

Speech by SFST at FinMan/OUHK Forum
(English only)

Tuesday, March 31, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Advisory Committee on Human Resources Development in the Financial Services Sector (FinMan Committee)/OUHK Forum "Hong Kong in the Global Financial Crisis: Human Resources Implications for the Financial Industry" today (March 31):

Professor Leong, TC (Chan), distinguished guests, fellow students, ladies and gentlemen,

It gives me great pleasure to speak at this forum on "Human Resource Implications for the Financial Industry". First of all, I would like to thank the Advisory Committee on Human Resources Development in the Financial Services Sector (the FinMan Committee) and the Open University for organising this event. It offers a platform for practitioners from the financial services industries to exchange ideas on ways to cope with the future challenges and opportunities brought on by the global financial crisis. It also provides insights to students who are curious about careers in the financial services industries and are interested to learn more about the current environment's implications on employment.

Hong Kong economy

The financial tsunami sweeping across the world is the most severe world economic crisis since the Great Depression in the 1930s. It was originally presented as a problem triggered by the collapse of the US sub-prime mortgages and confined to the credit market but has since evolved into a crisis unprecedented in terms of scale and contagion effect. The magnitude of the problem has by far surpassed that of the Asian financial crisis because we are today dealing with global financial markets which are intricately intertwined and have flourished under the abundance of sophisticated financial products.

Being a small open economy, business activities in Hong Kong were and would be inevitably affected. Hong Kong's economy suffered in the latter half of 2008. GDP grew by 2.5% in 2008, lower than the trend growth rate over the past 10 years. 2009 will be a very difficult year. Both external trade and domestic demand are expected to remain subdued. It is forecast that there will be a decrease in GDP by 2-3% for 2009.

Impact of financial tsunami on Hong Kong's financial system

I am pleased to report that the current financial tsunami has not caused systemic damage to the financial market in Hong Kong. We learnt from the Asian financial crisis and made considerable progress to strengthen our financial markets and infrastructure over the years. As a result our financial infrastructure today is more robust than it was in 1997 with tighter and more prudent regulation but at the same time encourages greater breadth and depth in our financial market.

Government measures to tackle the financial tsunami

The Hong Kong Government has been closely monitoring the developments in global markets and has taken a series of measures to stabilise the financial markets, ease credit conditions, support enterprises, accelerate public works, and create employment.

The banking sector plays a pivotal role in our financial activities, and public confidence is critical in preserving stability in this sector. Last September we rolled out a series of measures focused on securing the stability of our financial institutions and the market, and bolstering public confidence in our financial systems. These measures included the provision of liquidity assistance to the banking system, provision of full deposit guarantee according to the principles of the Deposit Protection Scheme and the establishment of a Contingent Bank Capital Facility. In parallel, our financial regulators have strengthened prudential supervision and tightened regulatory oversight on financial institutions to ensure they maintain viable operations and to safeguard financial stability.

At this crucial juncture, we are conscious of the importance of decisive and effective measures to combat the economic downturn. The Government has therefore

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* set up the Task Force on Economic Challenges involving representatives from different sectors to assess the impact and opportunities arising from the financial market turmoil and seek out new opportunities; and

* taken special measures to help Small-Medium Enterprises, including setting up a Special Loan Guarantee Scheme whereby the Government's guarantee ratio was increased to 70% and the guarantee commitment increased to \$100 billion to ease the SMEs' cashflow problems.

In addition, the Government will -

* organise a series of major and international events this year to promote Hong Kong's reputation as the "events capital" which will attract tourism and benefit retail businesses; and

* re-consider the introduction of a corporate rescue procedure, to provide an opportunity for companies facing short-term financial difficulties but have viable long-term business prospects, to be nursed back to health.

Hong Kong has survived many ups and downs in the past and has emerged stronger each time. We should consider the downturn as an opportunity to improve on our short-comings and consolidate our strengths.

Government measures to enhance financial regulatory framework and promote market development

The Lehman Brothers Minibonds Incident has sparked public discussion on the vulnerability of our existing regulatory regime governing the way which complex investment products are sold. Review reports were submitted by the Hong Kong Monetary Authority and Securities and Futures Commission at the end of last year and the Administration has studied them and formulated an Action Plan to take forward the various recommendations in phases. These include improving the way which investment products are sold, improving the business conduct of intermediaries and committing to more investment education. We will co-ordinate efforts by the two regulators as necessary and review progress on a regular basis.

In addition to strengthening our regulatory framework, we must soldier on in cementing Hong Kong's position as an international financial centre. Amongst other efforts, we will continue to build a platform conducive to growing Islamic finance in Hong Kong. We aim to create a level playing field for Islamic financial products vis-à-vis conventional ones and will submit our proposal to the Legislative Council in 2009-10. The proposal includes making changes to or clarifications on various tax related issues, such as stamp duty, profits tax and property tax.

As announced by the Financial Secretary in his Budget speech this year, we will implement a programme to issue Government bonds. The aim of the programme is to bring about further depth and breadth to our financial markets, provide a more diversified investment choice for our investors and also promote the further development of our bond market. Considering the current market condition and low interest rates, we believe there is a demand for quality bonds. In order to induce the growth of an international bond market in Hong Kong, we will also examine whether any areas in our existing financial infrastructure and mechanisms require improvements.

Hong Kong as an international financial centre and future prospects

Despite the temporary setback brought about by the global financial environment, financial services will continue to perform an indispensable role in the modern economy, and will continue to be an important pillar of Hong Kong's economic development. The industry contributed to nearly one fifth of our GDP and employs around 200,000 people.

