

Eddie Yue: Safeguarding the bottom line for security, facilitating high-quality development

Speech by Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority, at the National Security Legal Forum Panel Session "Safeguarding the bottom line for security, facilitating high-quality development", Hong Kong, 8 June 2024.

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Good afternoon, ladies and gentlemen. It is a pleasure to take part in this important forum organised by the Department of Justice.

Today I would like to share with you my thoughts on the interaction between financial security and the development of our financial sector.

Let me start by highlighting the importance of financial security – not just to the financial sector but also to the economy more broadly; and not just for Hong Kong but also for our country and even the rest of the world. I would also discuss how a stable and secure environment can promote financial development, and what we at the HKMA are doing to build on our hard-won resilience and bring our financial sector to the next level.

The importance of financial security

The financial industry is an important pillar of Hong Kong's economy. In 2022, the sector employed close to 270,000 people, accounting for 7% of the working population, and contributed 22% of Hong Kong's GDP. The size of Hong Kong's banking assets is equivalent to 9 times of our GDP, and the size of assets managed by the financial sector is roughly 10 times of GDP.

In itself, our financial sector is sizeable. It also plays a significant role in the functioning of the wider economy and society. Financial institutions provide intermediation services, matching the demand and supply of capital to finance business growth and household needs, as well as offering investment opportunities for financial returns.

As an international financial centre, our financial sector serves the much wider Asia Pacific region and beyond. We are closely intertwined with the global financial system. The expansive reach of our financial sector means that any threat to its stability will have repercussions beyond Hong Kong. For example, Hong Kong has been playing an indispensable role in supporting the Mainland's reform and opening-up agenda – from the traditional trade and manufacturing to becoming the key player in the global supply chain, and from direct investment to portfolio investment into the Mainland capital market.

In addition, Hong Kong serves as a key fundraising and capital markets hub for the whole of Asia, one of the largest USD clearing hubs, the fourth-largest FX hub, and the largest global offshore RMB centre. This is why any threats to the stability of Hong Kong's financial system could have spillovers to the Mainland and global markets at large.

At the HKMA, our primary mandate is to maintain the stability and integrity of Hong Kong's monetary and financial systems.

First, Hong Kong's monetary stability is anchored by the Linked Exchange Rate System, which maintains the stability of the Hong Kong dollar exchange rate through what we call a currency board system. The peg has served us well for four decades and demonstrated its resilience to many shocks and market crises.

Secondly, we ensure the stability and resilience of Hong Kong's banking sector through closely monitoring banks' management of liquidity and market risks, and maintaining our supervisory efforts on bank lending. Our banking sector continues to be robust, with liquidity and capital ratios well above international standards. These buffers were a key reason why Hong Kong was unaffected by multiple banking crises taking place elsewhere, including most recently the US and European banking turmoil last year.

Thirdly, in this highly interconnected global environment, financial shocks and events in one sector or region can be easily amplified and spill over into other markets. Because of that, while we keep a close watch on our local financial system, we also collaborate with the Government and other financial regulators to closely monitor issues or events with possible cross market and systemic implications, and take timely, coordinated actions as needed. This helps us identify and mitigate potential risks and threats to Hong Kong's monetary and financial system.

Finally, confidence is crucial in maintaining financial stability. Our work also involves communicating with market participants and the public to address potential concerns and misconceptions about Hong Kong and its future as an international financial centre.

Importance of a stable and secure environment for financial development

I have spoken about why ensuring the resilience of Hong Kong's financial system is important for the stability of Hong Kong, our country and even the rest of the world. On the other hand, a stable and safe Hong Kong is also conducive to the development of our financial markets.

Many studies of financial centre competitiveness cite the business environment as a deciding factor, which is largely shaped by political and social stability and the rule of law. When I first took office as Chief Executive of the HKMA in October 2019 in the midst of the social unrest, there were widespread rumours on social media that aimed to threaten Hong Kong's financial stability. Some people claimed that the Linked Exchange Rate System would collapse. Others said money was flowing out of Hong Kong and the Hong Kong dollar would devalue. Some even incited the public to withdraw their savings from targeted banks. If left unchecked, rumours of this kind would soon generate anxiety and panic among the public, create a favourable backdrop for speculative attacks on our financial system as we experienced during the Asian financial crisis, and cause irreversible damage to our businesses and households. So we took prompt and resolute actions to counter these rumours before they got out of control. The incident, however, was a vivid example of how social unrest could quickly implicate and cause damage to the financial system.

This is also why the implementation of the National Security Law in 2020 and recently the Safeguarding National Security Ordinance is so important. The legislation helps enhance stability in our society, which allows the Government and the community to focus on economic and developmental priorities that are crucial to the prosperity of our city. Financial regulators can focus on rolling out policy initiatives to support businesses and households, and advancing developmental efforts to keep our financial sector competitive.

In fact, Hong Kong's financial sector has continued to grow apace. For example, since 2020 when the National Security Law was enacted, international investors have remained a major source of funding for our asset and wealth management business, accounting for more than half of the assets under management. Over the past three years, the total number of private equity fund managers, hedge fund managers, and family offices in Hong Kong has increased by 24%. Despite a challenging market backdrop, Hong Kong's financial markets have been functioning very smoothly and seeing continued inflows. Total deposits of our banking system, for example, have surged by 21% over the past five years. So, we are seeing money flowing in, not flowing out.

Hong Kong's unique role and advantages as an international financial centre and the country's key offshore RMB centre

Now that we have this hard-won stability, the onus is on us to make the most of it and bring Hong Kong's financial sector to the next level. I am often asked the question – what makes an international financial centre, and what do the Government and regulators including the HKMA plan to do to promote the further growth of our financial markets? The answer boils down to three key factors: resilience, ecosystem and opportunity.

I have already talked about the resilience of our financial system. But that alone does not make a great financial centre. We also need a fertile ecosystem where opportunities can grow and be captured. Here we enjoy numerous institutional strengths under "One Country, Two Systems". These include a bilingual legal system rooted in the common law, an independent judiciary, a forward-looking regulatory regime, a simple tax system, a strong talent base, and free flow of capital and information. Through our unique political, geographical and historical connections with the Mainland, we are also well placed to serve as the gateway connecting the Mainland and the rest of the world, which brings immense opportunities.

As the leading global offshore RMB hub, Hong Kong has been a safe, trusted testing ground for many of the Mainland's opening-up initiatives that connect the Mainland and international financial markets while ensuring financial stability and security. Through the various Connect schemes, Hong Kong serves as a firewall and buffer zone to prevent any risks from cross-border capital flows, which in turn helps safeguard the financial security of our country.

Beyond Mainland-related opportunities, Hong Kong in the global scene is well-positioned to capture growth in the emerging areas such as sustainability and fintech. As Asia's largest sustainable financing centre, Hong Kong has been enriching the green and sustainable finance ecosystem through the Government's sustainable and

infrastructure bond programme and filling gaps in knowledge, talent and data. We are expediting fintech adoption among financial institutions and are an early mover in central bank digital currencies and the development of digital assets. We have also been building infrastructure to support better flow of data, which could be used to facilitate the provision of financial services.

Conclusion

In today's complex global landscape, a safe and stable operating environment is crucial for any business. The legal infrastructure we have in place to safeguard national security provides a solid foundation for the financial sector to flourish. The HKMA will stay vigilant against potential and emerging risks to our financial security and stability, and we will continue to enhance our regulatory framework to meet evolving market needs and international standards.

Thank you.