

Anselmo L S Teng: Macao's financial sector – exhibiting steady development

Speech by Mr Anselmo L S Teng, Chairman of the Monetary Authority of Macao, at the 2008 AMCM Spring Cocktail Reception, Macao, 11 March 2008.

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The Honourable Secretary for Economy and Finance, Mr. Francis Tam,

The Honourable Director of the Economic Affairs Department of the Liaison Office of the Central People's Government in the MSAR, Mr. Zhou Zhikui,

The Honourable Chairman of the Macau Association of Banks, Mr. Ye Yixin,

The Honourable President of the Macau Insurers' Association, Mr. Si Chi Hok,

The Honourable President of the Macau Insurance Agents and Brokers Association, Mr. Tou Kam Seng,

The Honourable President of the Federation of Macau Professional Insurance Intermediaries, Mr. Frank Ip,

The Honourable President of the Macau Financial Markets Association, Mr. Chan Kam Chun,

The Honourable President of the Association of Macau Financial Employees, Mr. Ng Chi Peng,

Distinguished guests, friends of media, dear colleagues,

Good afternoon,

First of all allow me to give a warm welcome on behalf of the Monetary Authority of Macao (AMCM), to Mr. Francis Tam, Mr. Zhou Zhikui and the honoured guests who attend this cocktail reception. At the same time, I would like to express my gratitude for all the help and support you have rendered to AMCM in the past year.

Only those who have survived the harsh winter appreciate the warmth of spring. After a severe winter which can happen only once in half a century, we gather gaily today when flowers bloom in the mellow March air. We look back and forward to celebrate the arrival of the Year of the Rat.

2007 is an eventful year. Global economic growth has slowed down due to the reverberations arising from the subprime crisis originated in the US. At the same time, financial risk which has hidden under years of economic prosperity starts to take its toll. There is the bank run of a financial institution in the UK, heavy losses have been incurred by giant multi-national financial groups. All these fiascos have created shock and uncertainties in international financial markets. However, despite all these turmoils in the international financial environment, Macao continues to enjoy a burgeoning economy. Financial risk is under proper control while the financial sector exhibits steady development. We can attribute all these successes to the endeavour of the MSAR Government and all sectors of our community, the prosperous services industry and the locomotive effect of large scale infrastructural investments. It goes without saying that we benefit much from the strong support and continued economic growth of our Motherland.

In the past year, under the leadership of the MSAR Government, AMCM candidly fulfilled its duties. Via its persistent, risk based prudential supervision, AMCM laid a solid foundation based on which the Macao financial sector achieved steady development. Thanks to the strong economy, the financial sector of Macao has scored flying colours again. We can witness that the financial markets have become more steady and active, the number of financial institutions is on the rise accompanied by more ramified network, financial operation

continues to expand, continued innovation is found in financial products, quality and sophistication of service is being enhanced, asset quality continues to improve while risk management is being strengthened.

As at the end of 2007, the number of banks in Macao stood at 28, with total assets of MOP328.1 billion which was an increase of 20% year-on-year. Deposits were valued at MOP268.2 billion and total loans stood at MOP108.6 billion which exhibited annual increase of 16.3% and 42.2% respectively. Loan deposit ratio stood at 40.5%, operational profit amounted to MOP4.146 billion while non-performing loans ratio dropped to 0.6%. Capital adequacy ratio stood at a robust level of 14.35%.

Moreover, although the number of institutions remained the same, business volume of non-bank financial institutions including currency exchange, remittance and securities exhibited hefty increase by 43.6%, 47.3% and 221.1% respectively.

Simultaneously, our insurance sector scored excellent results. There were 24 insurance institutions operating in Macao in 2007. Total annual insurance premiums amounted to MOP3.22 billion which was an increase of 29.8% year-on-year. Among which, life insurance premium was MOP2.25 billion while property insurance accounted for MOP970 million. In addition, there was a marked development in private pension fund business. As at the end of 2007, there were 35 registered retirement funds in which 432 retirement plans participated involving 78,859 employees which was an increase of 23.7% year-on-year and accounted for 28.17% of the working population. Assets under management were valued at MOP3.7 billion, an increase of 32% year-on-year.

In handling the foreign exchange reserves and the MSAR reserve fund, we have consistently adopted a prudent and stable investment principle. In 2007, we achieved reasonable results in managing and growing the reserves. Foreign exchange reserve stood at MOP106.3 billion as at the end of 2007 which was an increase of 45.4% year-on-year. At the same time the MSAR reserve fund was valued at MOP12.24 billion, an annual growth of 5.34%.

