say the least, that there appears to be no reason for The Hang Seng Index to be anywhere near its current levels.

In the near term, it is unlikely that HKSAR lending institutions will increase lending to prospective customers, requiring non-mortgage loans.

But an even more desperate situation is fast rearing its head as TARGET has learned that nearly every HKSAR bank is sitting on anywhere between 15 large borrowers and 20 large borrowers, all with non-performing loans, many of which are undergoing financial restructuring schemes.

About the only HKSAR industries, which could be said to be doing very well, are the legal and the accounting industries (TARGET knows that it is taking a liberty in calling the legal profession an industry, here, since it is known that lawyers have the same footing as any other tradesman) since HKSAR accountants and HKSAR solicitors are having a field day in trying to negotiate with lending institutions in an effort to find resolutions to loan problems, plaguing HKSAR companies which are in deep financial trouble.

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