

Anselmo L S Teng: Recent economic and financial developments in Macao

Opening speech by Mr Anselmo L S Teng, Chairman of the Monetary Authority of Macao, at the annual meeting of the Offshore Group of Banking Supervisors, Macao, 30 October 2007.

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Mr. Powell, Chairman of OGBS,
Dear Delegates, Distinguished Guests, Ladies and Gentlemen,
Welcome to Macao!

On behalf of the Special Administrative Region Government, I wish to express our gratitude to members of the OGBS for choosing Macao to be the venue to hold its annual meeting. Apart from all the hard work that lies ahead, please spare some time to appreciate the excitement and nostalgia provided by this fascinating city.

Macao is no doubt in the lime light. After the lacklustre years before and in the wake of the new millennium, economy picked up in 2004 in which GDP jumped by 28.4% which was mainly attributed to the opening of our gaming right and the “individual traveller” scheme of the Mainland. 2005 saw a consolidation of 6.9% growth. 2006 achieved flying colours again with a growth of 16.6%. In the first half of 2007, we achieved a GDP growth of 28.9%. The burgeoning tourism services industry, which is undergoing diversification, has been the locomotive of our thriving economy in the past years.

The booming economy enables the banking sector to continue to burgeon. Banks in Macao made a total profit of MOP3.9 billion in 2006. A 21.7% growth in the first 6 months of 2007 was witnessed. Both assets and deposits also grew by double digit while non-performing loan ratio stands at 0.9%. Against such a backdrop, the current capital adequacy ratio of the whole sector is maintained at a high level of around 16%, doubled the required 8% benchmark set by the Basle Committee on Banking Supervision.

The financial sector of Macao contributes about 10% to GDP. The sector is dominated by banks and insurance companies. At the moment, there are 27 banks operating in Macao of which 3 are operating under offshore regime. Apart from local participants, you will find capitals provided by investors from China, Hong Kong, Portugal, the US, the UK, France, Singapore and Chinese Taiwan. In fact, overseas capitals account for the majority in our banking sector. Doubtless, from a global perspective, the financial sector of Macao is highly internationalized.

The Monetary Authority of Macao (AMCM) is responsible for the supervision of these institutions. Banks no doubt account for the lion share of our financial sector. Banks in Macao are regulated under the provisions of the “Financial System Act” which was formulated in accordance with the standards set by the Basel Committee on Banking Supervision. Based on the Financial System Act, AMCM issues rules and guidelines to be complied by banks to ensure that they are operating in a prudent manner and in line with internationally accepted standards and practices. These rules and guidelines are being constantly revised to cope with the ever evolving international standards for prudential regulation and supervision.

To maintain the stability and integrity of our financial system, AMCM conducts onsite inspections, offsite surveillance and bilateral and multilateral exchanges of information about banks to monitor their compliance with prudential rules and regulations, the adequacy of risk management processes, their performance and financial position. AMCM maintains regular contact with their management to understand their corporate strategies and to detect and rectify problems in an effective and timely manner. To be more efficient, specific and effective, AMCM adopts a risk-based approach in conducting inspection which enables its examiners to grasp an in-depth and thorough understanding of the principal business

activities of the bank under examination and assess the adequacy of the relevant risk management processes and internal control procedures. When warranted, external professional firms would also be commissioned to conduct theme examinations.

In the face of globalization of the financial sector, AMCM, as all of you around the table, has seen the need to exercise consolidated supervision and promote the integrity of our financial market through a close working relationship with other overseas central banks or supervisory authorities for mutual assistance and exchange of supervisory information which are made possible under the framework of a memorandum of understanding.

The MSAR Government realizes that to maintain sustainable growth of Macao, we should enhance our credibility by fending off activities arising from money laundering and terrorism financing. The earliest legislation relating to this issue can be traced back to 1991. More legislations were then promulgated which culminated in the enactment of comprehensive AML/CFT legislations in 2006 which cover major economic activities in Macao. AMCM is responsible for AML/CFT in the financial sector. The Financial System Act carries such provisions as well. Specific guidelines to this effect were first issued in 1996 and revised in 2002. In 2006, the revised and amended guidelines based on the most up-to-date local legislations and international standards were issued. In the process, AMCM solicited technical assistance from international organizations such as IMF and APG. In 2001 and 2006, the MSAR Government invited OGBS and APG to conduct joint appraisal on our AML/CFT efforts. Macao secured positive comments in these appraisals. Simultaneously, suggestions for improvement were raised. These suggestions, particularly those related to financial field, have been adopted in a practicable manner. A sector wide blanket check on the AML/CFT efforts of financial institutions was completed in 2006. All findings have been shared with financial institutions under inspection by means of reports, circulars and a seminar held in April 2007. The effort is still on going.

All these arduous and assiduous regulatory efforts are conducive to maintaining a level platform to ensure fair play in the financial sector.

Apart from being a regulator, AMCM is also vested with the responsibility of facilitating and nurturing the development of our financial industry. In this regard, AMCM has been a driving force behind closer business relationship between banks of Macao and the Mainland to exploit new business opportunity arising from the continuing and accelerating economic integration between Mainland and Macao. In this connection, AMCM has organized various meetings and visits to reinforce efforts from both sides with a view to promoting business opportunities for the financial industry. To make use of the special relationship between Macao and the Portuguese speaking countries, AMCM organized in July this year delegation of our financial sector to visit these areas to explore fresh business opportunities.

Regulatory work is an ever deepening and evolving process which entails our relentless efforts. It is also a skill which needs honing through interaction. To achieve our mutual goal, members need to develop communication and co-operation. This is one of what the OGBS annual meeting is for. In the 2007 meeting, a wide range of topics will be covered. Apart from techniques to be deployed in our supervisory work, such as AML/CFT, principles based approach in supervision and governance, we shall discuss our future role in a number of areas with a view to perfecting our mission in upholding global financial integrity. In addition, we shall review the action plans of individual members, including that of Macao, and accession of new members. Last, but not least, related development under relevant international organizations, will be reviewed. I can envisage that this meeting in Macao will, under the chairmanship of Mr. Colin Powell and the participation from all delegates, as usual, be an informative, constructive and fruitful one.

Again, allow me to say once more welcome and thank you. Please enjoy yourselves in Macao after all the hard work.