Speech by CE at Hong Kong Association of Banks Distinguished Speaker Luncheon (English only) (with photo/video)

Following is the speech by the Chief Executive, Mrs Carrie Lam, at the Hong Kong Association of Banks Distinguished Speaker Luncheon today (October 25):

Luanne (Chairperson of the Hong Kong Association of Banks, Ms Luanne Lim), distinguished guests, ladies and gentlemen,

Good afternoon. It is a pleasure to be here with you today, especially after an accident that has reminded me of the importance of staying vigilant even in relatively peaceful times. Continuously enhancing competitiveness despite good business is also a theme I wish to harp on in today's speech.

Some of you may recall that I last spoke to you in November 2018. That was into the second year of my tenure, witnessing the celebration of the 40th anniversary of our nation's reform and opening up, and the consecutive opening of two major pieces of cross-border transport infrastructure – the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. All seemed bright and well. And then we all have some frightening memories of what Hong Kong had gone through in the following two years. Few would disagree that it has been a very challenging period for Hong Kong, particularly with the riots in the latter half of 2019, during which some banks were the targets of attacks. Today, I'm pleased to say, not only has order and stability been restored, but Hong Kong is also in much better shape.

The Central Authorities have over the past two years enacted and implemented the National Security Law in Hong Kong as well as improved our electoral system. Thanks to these decisive acts, the riots have given way to stability and to growing confidence in Hong Kong. The pandemic, while still with us, is under control, too. That's thanks to the dedication of our health professionals and to the concerted efforts of the Government and the community at large.

We are, in short, ready and eager for the opportunities the future holds for our wide-ranging financial sector and the economy as a whole. For the next few minutes, allow me to talk about that future, with a focus on the banking sector.

First of all, our banking sector is still among the world's largest and most internationalised. At last count, 79 of the world's 100 largest banks were operating in Hong Kong. Your Association is home to 160 member banks, and your vote of confidence in Hong Kong is tangible. In recent months, prompted by key cross-border measures formally launched, a number of international banks have decided to enlarge their presence here, hiring more people and expanding their offices in the process.

Hong Kong's rebounded economy is also providing a favourable backdrop for the banking industry. Real GDP shot up 7.8 per cent, year-on-year, in the first half of this year. For the first eight months of 2021 as a whole, total merchandise trade value amounted to a historic high of $6,500 billion, surpassing the high in the same period in 2018 by 12.8 per cent. The unemployment rate fell to 4.5 per cent in July to September 2021, and the number of job vacancies rose more than 10 per cent compared to mid-2020.

The world is taking note. Last month, Hong Kong was ranked third, worldwide, in the Global Financial Centres Index, finishing behind only New York and London. Also in September, the Fraser Institute once again named Hong Kong the world's freest economy in its Economic Freedom of the World report. And in June, the 2021 World Investment Report, from the United Nations Conference on Trade and Development, ranked Hong Kong the world's third-largest recipient of foreign direct investment, behind only the United States and Mainland China. That's up from fifth place in 2019.

Hong Kong's rebound should not come as a surprise, because our fundamental strengths remained intact during the challenging period. These strengths include our low-tax regime, level playing field underpinned by the rule of law and an independent judiciary, together with highly open and internationalised markets, a deep liquidity pool, and the free flow of people, information and capital. Indeed, I would say that our strengths have become even more secure, now that "One Country, Two Systems" is back on the right track. As the UN report I just mentioned pointed out, "Hong Kong will remain an important financial hub in Asia and a gateway to invest in China, because of its favourable tax regime, easy listing process, absence of capital controls and good regulatory framework." And a report by the International Monetary Fund under its Financial Sector Assessment Program reaffirmed Hong Kong's role as a global financial centre with a resilient financial system, sound macroeconomic policies and a robust regulatory and supervisory framework.

While our regulatory regime is internationally recognised, we are not complacent and are continually updating it, working to create a business-friendly environment for the financial sector. For example, in consultation with the industry, my Government has introduced more than 15 pieces of legislation to enhance Hong Kong's competitiveness as an international financial centre, and seven of these were related to tax arrangements. That includes the limited partnership fund regime, which has been well-received and has attracted more than 330 funds over the past year.

Then there's financial technology. The Government has been working closely with regulators and the sector to enhance our financial infrastructure, develop talent and strengthen collaboration with the Mainland and overseas jurisdictions on the adoption and cross-boundary application of fintech. Indeed, our efforts have already been paying off. We now boast more than 600 fintech companies, including eight virtual banks.

Alongside market development, we are putting emphasis on market regulation to safeguard financial stability and integrity. This includes the virtual assets sector. Following public consultation earlier this year, we are now preparing to introduce a licensing regime for virtual asset services providers, among others.

Stability is critical to our financial system. Despite heightening market volatility in recent months, our banking system and the Linked Exchange Rate System are operating smoothly and effectively. Our sound macro-prudential policies have provided Hong Kong with important buffers to cope with challenges in the past, and will certainly cushion future shocks.

Looking to the future, my latest Policy Address delivered earlier this month outlines development plans for eight international centres or hubs here in Hong Kong with support from Central Authorities under our nation's 14th Five-Year Plan. Leading the way is Hong Kong's role as an international financial centre. The 14th Five-Year Plan, let me add, also supports the deepening and expansion of the connectivity between the Mainland and Hong Kong's financial markets.

