

The International Transmission of Monetary Policy through Financial Centres: Evidence from the United Kingdom and Hong Kong

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Summary

This paper explores the cross-border transmission of monetary policy by comparing and contrasting the results for two major international financial centres: Hong Kong and the United Kingdom. We examine the effect of monetary policy in the USA, euro area and Japan, on UK- and Hong Kong-resident banks' domestic lending behaviour, using individual bank-level data. Focusing on financial interconnections and other balance sheet

characteristics as a transmission mechanism, we find that both of these factors play an important role in the transmission of foreign monetary policy. We are able to establish evidence for both a bank funding and bank portfolio channel of monetary policy, for both Hong Kong and the UK. There are important differences between the two countries; in particular, the currency denomination of lending appears to play a major role only in the UK, which probably reflects Hong Kong's linked exchange rate system by which the HK dollar is pegged with the US dollar. These results contrast to the largely inconclusive results from previous studies, whose aggregate nature may have masked offsetting individual bank effects.