

## Speech

### Speech by SFST at luncheon hosted by Asialink in Sydney (English only)

Wednesday, March 4, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the luncheon hosted by Asialink in Sydney today (March 4):

Distinguished guests, ladies and gentlemen,

Global Financial Crisis–To tackle it, to learn from it  
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It gives me much pleasure to speak at this luncheon hosted by Asialink, which is famed for promoting public understanding of the countries of Asia and creating links with Asian counterparts. Fearing that you may know Asia more than I do, I had better talk about something global at this luncheon.

It is most natural for me to share with you, ladies and gentlemen, the Hong Kong experience in the global financial crisis. My topic is "Global Financial Crisis - To tackle it, to learn from it". I will share with you how the global financial crisis has affected Hong Kong, how we responded locally and our views on international co-operation during hard times.

Global Financial Crisis  
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Impact on Hong Kong  
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The financial crisis triggered by the US sub-prime mortgage problem is the most severe for the world economy since the Great Depression in the 1930s. This once-in-a-century turmoil has spread from the financial markets to the real economy, leading to a synchronised global recession. Being a small and open economy, Hong Kong is inevitably affected.

Following the global trend, both the share price and the trade volume of our

stock market have slid. The Hang Seng Index fell from 27,000 points in early 2008 to 14,000 points in end 2008 (i.e. a nearly 50% drop), while the daily trade volume dropped from HK\$87.4 billion in 2007 to HK\$71.8 billion in 2008 (i.e. an 18% drop). Having said that, our stock market still ranked seventh in the world and third in Asia in terms of market capitalisation.

Hong Kong's economy suffered a heavy blow in the latter half of 2008. Gross Domestic Product (GDP) growth fell successively from 7.3% in the first quarter, to 4.3% in the second quarter, 1.7% in the third quarter, and -2.5% in the fourth quarter.

For 2008 as a whole, GDP grew by 2.5%, lower than the trend growth rate over the past 10 years.

Our responses-financial services

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The outbreak of the global financial crisis was marked by the US Government's action to rescue some financial institutions. The serious concerns about insolvency of financial institutions clogged credit markets in the advanced economies, and increased markedly the systemic risks to global financial systems. There were worries about the collapse of global financial systems.

The great thing about small economies such as ours is that we can react quickly to challenges and opportunities. The Hong Kong Government and our financial regulators have been closely monitoring the developments in global markets and have introduced a series of measures to ensure the stability of financial institutions and the market to bolster public confidence in our financial systems. These measures included the provision of liquidity assistance to the banking system, provision of a full deposit guarantee according to the principles of the Deposit Protection Scheme and the establishment of a Contingent Bank Capital Facility. I understand that your government is doing similar things.

Despite the turmoil, our banking system continues to be fundamentally sound, healthy and robust. It remains liquid. The capital adequacy ratios of locally incorporated banks remain strong and are consistently above the local

statutory requirement and international standard of 8%. The securities and insurance sectors in Hong Kong also remain financially sound and healthy. Indeed, the Hong Kong Government need not "rescue" any bank, nor is there any default of intermediaries. That said, we are aware that further efforts should be made to boost confidence and better contain the contagious effects of the global financial crisis.

(a) Monetary market and banking sectors

As far as the monetary market and banking sectors are concerned, the Hong Kong Government, including our Monetary Authority (HKMA), has implemented a number of measures to help maintain stability and confidence in these sectors, and facilitate banks to better perform their function of financial intermediation.

The HKMA injected a total of HK\$178.8 billion into the banking system from September to December 2008. It also announced a flexible approach towards the premium on the capital adequacy ratio of individual banks and worked out an arrangement with the People's Bank of China to allow Hong Kong banks operating on the Mainland to approach the People's Bank of China if they need liquidity support.

To boost confidence, the Hong Kong Government announced the use of the Exchange Fund to guarantee the repayment of all Hong Kong-dollar and foreign-currency deposits held with all licensed banks in Hong Kong, and the establishment of a Contingent Bank Capital Facility for the purpose of making available additional capital to locally incorporated licensed banks should this become necessary. That said, no bank has approached the HKMA for capital support so far. These measures will be in force till end 2010.

(b) Securities sector

In the securities sector, the Securities and Futures Commission (SFC) has been keeping a close watch on our derivatives market, exchanges and clearing houses. While the short selling regulations in Hong Kong are stricter than those in place in many overseas markets, the SFC has conducted preparatory work to facilitate the introduction of market-wide control measures during contingencies or when there is evidence of abusive short selling activities. The

SFC will continue to monitor market developments and Hong Kong's short selling regime.

The SFC has also stepped up its efforts, including intensified stress tests, to assess the financial exposure that brokers can withstand in adverse market conditions. The SFC has formed a dedicated team to centralise prudential supervision of high impact retail brokers and further tightened regulatory oversight over these firms through more onsite inspections.

(c) Insurance sector

In the insurance sector, the Insurance Authority (IA) has stepped up prudential supervision of insurers to ensure protection of policyholders' interest.

Our responses - stimulating the economy

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While the global financial markets have stabilised somewhat recently, we are aware that credit conditions remain tight and the global economy is in the midst of a recession. Easing credit conditions, supporting enterprises, accelerating public works, and creating employment have become our key tasks.

(a) Support to small and medium sized enterprises

Because small and medium sized enterprises (SMEs) are so important to our economy, we have re-doubled efforts to help them to tide over the current difficult economic environment. We guarantee their loans, ease export credit insurance criteria, and assist with promotional activities and information sharing.