Financial supervision is the major responsibility of AMCM. In accordance with the principles issued by relevant authoritative international organizations, we incessantly apply our prudent supervision to financial institutions to ensure healthy and stable development of our financial markets and financial institutions. In the past year, we emphasized on anti-money laundering (AML) and risk management. In AML aspect, we have continuously since the early 1990's been revising our original AML structure in accordance with the ever changing development of international standard and change in local environment. Our efforts are sixfold. First, we adopted the recommendations of the mutual evaluation of APG/OGBS by formulating and implementing a practicable action plan. We then reinforced liaison with relevant organizations, especially the Financial Intelligence Office and relevant associations in the financial sector to establish a mechanism for regular communication. Third, we reviewed the execution of relevant guidelines by seeking the opinions of market participants. We are now revising existing guidelines by also taking into consideration the recommendations of the 2006 APG/OGBS mutual evaluation and discoveries of our supervision. Fourth, we rolled out comprehensive training for the industry, which included industry wide seminars, exchange ideas relating to discoveries in on-site inspections, symposium on money laundering/financing terrorism trend and case study. Fifth, we reinforced AML/CFT propaganda. Via public media or other channels such as open exhibitions, advertisements, and leaflets, we attempted to enhance public knowledge and cooperation in our AML/CFT efforts. Last, we accepted technical assistance from the IMF in perfecting the procedures and practicable arrangements relating to AML on-site inspection. In the realm of risk management, AMCM adopts a risk-based approach in accordance with international standard and practice in its daily supervisory work. On the premise, we continued to supervise all authorized institutions by conducting on-site inspections, off-site surveillances and prudential meetings. In 2007, AMCM issued "Guideline on Management of Country

Risks” and “Determination of Market Risk Adjusted Capital Adequacy Ratio” to be adopted by financial institutions which will no doubt enhance the stability of our financial system.

In the domain of insurance supervision, we emphasized on the revision and perfection of related legislations. At the same time we strengthened our inspection efforts, bashed illegal insurance activities. In perfecting related legislations, we revised “Mandatory Automobile Civil Liability Insurance” and “Mandatory Labour Civil Liability Insurance”. Simultaneously, we enhanced inspection of AML measures implemented by insurance institutions. In 2007, AMCM carried out on-site inspections on insurance institutions operating in Macao, accentuating our efforts in regulating the operation of our insurance market.

We strive to maintain a stable exchange rate. In 2007, China achieved record high trade surplus. There was a hefty increase in exchange reserves. The Yuan continued to appreciate against US Dollar which gave rise to depreciation of the Pataca against the Yuan. It fueled the pressure on inflation in Macao. Against such a backdrop, AMCM adhered to rules of currency board and link rate, maintained the relative stability of the Pataca, which facilitated stable operation of the Macao economy.

AMCM promotes actively cross border financial cooperation. In 2007, as usual, AMCM participated in activities relating to financial cooperation with the Mainland, our neighbouring regions, countries and international organizations and encouraged the financial industry of Macao to communicate and cooperate with overseas entities. For instance, we promoted closer cooperation between our financial sector and Portuguese speaking countries and actively participated in meetings with relevant international and regional organizations. We hosted related international activities and successfully hosted the OGBS 2007 annual general meeting. We advocated and deepened financial cooperation between Macao and Guangdong as well as between Macao and Shenzhen. We reinforced cooperation with various financial regulatory bodies with a view to effectively bashing illegal financial activities through execution of cross border supervision. We actively encouraged the enlargement of RMB business in Macao, promoted further development of RMB business, propagate the circulation of Pataca on the Mainland, reinforced cross border settlement and cooperation in financial infrastructure and opened up the clearing system for Hong Kong Dollar cheques.

In retrospect, we are proud to say that 2007 was again a fruitful year for the Macao financial sector. I would like to take this opportunity, on behalf of the Monetary Authority of Macao, to express our heartfelt gratitude for the continued guidance and support from Mr. Francis Tam; for the care and support from Mr. Zhou Zhikui; and sincere thanks to the practitioners of our financial sector for their hard work in the past year. I would also like to congratulate you on the results achieved by you ladies and gentlemen in the past year. At the same time, I would also like to thank the colleagues of AMCM for their hard work.

There are new challenges ahead at the beginning of the year. There is a shadow hanging over the global economy right at the start. The US subprime crisis appears to be deteriorating which adds uncertainty to the international financial markets. Financial risk has increased. Against such an international economic and financial backdrop, it is possible that Macao will be adversely affected to a certain degree. It is likely that the Macao economy will experience a slow down after rapid growth. Therefore, financial institutions should put risk mitigation as their primary objective this year. With the support of the MSAR Government and market participants, AMCM will continue to enhance and strengthen risk management based on the concept of risk-based supervision to ensure the stability and development of our financial industry. Simultaneously, we shall strive to maintain the opening up, diversification and internationalization of our financial sector to create a healthy financial environment conducive to the sustainable prosperity of Macao.

Last but not the least, I sincerely wish you success and good health.

Thank you.