

## LCQ3: Impacts of recent political situation

Following is a question by the Hon Paul Tse and a reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (October 30):

Question:

Since June this year, tens of thousands of people took to the street for many times to protest against the proposals to amend the law concerning surrender of fugitive offenders, and to demand the Chief Executive and relevant officials to take responsibility by stepping down. Some demonstrators blocked roads, besieged government buildings and clashed with the Police on a number of occasions. There are comments that the aforesaid situation shows that there is a serious dissension within society and a complete loss of mutual trust between the Government and the people. Also, disputes and agitation in society have caused instability in the economy as well as anxiety in people's mind. For example, a developer gave up, undeterred by forfeiture of the deposit it had paid, a site which it had won in a bidding exercise, and some companies shelved their listing plans. Moreover, it is learned that a tide of emigration from Hong Kong has recurred. In this connection, will the Government inform this Council:

- (1) whether it has assessed how the status of Hong Kong as an international city and a top-notch investment and financial centre has been undermined by the widespread anger among the people which has been triggered by the Government's proposed legislative amendments; of the measures put in place to restore the confidence of the international community and members of the public in Hong Kong's future;
- (2) whether it has assessed the negative impacts of the depressing social sentiment and the chaotic political situation on the local property and stock markets as well as the overall economy, and the mitigation measures; and
- (3) whether it has assessed the negative impacts of the resurgence of the emigration tide on Hong Kong's economic development and labour supply, and of the mitigation measures?

Reply:

President,

In the past four months, Hong Kong has been facing unprecedentedly severe challenges. Demonstrations, processions and rallies have turned into violent incidents and have definitely affected Hong Kong's international image. The impact of the social conflict has spread to all business sectors. Among them, tourism, retail and catering industries bear the brunt. Business

has plummeted.

Having consulted other relevant bureaux, our consolidated response to the three parts of the question is as follows:

(1) The core competencies of Hong Kong as an international financial centre remain well in place. Different facets of Hong Kong's financial system have been functioning smoothly and orderly so far. Article 112 of the Basic Law safeguards the free flow of capital within, into and out of Hong Kong. The Linked Exchange Rate System of Hong Kong has served as the cornerstone for Hong Kong's monetary and financial stability. Our simple and transparent taxation system, effective infrastructure, sound financial regulatory regimes and rule of law, as well as quality professional services lay the foundation for Hong Kong's platform as an international financial centre.

Hong Kong's banking system has been sound and robust. The liquidity of our banking system remains ample, and the interbank market continues to operate orderly. There was no noticeable outflow of funds from the Hong Kong dollar or from the banking system based on the latest statistics on deposits and money supply. The Hong Kong Monetary Authority (HKMA) will continue to closely monitor changes in the foreign exchange market and the local money market, maintain the stability of the Hong Kong dollar exchange rate through the Linked Exchange Rate System and provide liquidity support to banks if necessary.

The Securities and Futures Commission (SFC) has been closely monitoring the securities market. The trading and clearing operations of the Hong Kong stock and derivatives markets have been performing in an orderly manner in spite of the increasing market volatility.

The Government and financial regulators will stay vigilant, conduct stress tests regularly, communicate closely and monitor the latest situation of the financial market, with a view to ensuring financial stability. We will also strive to sharpen Hong Kong's attractiveness as an international financial centre through a multi-pronged approach.

The confidence of the international community and our citizens in Hong Kong's prospect has a bearing on Hong Kong's status as an international financial centre. All sectors of the society must work together to stop violence and restore the social order as soon as possible, in order to allow the general public to resume normal lives and allow the trade and business to resume normal operations.

(2) In the context of the global economy, the Hong Kong economy grew slightly by 0.5 per cent year-on-year in the first half of this year, the weakest increase in a decade. The local social events of the past few months have further affected the atmosphere of consumption and investment, which has made the economic situation worse. Since July this year, there have been sharp reductions in visitor arrivals and retail sales, a continued decline in exports as well as deeply dampened business, investment and consumption sentiments. Certain industries have recorded the worst business performance

recently. It is very likely that the Hong Kong economy has already slipped into a technical recession in the third quarter. Besides, the current situation has not shown any sign of improvement. The annual economic growth forecast of 0.1 per cent seems extremely difficult to be achieved.

The property market has always been affected by a number of factors, including housing supply and demand, local and external economic environment, interest rates and market expectations etc. China-US trade frictions and recent social events in Hong Kong have also exerted certain impact on the property market. Although the property market has slackened in the past few months and the property prices in some areas have slightly adjusted, the level of private residential property prices remain high, and is out of line with the economic tone and the affordability of the public. At this stage, the Government has no intention of relaxing or canceling the existing demand-side management measures. We will continue to closely monitor the trend of the property market and the changing external situation and take appropriate measures to maintain the healthy development of the property market. The Chief Executive has just proposed a number of measures in the Policy Address to increase housing and land supply.

In the stock market, there are many unstable factors in the global, regional and local conditions that have implications on the financial markets of the world and Hong Kong. Despite the volatility of the market, the trading and settlement business of the Hong Kong stock and derivatives market is still operating in an orderly manner. We have strived to develop Hong Kong into a broader and deeper platform for fund-raising in the new economy. For instance, with effect from October 28 this year, companies with weighted voting rights structure as listed in Hong Kong could be included as eligible securities under the Southbound Trading of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect upon fulfillment of certain criteria.

The Government is well aware of the pressure borne by small and medium enterprises (SMEs) and members of the public amid an economic downturn. We announced in August, September and October respectively three rounds of support measures amounting to over \$20 billion for enterprises, especially those impacted rather directly, to safeguard jobs. The Government will maintain close communication with the trade and introduce further support measures if necessary. The HKMA has established a Banking Sector SME Lending Coordination Mechanism to implement a series of support measures for SMEs. The Government will continue to provide appropriate support to business operators and the general public for them to tide over the current difficulties.

(3) We have not seen a large scale of brain drain for the time being. Hong Kong's institutional strengths and core competencies remain strong. As long as social activities of violent nature are calmed down, Hong Kong will surely continue to bring together talents from local and international sources. The Government will continue to promote diversified economic development, foster local talents and attract foreign talents in various aspects to tie in with the long-term development of the Hong Kong economy.

To assist employees who are affected by the recent economic downturn to enhance their skills and self-improvement, the Employees Retraining Board commissioned the "Love Upgrading Special Scheme" in early October to provide free integrated skills enhancement training and special allowance for the trainees. In addition, the Labour Department has been implementing a number of special employment programmes to encourage employers to employ elderly people, young people and people with disabilities.

Thank you, President.