In particular, the Hong Kong Government launched in December 2008 a time-limited Special Loan Guarantee Scheme of HK\$100 billion to help SMEs to solve their cashflow problems. We provide up to 70% guarantee to participating lending institutions granting loans to Hong Kong companies. Since the launch of these measures, the Government has approved more than 3,000 applications, involving loans of over HK\$6 billion.

## (b) Preserving Jobs

Despite the expected economic downturn, Government has continued public spending to stimulate domestic demand, especially its commitments in healthcare, social welfare, education and improving the environment.

Last December, our Chief Executive announced a series of measures to preserve employment, including the provision of more than 60,000 employment opportunities this year through expediting works projects, speeding up civil service recruitment, and creating temporary and other posts. The Government also sought co-operation between the public and private sectors, including universities, statutory bodies and local and international chambers of commerce to create employment and internship opportunities.

So far, our efforts have paid off. Our economy remains stable, efficient and in a strong position to navigate through the financial storm. To keep up the momentum, our Financial Secretary announced in the Budget for 2009-10 a new package of measures to provide various types of jobs and internship opportunities, entailing a provision of HK\$1.6 billion in the next three years. Besides creating jobs directly, these measures will also provide training and job opportunities specifically to those in need, including young people, graduates, women, the middle-aged and the disabled.

## (c) To step up regional co-operation

The drastic economic changes have fostered new roles for the Government. We must seize the opportunities for economic development. Also announced by our Financial Secretary last week, the Hong Kong Government will take a more proactive role as a market facilitator when necessary. For example, with increasing economic integration between Hong Kong and the Mainland, the two economies have established a very close relationship, and it is necessary for Hong Kong to have greater involvement in both regional economic planning and national strategic positioning.

In January, the Central Government in Beijing published the "Outline of the Plan for the Reform and Development of the Pearl River Delta". We will seek to identify economic opportunities in keeping with the Greater Pearl River

Delta region's effort to upgrade its industries. As one of the immediate responses, Hong Kong and our neighbouring Guangdong Province will establish a high-level task force on financial co-operation to deepen the existing co-operation and explore new areas to pursue.

We will also strive to introduce more liberalisation measures for early and pilot implementation in Guangdong Province under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) for service industries (including the financial services industry) in support of the service sectors where we have a competitive edge, and continue to work closely with relevant organisations to give our business sectors greater support in expanding access in the Mainland and overseas markets.

Openness helps

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If there is one thing that we have learned from previous crises, it is that we will bounce back faster and stronger by choosing co-operation over isolation and free trade over protectionist measures.

In the face of the current economic turmoil, Hong Kong remains fully committed to the open market and free trade principles that have brought us success in the past and will bring more success in the future. And we will continue to co-ordinate our economic recovery efforts with our partners in the region and further afield.

In January, Hong Kong was named the freest economy in the world by the US-based Heritage Foundation for the 15th year in a row. This highlights our commitment to open markets and free trade under the principle of "market leads, government facilitates". May I also remark that our advocacy of free and fair trade for a swift economic recovery was echoed by world leaders during the World Economic Forum in Davos earlier on.

Since the outbreak of the financial crisis, the global financial industry has been facing great changes. All economies have been seeking a new balance between financial innovation and effective supervision. During this period of global financial change, we must capitalise on our strengths and improve our supervisory framework.

Our Chief Executive recently called for taking a fresh look at our international financial architecture. We will have to reach a consensus on how to better regulate our financial markets in a globalised world. If there is one thing that this financial crisis has taught us, it is how quickly a problem in one economy can spread to others in an inter-connected world.

Despite the temptation to find a quick fix to the problem, there is no room for protectionism or inward thinking in our globalised world. What is required now is a recommitment to co-operation between governments and a closer collaboration among regulators in leading markets to deal with the financial crisis.

In this regard, I am glad that Australia and Hong Kong are having close supervisory co-operation. The Australian Prudential Regulation Authority (APRA) and HKMA held their bilateral meeting in February 2008 in Sydney, and the Australian Securities and Investments Commission (ASIC) signed in July 2008 with the SFC a declaration of mutual recognition concerning the cross-border sale of funds. I am confident that this kind of supervisory co-operation will only be deepened.

With a more transparent global regulatory system, we will be better able to identify future problems at the root and tackle them before they become widespread.

## The Outlook

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2009 will still be a very difficult year. Both external trade and domestic demand in Hong Kong are expected to remain subdued. Our latest forecast is that our GDP will decrease by 2-3% for 2009, the first negative growth for a whole year since the Asian financial crisis in 1998.

In the midst of a worldwide economic downturn, we all hope for a full recovery as soon as possible. Given the fluid economic situation and the varying effects of stimulus measures being taken around the world, it is likely that the global economy will take some time to return to normal. Hong Kong will continue to stay alert to global and regional financial and economic

developments and actively participate in international forums and meetings. Without doubt, we shall contribute as much as we can to help restore global financial stability and economic prosperity.

With sound fundamentals, a strong regulatory framework, and flexible market institutions, I am confident that Hong Kong will have a swift recovery once the global economic environment improves. As Hong Kong continues to maintain its unique strategic role as a global financial centre in the Asian time zone, the gate to Mainland China and a regional hub for trade, logistics, tourism and business, the long-term economic prospects remain bright.

Our citizens and I have full confidence that Hong Kong, as it did after the Asian financial crisis, can once again embrace and weather the challenges brought about by the global financial crisis, and will emerge even stronger and more resilient from the crisis.

Thank you!