

Anselmo Teng: Macao's financial sector development

Address by Mr Anselmo Teng, Chairman of the Monetary Authority of Macao, at the 2011 Monetary Authority of Macao (Autoridade Monetária de Macau – AMCM) Spring Cocktail, Macao SAR, 29 March 2011.

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The Honourable Secretary for Economy and Finance, Mr. Francis Tam,
The Honourable Deputy Director of the Economic Affairs Department of the Liaison Office of the Central People's Government in the MSAR, Mr. Chen Xiang,
The Honourable Deputy Director-General of the Office of the Commission of the Ministry of Foreign Affairs in the MSAR, Ms. Han Xiao-yan,
The Honourable Chairman of AMCM Audit Committee, Mr. Leonel Alberto Alves,
Honourable Guests,
Friends of the Press,
Dear colleagues,

A Chinese poem portrays a fine day in Spring like today, "The mellow wind from the East is soothing which embodies a warm day in Spring when everything starts anew. The early goldfinches compete for warm branches while newly arrived swallows are busy in picking dirt for nest". At the beginning of the Year of the Rabbit, following our fine tradition, the Monetary Authority of Macao hosts again a Spring Cocktail Party. This afternoon, we are honoured to have the presence of Mr. Francis Tam, Secretary for Economy and Finance to come to officiate this occasion and to share with our friends of the financial sector the joy of lucrative results achieved in the year of the Tiger and to bid well wishes to each other. I duly represent the AMCM Board of Directors to thank Mr. Tam for his presence. Simultaneously, I would like to extend my warm and candid appreciation and welcome to our guests, practitioners of our financial sector, and friends of the press.

In the past year, under the care and auspices of the Central Government, the endeavour of our citizens led by the MSAR Government, Macao saw encouraging results scored by its pillar industry in tandem with the gradual global economic recovery. All walks of trade in Macao displayed vitality again. The overall economy scored remarkable GDP growth of 26.2%. Under the direction and support of Mr. Tam, AMCM and our financial practitioners have been able to maintain the stability of our financial system. Our financial sector grasped the development opportunity, enhanced internal control and risk management, which reinforced its ability to combat risk and effectively staved off threats arising from crisis from abroad; perfected financial services and promoted market development.

To AMCM, last year was a year of consolidating the financial sector through continued enhancement of financial risk supervision. In the aftermath of the financial crisis, AMCM followed up-to-date development of international financial supervision, continued to strengthen financial supervisory work in line with the fresh standards and requirements imposed by the Basel Committee on Banking Supervision. At the same time, AMCM rolled out specific guidelines on risk mitigation, which reinforced the legal aspect of financial risk management to assist our practitioners in their risk-aversion endeavour.

Through the collective endeavour of our financiers, the Macao banking sector, in the midst of overall economic recovery, scored results with flying colours again, which laid down solid foundation in the realization of our long term sustainable development. As per the end of 2010, total assets of the banking sector amounted to MOP540 billion, a year-on-year growth of 26.5%; aggregate deposits totalled MOP341.5 billion, a year-on-year growth of 11.3%, while loan portfolio stood at MOP245.7 billion, a year-on-year growth of 31.7%, making a loan deposit ratio of 71.9%; initial overall profit for the banking sector amounted to MOP3.54 billion. The whole banking sector had a high capital adequacy ratio of 15.3%,

which far exceeded international standard; non-performing loan ratio was a meagre 0.4%, which reflected fine asset quality. As for RMB business, as per end of 2010, RMB deposits amounted to RMB 13.3 billion, a year-on-year expansion of 5.9 times; in February 2011, it went up to RMB23.2 billion, an increase of 74.4% compared to 2010 end. At the same time, banks settled RMB business valued at RMB6 billion for the period starting October 2009, when cross border RMB trade settlement business started, to end of 2010. Moreover, to widen the spectrum for investment and fund management for Macao residents and institutions, with the green light given by the People's Bank of China, the settlement channel for Macao entities in the purchase of RMB bonds issued in Hong Kong was opened.

In the realm of insurance supervision, apart from perfecting offsite surveillance measures, the inspection and appraisal of financial status of insurance companies were also strengthened. In addition, via the supervision of adequacy of technical reserves of insurance companies, the risk-resistance and indemnity payment capability of insurance companies was enhanced. In the year, supervision and onsite inspection of insurance companies, pension funds management companies and insurance intermediaries were strengthened with a view to appraising their compliance and implementation of provisions under compulsory insurance regulations, AML/CFT guidelines and internal supervision applicable to various insurance institutions.

With the benefit of the recovery of the overall economic vitality, coupled with appropriate and effective supervision, the insurance sector of Macao operated in a stable manner last year, various premiums registered stable growth, profits were up to expectation. As per the end of 2010, total premiums for the insurance sector reached MOP3.78 billion, a year-on-year growth of 15.7%, of which life insurance premiums were MOP2.69 billion, a year-on-year growth of 15.3%, while non-life insurance premiums reached MOP1.09 billion, a year-on-year growth of 16.7%. On the other hand, pension funds management institutions also displayed their function in providing social protection and maintaining social stability. As per the end of 2010, total assets of funds under the management of such institutions exceeded MOP6.2 billion, which covered more than 80,000 employees, the growth rates were 24% and 6.7% respectively.