Hong Kong's inherent qualities and values such as our sound legal system, freely convertible currency, liberal immigration policies and a deep and broad pool of financial talent lay a strong foundation for the development of our financial centre. As China's premier international financial centre, Hong Kong has an important part to play in the Mainland's new phase of opening up and reform. We also enjoy the advantage of having the full support of the Central Government in consolidating our position as an international financial centre.

In December 2008, the Central Government announced a 14-point package to bolster Hong Kong's economy. The package was put together having in mind Hong Kong's best interest coupled with the well-being of the development of the nation as a whole. Key measures include strengthening co-operation between the Mainland and Hong Kong in the financial services sector, allowing currency swap arrangements between the People's Bank of China and the Hong Kong Monetary Authority which would help stabilise the currency, supporting the listing of Mainland firms in Hong Kong, etc. Part of the package includes a pilot scheme to expand renminbi settlement for international trade with the Mainland. Once the programme is up and running, trade between the economic powerhouses of Guangdong province and the Yangtze River Delta and Hong Kong and Macau can settle using renminbi. Hong Kong will benefit from expanding our role as the financial gateway to the Mainland and reinforce our status as a leading financial services hub in Asia.

In January this year, the Central Government set out an ambitious goal to turn the Pearl River Delta, or PRD, into the most vibrant area in the Asia Pacific and one of the most competitive in the world by 2020. It will be a crucial frontier for China's opening up to the world. The plan paves the way for our closer integration within the PRD in financial services, including support for the listing of PRD companies on the Hong Kong stock market.

You can see from the many measures and projects I have just mentioned, the Government is pro-actively seeking new opportunities to develop our financial markets including the issue of Government bonds and Islamic finance. With Hong Kong's background, track record and our pool of talent, we possess the necessary credentials to take our financial services industry to a different level.

Government polices to ease the pressure of the employment market and help university graduates

Tackling the difficult period we are facing in the short-term, the Government has launched measures to help create jobs and support employment. Government spending will exceed \$300 billion in the 2009-10 financial year to help combat the economic downturn. These measures include a provision of \$1.6 billion creating about 62,000 jobs and internship opportunities in the next three years. Jobs are to be provided through expediting infrastructure projects, bringing forward recruitment of civil servants and creating temporary positions.

The Government will also launch an "Internship Programme for University Graduates" this summer to assist fresh graduates to integrate into our workforce. This programme will offer internship opportunities for graduates in both local and Mainland companies for six to 12 months. The Government has earmarked \$140 million for this programme which is expected to benefit about 4,000 graduates. These opportunities will broaden the horizon of our graduates and help them gain valuable work experience. Our talents armed with relevant experience will be captured by the industrial and business sectors as soon as the economy bounces back. I am happy to learn that positive feedback has been received from University Grants Committee funded institutions, self-financing universities and relevant chambers of commerce.

Tertiary institutions have pledged to strengthen their career services and endeavour to increase places for tutors, research fellows and postgraduate students. They will roll out more courses, particularly targeting professionals and executives to allow them to wisely use their in-between-jobs downtime to upgrade their skills and knowledge.

Government commitment in nurturing financial talent

Human resources are Hong Kong's most important asset, and central to Hong Kong's competitiveness and continued success. Nurturing financial talent is one of the Government's long-term commitments. We will not cut down the investment or expenditure in education even during the economic downturn. Our education expenditure exceeds HK\$50 billion a year, accounting for about one quarter of total government recurrent expenditure.

In 2000, the Government set up the FinMan Committee to foster better co-ordination between the industry and academia on financial services manpower development. The FinMan Committee comprises industry practitioners, representatives from universities, training institute, organisations of financial professionals, and financial regulators. Over the years, the FinMan Committee has pursued different initiatives to promote manpower development in the financial services sector, including this forum. Government will continue to partner with the FinMan Committee to address manpower development issues brought about by the financial crisis.

Retraining and upgrading existing talent in the financial market is of paramount importance to Hong Kong continuing to be a leading international financial centre and to position itself to take charge as soon as the global economy recovers. This is one of the possible areas which the FinMan Committee may consider focusing on in the near-term future.

Conclusion

Like other economies, the recovery process of different sectors in Hong Kong, financial services included, will take time and effort.

Hong Kong people are known for our resilience in the face of adversity. All these years, we have worked miracles in times of difficulty, making continuous improvements and progress. We must remember crisis usually brings hardship, but it also brings opportunities, particularly opportunities for Asian economies, including Hong Kong.

In the face of such a severe external economic and financial environment, we shall continue to stay vigilant. We shall spare no effort in taking a critical look at our strengths and weaknesses and carefully assess the impact of the global financial crisis on global and local markets, on the basis of which we shall put in place timely measures to help Hong Kong ride through the challenges, turn them into new business opportunities. We are confident that Hong Kong will emerge a winner from this crisis.

The short-term outlook of the current labour market may not be encouraging for graduating students, but all of us should have confidence in Hong Kong. With the foundation which our past generations have laid down, the hard work which our generation and our next generation are putting in, when the external environment improves, you can be sure that Hong Kong will be among the first to rebound. Students should look beyond the current crisis and get prepared for economic revival by continuously sharpening their knowledge and skills and improving their language ability. The Government will grasp every opportunity to enhance the overall competitiveness of Hong Kong, and develop Hong Kong into a first-class global financial centre.

Thank you.

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