Eddie Yue: Keynote speech - ASIFMA Annual Conference

Keynote speech by Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority, at the Asia Securities Industry & Financial Markets Association (ASIFMA) Annual Conference, Hong Kong, 29 February 2024.

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Good afternoon, ladies and gentlemen. It is a pleasure to be here. Thank you to ASIFMA for organising this event.

Over the years, we've worked with ASIFMA to promote the development of Hong Kong's and Asia's capital markets. We look forward to continuing our cooperation under the leadership of Harshika Patel and Peter Stein.

I know today's event has a very rich agenda. So I thought it may be useful for me to give a bit of context, to share with you some observations from the past year as well as how Hong Kong is positioning itself as a forward-looking international financial centre.

Looking back, 2023 was a year of many surprises. First, the global economy turned out to be more resilient than expected, despite going through the most aggressive monetary tightening cycle in decades, and defying the consensual view at the start of the year of a recession in developed economies. Secondly, cracks appeared in some highly regulated parts of the global financial system, with the failure of regional US banks and a G-SIB (global systematically important bank), giving rise to concerns about the stability of the broader system. Thirdly, the unexpected intensification of geopolitical tensions, notably in the Middle East, further complicating the macro outlook.

Looking ahead to 2024, two themes stand out – rate cuts and elections. Most central banks are now expected to begin easing monetary policy later this year, while the world is preparing for the biggest election year in history. Making predictions is a challenging task in this environment, so I will not try to do that here. But I can say two things for certain.

First is the importance of building strong buffers within our financial system. Hong Kong is a small open economy. We are susceptible to external shocks. But our banking sector has remained resilient with strong capital and liquidity buffers. Our ample foreign exchange reserves also provide a powerful safeguard for financial stability. These buffers are part of the reason why Hong Kong was totally unaffected by the US and European banking turmoil last year. Investor confidence in Hong Kong is reflected in the rise in our bank deposits number – a positive 5.1% – and the continued inflow of funds last year, despite the market-wide correction affecting the asset and wealth management industry.

The second thing I can say with confidence is that three long-term trends will be here to stay. These are the opening-up of the Mainland and the move towards sustainability and digitalisation. The Mainland is entering a period of more moderate growth, with the focus shifting from quantity to quality. The transition may at times be a bit bumpy, affecting market sentiment. But let's not lose sight of the long-term growth drivers, including for example China's industries' moving up the value chain, a growing middle class, urbanisation, technological innovation, and the climate action driven by the 30/60 carbon neutrality targets. These all present opportunities to long-term investors.

Moving onto sustainability – for those of us living in Hong Kong, you may recall the severe weather events that occurred last September, which brought the city to a standstill. 2023 was also a significant year from a global climate perspective – being the warmest year on record. The transition to a greener future is a shared responsibility. It is not just about tackling a global issue that affects the entire population, but also about protecting our own people right here at home. As Asia's sustainable finance hub, Hong Kong is in a unique position to support the region's green transition.

Finally, digitalisation holds great promises, of both immense productivity gains but also fundamental disruption to the way we live and work. Artificial intelligence (AI) is the most recent example. Goldman Sachs estimates that AI could substitute up to one-fourth of current work, and two-thirds of current jobs are exposed to some degree of AI automation. And it is not just AI – automation, big data, tokenisation, etc., all have the potential to reshape finance and our work as central banks and financial regulators.

Let me now turn to how the Hong Kong Monetary Authority (HKMA) positions the Hong Kong platform to capture the opportunities from these three trends.

First, on Mainland opportunities, as we all know, Hong Kong is the dominant gateway between Mainland China and the rest of the world, and has been a reliable testing ground for many of the Mainland's financial opening-up initiatives. Our Connect schemes have consistently served as the preferred channels for foreign investors investing in the onshore financial markets. Two-thirds of foreign turnover in the China Interbank Bond Market (CIBM) are traded through Northbound Bond Connect, and over 70% of foreign holdings in onshore equities are held through the Stock Connect.

We have been working closely with Mainland authorities to support the opening-up of the Mainland financial market. Just last month, the HKMA and the People's Bank of China (PBoC) announced six new measures to deepen financial cooperation between Hong Kong and the Mainland.

These measures include promoting the use of onshore bonds as eligible collateral in offshore markets, starting with the HKMA's RMB Liquidity Facility, and further opening up the onshore repo market. They will enable Bond Connect investors to better manage liquidity using their existing bond holdings. The third measure enhances the Cross-boundary Wealth Management Connect scheme in the Greater Bay Area, which will open up new avenues for growth for our asset and wealth management sector.

Other than the Connect schemes, the other focus of our Mainland-related work is to encourage the use of the RMB in cross-border trade settlement and investment. Last year, the RMB surpassed the USD for the first time to become the number one currency in China's cross-border payments. The share of RMB settlements in the total value of goods trade jumped to 25% at the end of 2023, up from 15% just two years ago. To support the wider international use of the RMB, we are doing further work to enhance liquidity, promote the launch of new products and risk management tools, and modernise our financial infrastructure.

