

Anselmo Teng: Development opportunity arising from cross-border RMB business and internationalization of enterprises

Speech by Mr Anselmo Teng, Chairman of the Monetary Authority of Macao, at the Forum on “Development opportunity arising from cross-border RMB business and internationalization of enterprises”, Guangzhou, 28 June 2012.

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The Honourable Ouyang Weimin, Vice Mayor of the People’s Government of Guangzhou,

The Honourable Ying Yujing, Secretary-General, Monetary Policy Committee, PBOC,

The Honourable Luo Bo Chuan, President of PBOC Guangzhou Regional Branch,

Dear Guests,

Ladies and Gentlemen,

My greetings!

I feel delighted to take part in today’s forum to share and communicate the ways and means to promote Guangdong-Macao cross border RMB business. I would like to express my gratitude to the People’s Bank of China who invited me, and I wish today’s forum a huge success.

I would first introduce the economic and financial condition of Macao. Then I would connect it to the main theme of the forum and raise some of my views. I hope you, ladies and gentlemen, would take it as reference and your views are also appreciated.

As we all know, Macao is a small area with a small economy. However, after its return to the Motherland in 1999, under the support of the Central Government and the leadership of the MSAR Government, coupled with the collective effort of the Macao citizens, the overall economy of Macao has experienced rapid growth.

As an example, in 2011, real growth of Macao was 20.7% with a per capita GDP equivalent to USD66,000. Growth for the first quarter of this year was still an enviable 18.4%. Export of tourism services, investment and private sector consumption are the main driving force behind the rapid growth. At the same time, we can perceive the gradual success of policy measures relating to appropriate diversification advocated by the SAR Government for years. Fresh domestic and overseas investments are on the rise, market consumption is growing steadily, service industries, particularly the financial industry, have developed robustly and prospered.

As the financing intermediary for all walks of trade, the financial industry has been playing a major role in promoting economic development of Macao. When gauged in the context of GDP, the Macao financial industry contributes about 8%. In the Macao financial sector, the banking sector has a leading role, no matter appraised by asset value or contribution to GDP.

On the RMB front, all through the years, our country has been deepening financial reform through internationalizing the RMB. In the 12th Five Year Plan, the strategic preparation of “enlarge the cross-border use of the RMB with a view to gradually realizing the free convertibility of capital items denominated in RMB” has been clearly stipulated. Recently, the PBOC and related government agencies have been implementing new ways incessantly to widen the channel of RMB recycling, enlarge cross-border use of RMB, explore RMB FDI (foreign direct investment by overseas investors). At the moment, the pilot area for cross-border trade settlement in RMB has been extended to cover the whole country while the scope has been extended from initially merchandize trade to services trade and other current items, and will be extended to cover some capital items. All these moves have

propelled further development of cross-border RMB business and provided driving force in promoting the use of RMB internationally. The whole exercise has provided opportunity for further development of RMB business, motivation in the internationalization of the RMB, while Macao will benefit from financial and RMB business development.

As a special administrative region of the nation, Macao is obliged and delighted to participate in the process of the internationalization of RMB. As a matter of fact, Macao was designated as early as 2004 as one of the pilot areas for cross-border RMB business. In July 2009, the PBOC and relevant ministries of the State Council jointly promulgated “Management of Cross-Border RMB Trade Settlement under Pilot Programme”, which permitted Macao banks to conduct cross-border RMB trade settlement business. At the same time, the scope of individual RMB business was widened in December 2009 from the scope in the beginning. In tandem with the increasing integration of Macao with the Mainland, RMB notes are broadly accepted and circulated in Macao. RMB business has become an important driving force behind business diversification of Macao financial institutions and the healthy progress of the sector as a whole.

As per the end of April 2012, the value of RMB deposit with banks in Macao stood at RMB49.8 billion (12% of total deposits), which was an increase of 85.8% year-on-year. Accumulated cross-border RMB trade settlement business since its inception in 2009 amounted to RMB92.3 billion, of which RMB60 billion was conducted in 2011 which was tenfold that of 2010. In the process, Macao banks have accumulated abundant experience in relation to the handling and management of RMB business. The related supervisory work is also being carried out effectively, which has enabled the Macao RMB business to develop in a fine and orderly manner. It has not only intensified the integration of Macao with the Mainland, it can also prompt Macao banks to develop steadily and healthily. I would like to take this opportunity, on behalf of the Monetary Authority of Macao, to express our candid gratitude to PBOC and other relevant government agencies for their consistent support and help.