The pace of economic recovery for advanced industrial nations remained slow. Headed by the FED of the US, central banks of western nations took one step further in quantitative easing in formulating their monetary policy. As a result, interest income derived from major overseas financial markets stayed at a historically low level all year round. At the same time, in the face of sovereign debts of the Eurozone and financial crisis arising therefrom, prices of financial products and currency exchange rates exhibited greater volatility. Against such a backdrop, AMCM adopted a more prudent investment strategy for the exchange reserves and the MSAR Reserve Fund. As per the end of 2010, our exchange reserves stood at MOP190.2 billion, a year-on-year growth of 29.8%, or MOP43.6 billion. The MSAR Reserve Fund also grew by MOP300 million to MOP13.1 billion, or a growth of close to 2.3%; basically fulfilled the target of maintaining growth and its intrinsic value.

The year saw the expiry of the issuing right of Pataca notes of the two notes issuing banks. After negotiation, a new 10 year notes issuing agreement was signed with the two banks, which would ensure issuance and supply of Pataca notes. In addition, in the realm of enhancement of financial infrastructure facilities, the seriously mooted Pataca Real Time Gross Settlement (RTGS) finalized its initial open tender process in the year and will enter into system development phase. Once implemented, the RTGS will enhance the efficiency of Pataca fund availability and settlement.

On the financial research and statistics front, we actively participated in the cooperation with international organizations in items relating to money, finance, economics and statistics. As a result, data information was published in a timely manner, which enabled the quality of our financial statistics dissemination to be aligned with international standards. Through cooperation and communication with counterparts, we perfected financial data dissemination

mechanism and formed a systematic financial information dissemination platform. At the same time, we embarked on studies on special topics conducive to the practical situation of Macao and published the results, which would provide valuable reference to the MSAR Government, financial sector, academia and the general public.

In our communication and cooperation with entities abroad, AMCM, as usual, continued to deepen liaison with financial regulatory authorities of the Mainland of China and Lusophone countries. We established communication mechanism via conclusion of memorandum of understanding. On the back of the established regional cooperation agreement framework, we enhanced cooperation with the Mainland, particularly the Pearl River Delta. On the other hand, AMCM made use of the opportunity of the “3rd Ministerial Conference of the Forum for Economic and Trade Cooperation between China and Portuguese Speaking Countries” held in Macao to organize jointly with the Development Bank of China and solely two seminars entitled “Conference of Financiers and Entrepreneurs of China and Portuguese Speaking Countries” and “Financial Theme Seminar for Chinese and Portuguese Financiers” respectively. The move further elevated the function of Macao as trade and economic cooperation platform between China and Portuguese speaking countries. Simultaneously, it created venue for communication and partnership for local financial institutions and their counterparts in Portuguese speaking countries, which would enable the gradual exploitation of new business opportunity for Chinese and Portuguese financiers.

Also, AMCM established a regular work liaison mechanism with China UnionPay and arrived at consensus on cooperation to reinforce management of authorized accounts and risk prevention.

Looking forward to 2011, we can expect global economic recovery to continue its cheerful pace. However, there are a number of uncertain factors in the process. The sovereign debt crisis of Eurozone may linger, which may lead to the necessary tight fiscal policy adopted by some European countries and adverse effect arising from debt burden. Coupled with the fact that protectionism may rear its ugly head, and the daunting effect of geopolitical risks of Middle East and North Africa, negative impacts will be inflicted on world economic recovery. As the underlying economic recovery appears moribund, it is the main stream view that global interest rates will stay at a lower lever. However, it appears that inflation expectation is gathering stream. The authorities concerned therefore have to make necessary preparation, as the prevailing loose monetary policy may come to an end.

This year marks the inauguration of the “12th Five Year Plan” of our Motherland, which will lay the foundation of stepping stone for a new phase of development. Following the gradual realization of the “Outline of the Plan for the Reform and Development of the Pearl River Delta Region”, “Hengqin Island Overall Development Plan” and the “Guangdong-Macao Cooperation Framework Agreement”, the improvement and enhancement of the CEPA, coupled with the strengthening of our role as the service platform for economic and trade cooperation between China and Portuguese speaking countries, the implementation of all these will bring more business opportunity and room for development to the Macao financial sector. Certainly, our market practitioners are bracing for a bright new business world ahead.

Last but not the least, I would like to propose a toast to the continued prosperity, security, strength and harmony of our Motherland and compatriots; to the sustainable development and prosperity of the MSAR; to the steady growth and helpfulness of our financial sector; to the health and success of our guests and friends. Cheers!