Second is on sustainable finance. As I mentioned earlier, climate change is affecting all of us, and there is a role for everyone to play in mitigating its impact. At the HKMA, we have been actively contributing to the climate agenda, leveraging our core functions as a bank supervisor, responsible investor and market facilitator.

As a bank supervisor, we have taken concrete steps to strengthen banks' climate resilience. In 2022, we developed a two-year plan to embed climate risk considerations into our supervisory processes, and looked to harnessing the power of technology to help banks assess the impact of physical risks. We are the first in Asia to mandate climate-related disclosure across the financial sector by 2025, and the first market working to operationalise the Common Ground Taxonomy jointly developed by China and the EU.

As major global asset owner, we have incorporated ESG considerations in our investment, and have set a target of net-zero emissions by 2050 for the Exchange Fund's Investment Portfolio. We have been investing in green, social and sustainability bonds since 2015, and increased the number of ESG-themed mandates in our externally managed portfolios. In fact, the Exchange Fund's exposure to carbon-intensive assets is consistently lower than that of the broader market.

It goes without saying that tackling climate change requires consistent and collaborative efforts, and we are keenly aware that we need to lead by example. We have been assisting the Government in issuance under the Green Bond programme, and in beefing up our knowledge, talent and data. Hong Kong's first Green Week, which covers a wide range of sustainability-themed activities this week, is part of our broader efforts to promote sustainable development and green finance in the region. I hope that you have been able to find time to attend events in the Green Week and connect with one another.

The third trend is technology, which is revolutionising many parts of the economy, including the financial sector. We are approaching technology from a few different angles.

Being Hong Kong's central banking institution, central bank digital currency (CBDC) is naturally of great interest to us. One of our most important projects in this field is project mBridge. It is a collaboration between us and the central banks of Mainland China, Thailand and the UAE, under the auspices of the BIS Innovation Hub. The idea is to use CBDC to cut the cost and time of cross-border settlement. We are looking to launch the minimal viable product shortly.

Wearing our hat as a banking supervisor, over the last few years, one of our priorities has been to encourage banks to apply new technologies in their operations, to enhance the customer experience and, at the same time, ensure robust compliance and risk management. For example, an area where we see great promise is the adoption of AI in areas such as remote customer onboarding, fraud monitoring and cyber defence. We are encouraging banks to make the best use of them.

Another mandate of the HKMA is to promote market development. Here we have been supporting the Government's efforts in promoting the development of our virtual assets market. Virtual assets is an area where I believe regulation and market development go hand-in-hand and reinforce each other, particularly in light of recent market events which highlighted the risks associated with retail investment in virtual assets. The Hong Kong Government and financial regulators are working towards establishing a comprehensive regulatory framework that covers virtual asset service providers, including stablecoin issuers. Stablecoins is another important element of the virtual asset world – and we recognise their potential benefits in improving efficiency. At the same time, we are also mindful of the related monetary and financial stability risks. An appropriate regulatory environment will help manage these risks properly. We intend to introduce a new piece of legislation to implement a licensing regime for stablecoin issuers and are currently gathering views on the proposal.

Related to virtual assets is the tokenisation of traditional financial assets. We launched the world's first tokenised government green bond last year and recently completed a second offering in four major currencies totalling HK$6 billion, making it the world's first multi-currency digital green bond. The issuance size and wider investor participation, particularly in the second issuance, show that the technology is really moving beyond concept testing into actual production. Meanwhile, we are also looking at other use cases such as tokenised deposits. Of course market-wide adoption will take time, but we are making progress.

Looking ahead, we are committed to promoting the effective implementation of the Financial Stability Board (FSB)'s recommendations on a global regulatory framework for crypto-asset activities. As co-chair of the FSB Regional Consultative Group for Asia, I will do my best so that our region actively contributes to these efforts.

Finally, I would like to highlight a few initiatives related to the financial sector that were unveiled in the Budget Speech yesterday. These initiatives should be welcome news to the market as they should help enhance Hong Kong's financial competitiveness. First, the Government will set up a task force to further develop the asset and wealth management industry. By working closely with industry stakeholders, we hope to gain a better understanding of the industry's needs, identify opportunities, address challenges and create a supportive ecosystem. Second, to attract global family offices and asset owners to set up presence in Hong Kong, the Government will further enhance the preferential tax regimes for related funds, single family offices and carried interest. Third, the new Capital Investment Entrant Scheme will launch soon and help strengthen our advantages in developing the asset and wealth management industry and related professional services sectors. Fourth, the Government will increase the government debt ceiling to HK$500 billion to cover sustainable finance and infrastructure projects. All these are very positive initiatives to help strengthen Hong Kong's financial platform.

I hope this will give you an overview of the key priorities of the HKMA and Hong Kong's financial sector. I look forward to working with you to promote the development of our market.

Thank you, and I wish you all a successful conference today.