

Environmental Factors Affecting Hong Kong Banking: A Post-Asian Financial Crisis Efficiency Analysis

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Summary

Within the banking efficiency analysis literature there is a dearth of studies which have considered how banks have ‘survived’ the Asian financial crisis of the late 1990s. Considering the profound changes that have occurred in the region’s financial systems since then, such an analysis is both timely and warranted. This paper examines the evolution of Hong Kong’s banking industry’s efficiency and its macroeconomic determinants through the prism of two alternative approaches to banking production based on the intermediation and services-producing goals of bank management over the post-crisis period. Using two new approaches to measuring efficiency, we find that there was a significant negative effect on Hong Kong bank efficiency in 2001. However, post 2001 most banks have reported a steady increase in efficiency leading to a better ‘intermediation’ and ‘production’ of activities than in the base year of 2000, with the SARS epidemic having surprisingly little effect in 2003. It was also interesting to find that the smaller banks were more efficient than the larger banks, but the latter were also able to enjoy economies of scale. This size factor was linked to the exportability of financial services. Other environmental factors found to be significantly impacting on bank efficiency were private consumption and housing rent.