

## **Anselmo L S Teng: Overview of recent financial and economic developments in Macao**

Speech by Mr Anselmo L S Teng, Chairman of the Monetary Authority of Macao, at the Spring Cocktail Reception, Macao, 15 March 2007.

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The Honorable Secretary for Economy and Finance, Mr. Francis Tam;  
The Honorable Director of the Economic Affairs Department of the Liaison Office of the Central People's Government in the MSAR, Mr. Zhou Zhikui;  
The Honorable Chairman of the Audit Committee of AMCM, Mr. Leonel Alberto Alves;  
The Honorable Chairman of the Macau Association of Banks, Mr. Ye Yixin;  
The Honorable President of the Macau Insurers' Association, Mr. Si Chi Hok;  
The Honorable President of the Macau Insurance Agents and Brokers Association, Mr. Tou Kam Seng;  
The Honorable President of the Federation of Macau Professional Insurance Intermediaries, Mr. Frank Ip;  
The Honorable President of the Macau Financial Markets Association, Mr. Chan Kam Chun;  
The Honorable President of the Association of Macau Financial Employees, Mr. Ng Chi Peng;  
The Honorable President of the Macau Money Changers Association, Ho Hao Chio;  
Distinguished guests, friends of media, dear colleagues;

Spring is around although chill is occasionally being felt. On the occasion of this reception held in the melody of spring, we farewell the past and embrace the future. Here, I take the liberty of representing the Board of the Monetary Authority of Macao (AMCM) to extend our warmest welcome to Mr. Francis Tam, the Secretary for Economy and Finance; Mr. Zhou Zhikui, the Director of the Economic Affairs Department of the Liaison Office of the Central People's Government in MSAR; our distinguished guests and friends of media. Moreover, I would like to express my sincere gratitude to Mr. Francis Tam for his unremitting support and guidance; to the government departments, all sectors of the society and the business communities for their support and co-operation.

Under the auspices of the Central Government and the visionary leadership of the MSAR Government, Macao manages to sustain its past growth momentum with favourable development noted in consumption, investment and trade. Basked in a buoyant market, unemployment rate continues to spiral downwards, GDP regains its double digit growth while surplus is noted in international balance of payment and fiscal account. The credit rating of Macao has also been raised from "stable" to "positive".

2006 is another record year for the local financial field in the wake of Macao's high economic growth and the prolonged favourable economic situation of the neighbouring regions. While the banking sector continues with the enhancement of risk management, it has also strived to diversify its range of financial products, broaden up its business network, implement different operational strategies and improve service quality. Accordingly, the sector succeeds in widening up its revenue source, expanding its operational scope, enhancing its quality of service and achieving better operational efficiency. As per statistics as at year end, total assets of the banking sector jumped 26.5% to MOP273.8 billion; deposits increased by 24.2% to MOP229.9 billion; loans stood at MOP76.4 billion, representing an increase of 17.1%; non-performing loan ratio was at record low of 1.1%. Overall annual profit jumped remarkably year-on-year by 30.1% to MOP3.96 billion. Capital adequacy ratio was 14.7%, far better than the benchmark set by the Basel Committee.

As for the insurance sector, continued growth was also witnessed in 2006. As at year end, gross premium registered a 10.5% growth to MOP2.48 billion. Growth momentum of non-life insurance continued to be strong by posting a year-on-year increase of 27.4% to MOP720 million. Life insurance remained stable with total premium grew at a rate of 4.7% to MOP1.75 billion. Private pension fund scheme has also secured a faster development. As at the end of 2006, the number of registered entities hugely increased by 44.4% to 309. Workforce covered by the scheme increased by 46.3% to 63,000. Assets under fund management increased by 21.4% to MOP2.8 billion.

Other trades such as money exchange, cash remittance and securities are also developing fastly with year-on-year growth of 22%, 34% and 70% respectively.

We continue to adopt a prudent investment strategy in managing the MSAR Reserves. As a result, it is capable of posting reasonable return in a turbulent market environment. As at the end of the year, the exchange reserves of the MSAR reached MOP73.1 billion, representing an increase of 36.8% when compared with the previous year. As regards MSAR Reserve Fund, the balance was MOP11.6 billion.

As far as monetary policy is concerned, the MSAR continues to adhere to a policy which maintains free flow of capital, free currency convertibility, market driven interest rate and the link of the MOP to the HKD. In the past year, we ensured the sufficient and timely circulation as well as the stability and convertibility of the MOP through the flexible use of different kinds of monetary policy instruments.

Simultaneously, effort has also been made to strengthen our supervision to cope with the changing market situation. To protect the stability and healthy development of the local financial system, we have coordinated and cooperated with other government departments to combat illicit financial activities.

As ever, we abide by the framework of applicable laws and regulations to carry out routine supervision on financial institutions through onsite inspection, offsite surveillance and other measures. In the past year, we did onsite inspection on 7 banks, 5 money changers, 2 exchange counters and 2 cash remittance companies. Furthermore, we strengthen and perfect formulation of relevant supervisory policies.

In the area of banking supervision, guideline on anti-money laundering was revised and put into force on November 12 last year. Besides, consultation on the draft "Guidelines on the Management of Country Risks" has been completed and is ready for promulgation and implementation this year. "Guidelines on the Risk Management of Electronic banking" has been revised and is ready for second consultation. "Licensing-Review and Approval Procedures" for financial institutions such as banks has been finalized. It is expected that through the use of these procedures, the approval process can be made more systematic, effective and transparent. Internally, "Onsite Inspection Manual" has been revised with an aim to achieve higher degree of standardization and better efficiency in daily operation. A survey was conducted last year to assess market risk. The related findings will be used as a base to establish market risk supervision capital requirement.

