

Transcript of remarks by FS at media session (with video)

Following is the transcript of remarks by the Financial Secretary, Mr Paul Chan, at a media session in the Legislative Council Complex today (June 1):

Reporter: Secretary, can you address concerns over the Hong Kong-US dollar peg? Some people are worried that this could come at stake because of US sanctions. And my second question is that during the meeting you seemed quite confident that you can still maintain your forecast, that the second half of this year the local economy will recover from its fall, as well as that you told lawmakers that you can actually keep your economic forecast of contraction of between 4 and 7 per cent from late April, before the US announced its potential sanctions. So, what gives you this confidence? And you also spoke about speaking to overseas businesses and foreign investors. Did they not reflect any concerns at all? It's all positive remarks, they are all positive about Hong Kong, even with the uncertainties from the national security law?

Financial Secretary: The possible actions to be taken by the US Government in the light of the national security legislation in Hong Kong are still yet to be seen. What President Trump has already mentioned is more about possible additional tariff on the exporting of goods manufactured in Hong Kong to the US. On that, the impact on Hong Kong would be pretty limited, because manufacturing only accounts for 1 per cent of our GDP and goods manufactured in Hong Kong exporting to the US last year was only in the order of about HK\$3.7 billion. So, it only accounted for 0.1 per cent of our total exports. We are not going to speculate whether there would be additional measures, so we think on the one hand we get ourselves prepared, we do scenario analysis and plan the possible response by the Hong Kong SAR Government. But on the other hand we do not need to overreact to such possibilities. In fact, US has very substantial business interests in Hong Kong. On the trade front, over the past decade they altogether had a positive balance with us to the order of about \$300 billion. And apart from that, the US has very strong professional and financial services representation in Hong Kong, generating substantial economic benefits. So, in terms of the possible actions to be taken by the US, we'd better take a calm and wait-and-see attitude.

As a matter of routine process, the Government will be updating our economic forecasts in August. So in the meantime we see no reason to revise our current forecast of a negative growth of 4 to 7 per cent this year.

On the linked exchange rate, we are very confident that we will be able to defend our linked exchange rate. The linked exchange rate will be there; we have no intention to change it. It was first introduced back in 1983. The US-Hong Kong Policy Act was legislated back in 1992, so there is no connection between the two. We are confident about our ability and capability

to defend the exchange rate for the following reasons. Number one, we have about US\$440 billion in our foreign exchange reserve, which is more than twice of our monetary base. Point number two, the liquidity of our banking system is ample. The banking sector is very healthy, very strong. In terms of capital adequacy ratio, it now stands at about 20 per cent as compared with global standard of 8 per cent. In terms of liquidity ratio, it is about 160 per cent, whereas the global requirement is only 100 per cent. The classified loan ratio is only 0.6 per cent, which by any standard is very low, so the quality of banking assets is very strong. We also have in place a swap arrangement with the People's Bank of China that in the event that we need additional US dollars we can give them Hong Kong dollars and they would be able to provide us with US dollars, so the support of the Central Government is also very important apart from our own financial resources. In fact, since 1983, over the past more than three decades, we have gone through ups and downs and overcome different challenges, but the exchange rate system has been operating very well. We are conscious of the fact that the ability to maintain this system is also important for Hong Kong as an international financial centre, so we have every determination to defend it.

Reporter: Another question is, can I just clarify that regarding the point that you made about the US having significant interest here in Hong Kong as the basis for, whether that's the basis for you to have such a confident assessment that Hong Kong will recover in the second half? I'd like your clarification on that. The earlier question was that whether the foreign business sector and foreign businesses and investors indicate any concerns or they are all positive about this national security law?

Financial Secretary: Economic recovery of Hong Kong in the second half of the year very much depends on the epidemic situation locally and globally. It seems to us that the coronavirus situation in Hong Kong has been coming under control. With that hopefully we would be able to relax most of the social distancing measures. That would help revive the economy. But for the economy to recover it does not only rely on domestic consumption but also external demand that depends on the global coronavirus situation, whether the US and the European countries can quickly come out of that difficult situation. The earlier they come out of that difficulty and the earlier their economies are revived would be the better for us. So, there are still a lot of uncertainties, but we are trying to do our best to preserve our own economic ability. As to your question about the reactions from the banks, from the private wealth management and business sector people that we have come across in the past week, the overall sentiment has been positive but equally they are concerned about the implementation details, which are yet to be announced. So, from social stability standpoint, the importance of social stability to business environment and to Hong Kong as an international financial centre is quite a commonly held consensus. But people are still waiting for the details to be announced by the Central Government.

(Please also refer to the Chinese portion of the transcript.)