Speaking of connectivity, I was delighted to officiate last month at the launch of the Guangdong-Hong Kong-Macao Greater Bay Area Wealth Management Connect, as well as Southbound Bond Connect. And earlier this month, I got to bang a gong as part of the official launch of Shenzhen Municipal Government bonds on the Stock Exchange of Hong Kong. That striking debut marks the first time a Mainland municipal government has issued bonds outside the Mainland. In addition, the recently announced Qianhai Plan will provide even more opportunities for Hong Kong to participate in the development of Mainland markets.

Building on the momentum, allow me to highlight our financial services development efforts on five fronts, namely (i) expanding our offshore Renminbi business; (ii) seizing Greater Bay Area opportunities; (iii) building a green and sustainable future; (iv) boosting fintech development; and (v) enhancing financial services for the benefit of all.

Hong Kong has unparalleled promise as a global offshore Renminbi business hub. Our leadership role in this is underlined by our total deposits, including certificates of deposit. At the end of July, they totalled more than RMB850 billion. The average daily turnover of Hong Kong's Renminbi Real-Time Gross Settlement System exceeded RMB1.4 trillion in the third quarter of this year. Last year, about 75 per cent of global offshore Renminbi payments were processed via Hong Kong.

And we're just getting going in promoting the two-way flow of cross-boundary Renminbi funds and developing offshore Renminbi products. In particular, we will look to allowing securities eligible for southbound trading under Stock Connect to be denominated in Renminbi. Stock Connect's southbound trading shows strong demand from Mainland investors trading in securities listed in Hong Kong. They largely invest with Renminbi, and would be a natural market for our Renminbi-denominated stocks. Allowing southbound trading securities under Stock Connect to be denominated in Renminbi could reduce Mainland investors' exchange-rate risk by raising certainty in stock prices. A working group is looking into this, and I look forward to concrete proposals soon.

Then there's the Greater Bay Area, which gives Hong Kong a seamless opportunity to take part in the nation's "dual circulation" strategy. That presents huge opportunities for Hong Kong's financial services sector. For example, the Wealth Management Connect, which I touched on earlier, allows individual Mainland investors to access wealth-management products distributed by banks in Hong Kong for the very first time. I think I don't have to elaborate on the significance and potential of this initiative. Together with the limited partnership fund regime launched in August 2020, and the new tax concessions for carried interest distributed by private equity funds, Hong Kong is destined to become an even more important gateway for capital flowing in and out of the Mainland. And that can only burnish the city's lustre as an international asset-management centre.

Green and sustainable development is also high on our agenda. Apart from the Shenzhen Municipal Government's recent bond issuance, which includes green bonds, my Government has plans for additional green bond issuances in the coming years. To that end, we have raised the borrowing ceiling of the Government Green Bond Programme, and plan to issue green bonds worth $175.5 billion over the next five years. And this financial year, we will, for the first time, issue retail green bonds to the general public.

We are also looking to develop Hong Kong as a regional carbon-trading centre. That includes supporting Hong Kong Exchange's plans to promote financial products related to carbon-emission trading in co-operation with the Guangzhou Futures Exchange. These measures would contribute to the goal of achieving carbon neutrality before 2060 in the Mainland and before 2050 in Hong Kong. They would also boost our bond market.

Financial technology is no less part of our future. Just last week, the Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBoC) signed a Memorandum of Understanding on linking up the PBoC's Fintech Innovation Regulatory Facility with the HKMA's Fintech Supervisory Sandbox in the form of a network. The initiative seeks to provide a one-stop platform for financial institutions and technology companies to conduct pilot trials of cross-border fintech initiatives concurrently in Hong Kong and other Greater Bay Area cities in the Mainland, thereby allowing them to obtain feedback from regulators and users earlier, expediting the launch of fintech products and lowering development costs.

These and other financial plans and policies demand talent. Here I wish to echo what Luanne was quoted as saying in an interview last week, "as connectivity strengthens across the Greater Bay Area, the banking sector will strive to enhance investor education, and promote cross-border acceptance of qualifications and talent development". Which is why I announced, in my Policy Address, that we will double the annual quota of the Quality Migrant Admission Scheme to 4 000 talented individuals from all over the world. We are also exploring the development of professional qualification standards under the Qualifications Framework for the fintech sector. That, I believe, would provide a clear and recognised development path for employers and practitioners.

No less important to our economy is ensuring that we create real opportunity for our small and medium-sized enterprises, which have always been the dynamic engine of our economy. Indeed, financial inclusion is at the heart of our policy design, and my Government is committed to financial services that benefit every sector of our economy and our community. The Hong Kong Monetary Authority, I'm pleased to note, is developing a Commercial Data Interchange. It's being designed to promote the digitalisation of trade finance, helping our SMEs gain the efficient export-financing support they need to compete in this 21st century of opportunity. The success of this new feature in our financial infrastructure lies in the receptiveness of our banks. I would therefore urge the association to play an instrumental role in promoting its application. After all, SMEs are a key pillar in Hong Kong's economy, and financial institutions and SMEs are basically in the same boat in sailing forward.

I hope I have said enough to impress upon you that my Government is fully committed to our financial services sector, and the banks and banking professionals so critical to its continuing success at home, with our nation and around the world. I know that we can continue to count on the Hong Kong Association of Banks for its support in our efforts to enhance Hong Kong's position as an international financial centre.

Before I go, allow me to congratulate the Hong Kong Association of Banks on its 40th anniversary. I hope that you have an enjoyable lunch, and I thank you again for this welcome opportunity to speak to you today. Thank you.