Basel II is planned to be implemented in Macao in stages to cope with the actual market situation. Under Pillar I, capital charge for credit risk will be appropriately adjusted and capital charge for operational risk will be introduced. Implementation will be made by taking into consideration the development of the credit market and credit risk management technique. For Pillar II, supervisory process will be enhanced. Supervision and capital requirement will apply based on the nature of risk, risk management techniques, measures and standard adopted by the financial institutions. Under Pillar III, banks may face higher and additional disclosure requirements which will be broadened gradually with an aim to maintain tighter market discipline. We will continue to reinforce cooperation with overseas supervisory authorities and strengthen cross-border comprehensive supervision in an effort to coordinate with the global implementation of Basel II.

On the insurance supervision front, while our initiatives are meant to facilitate stable market development, ensure fair market competition and protect the legitimate interest of the consumers, we also tend to fine tune the relevant laws and regulations, popularize insurance knowledge and promote development of the industry. In 2006, in response to the new laws on anti-money laundering (AML) and combating the financing of terrorism (CFT) implemented in Macao, we revised the "Guidelines on Prevention and Combating Money Laundering and Financing of Terrorism in Insurance". Besides, the limit of indemnity of the Employee's Compensation Insurance Ordinance was adjusted upward to cope with the market situation. A 24-hr hotline was established to provide speedy response to public enquiries.

Anti-money laundering and combating terrorism financing carry weight in supervision. We have not only revised the related guidelines but also made special organization restructuring to support the cause. Both the Banking Supervision Department and Insurance Supervision Department have established their own special taskforce. A cross-departmental working committee is also established for coordination purpose. To enforce its execution, apart from routine offsite inspection, the Banking Supervision Department has already completed the first round AML onsite inspection on all institutions. Reports of the related findings and recommendations were sent to the entities for their reference. Indeed, we summarized our findings and discovered some common issues which we shared with the institutions in the form of a circular. An explanatory seminar is expected to be convened in April for sharing this information. Regarding insurance supervision, the related department has already embarked on an overall AML onsite inspection. Inspection will first be carried

out on all life insurance companies, followed by non-life insurance companies. A report similar in nature to the one compiled by the Banking Supervision Department will be prepared subsequently. Support and coordination from the business sector is expected.

In the past year, we actively participated in the MSAR government trans-departmental AML taskforce. We assisted and coordinated in the establishment of the Financial Intelligence Office. Moreover, we approached the International Monetary Fund and received its technical assistance. The Asia Pacific Group on Money Laundering/Offshore Group of Banking Supervisors (APG/OGBS) conducted a second mutual evaluation on our AML/CFT systems. To broaden our exposure, we assigned representatives to act as APG experts to perform similar evaluation on other APG members. Through participating in AML related activities, we have established good communication and close working relationship with the related international bodies and their members.

Apart from reinforcing financial supervision, the AMCM also dedicated efforts to foster financial development. All along, we have been maintaining good communication and close working relationship with the participants, who have shared with us many opinions in relation to business development and supervision. Our collaborative effort helps to facilitate the stable and healthy development of the Macao financial market. Internationally, we have been maintaining communication with relevant overseas supervisory authorities in sharing constructive ideas relating to the introduction of cross-border financial business, cooperation on cross-border supervision and the establishment of cross-border financial facilities.

Apart from regular bilateral meetings, we executed a "Financial Cooperation Arrangement" with the Shenzhen Central Sub-branch of the People's Bank of China and a "Letter of Intent for the Cooperation in the Development of Payment and Settlement System" with the Shenzhen Financial Electronic Settlement Centre in 2006. Besides, we were entrusted with the mission to organize a MSAR government delegation and an entrepreneur delegation to participate in the "Pan-Pearl River Delta Region Financial Services Forum" held in Hong Kong. We joined force with the Macau Insurers' Association, the Macau Insurance Agents and Brokers Association and the Federation of Macau Professional Insurance Intermediaries to organize the third insurance exhibition. Furthermore, we jointly organized the "Mainland, Hong Kong and Macao Onsite/Offsite Inspection Seminar" in Yunnan with the State Administration and Foreign Exchange and the Hong Kong Monetary Authority.

We are confident that the economic growth of Macao will sustain and the business of the financial sector will continue to flourish. However, the international economic and financial ecology is undergoing some changes. Macao is receiving more and more attention internationally. The financial sector is expected to encounter more challenges after the flying colours achieved in past few years. Challenges do not necessarily arise from the limitation of business development. They may also come from the continued requirement in risk management enhancement or even external factors beyond our control.

Despite the tremendous challenges ahead, we believe that all financial institutions have already mapped out strategies to enhance risk management, swiftly adapt to changing market environment, provide more financial products and services that would be conducive to the development of the local economy and society, facilitate the sophistication and stable development of the local financial market. Being a supervisor and facilitator, AMCM will strive to maintain the stability of the financial system by further improving the supervisory teams and policies, strengthening routine supervision, perfecting related law and guidelines, expanding financial infrastructure, maintaining close communication with institutions and engaging in cross-border cooperation with overseas supervisory authorities and actively containing illicit financial activities.

Let us work together to lift our financial sector to a higher level in the international market.

Finally, I would like to wish all of you happiness, health and prosperity.

Thank you.