How to further and develop cross-border RMB business? We have the following recommendations.

All along, Macao has always been proactively exploring economic and commercial communication and cooperation with the Mainland, particularly the Guangdong Province. Last year, the Guangdong Provincial Government and the MSAR signed the “Guangdong-Macao Cooperation Framework Agreement”, which signifies that the already close cooperation between Guangdong and Macao has entered into a new chapter. The cooperation between these two regions is proceeding fast in the direction of systemization, standardization and in all aspects.

The new situation related to Guangdong-Macao Cooperation shows that the integration continues to deepen and strengthen. What comes next will be the need for cross-border fund flow and fund transfer. The related cross-border financial services should follow up to accommodate. We can make use of the implementation of the “Guangdong-Macao Cooperation Framework Agreement”, and stick to the principle of servicing the real economy, in order to encourage and promote the programmes under cooperation to be denominated in RMB, and hence more RMB cross-border business. However, nowadays only remittances relating to individuals and cross-border trade are allowed to be transferred. It is therefore suggested that we make full use of the national policy of “try it out” by making innovative arrangement to relax the pipeline governing RMB fund transfer between the two regions, which will fully embody the financial effect under the “Guangdong-Macao Cooperation Framework Agreement”, so as to create more RMB business between Guangdong and Macao.

In practice, cross-border RMB business can be promoted in 3 directions.

First, it can be promoted via practical business cooperation between banks or other financial institutions of the two regions. Macao banks should be allowed to fund in RMB when comes

to participating in project finance, commercial lending and syndicated loans of the Mainland. What is worth mentioning is that the Mainland banks are the major component of banking system of Macao. At the moment, among the 5 giants, except for the Agricultural Bank of China, the other banks all have operations in Macao. They account for over 70% of market share. Through their cooperation and interaction with banking groups on the Mainland, it not only helps enterprises of Guangdong Province to avail themselves of the financial services provided by Macao financial markets, it can also enhance the financial support to Macao enterprises operating in the Guangdong Province. To achieve it, we should reduce policy and technical obstacles arising from business cooperation between the two regions to a minimal. We should also facilitate the application of financial services to trade, such as simplification of business certification, standardization of registration relating to pledged property, mutual recognition of assets under pledge and facilitation of remittance arising from disposal of the pledged assets.

Second, it can be realized via setting up financial institution on a reciprocal basis. Therefore, it is suggested that we make full use of the “try it out” Policy sanctioned by the Central Government by establishing a “special passage” for Macao financial institutions to go to Guangdong Province, allowing Macao financial institution to establish branches/subsidiaries with lower threshold prescribed by CEPA. These outlets are allowed to operate all kinds of permitted business which will generate more Guangdong-Macao cross-border RMB business.

Third, at the same time, financial infrastructure as a platform between Guangdong and Macao should be linked up to provide better facilities for Guangdong-Macao cross-border RMB business. In this connection, Macao has rolled out the discussion with PBOC Guangzhou Branch. Both sides are endeavouring along this direction. We believe the clearing systems can be linked up gradually in the next one or two years.

Apart from promoting cross-border RMB business between Guangdong and Macao, further steps to widen the cross-border movement and use of RMB will be of importance to elevating the status of RMB internationally. As a matter of fact, Macao has some competitive edge in this respect. The full exploration of such competitive edge can contribute much in further widening cross-border flow and the use of RMB.

First, Macao has been adopting free market economic system. According to the “Basic Laws of the Macao Special Administrative Region”, Macao has no FX control policy, the MSAR guarantees free operation of financial markets and financial institutions and the free flow of funds into and out of the MSAR without restrictions. In the realm of the implementation of free market economic system, according to The Heritage Foundation’s “Global Index of Economic Freedom” published in January 2012, Macao ranks 6th in Asia-Pacific while among the 179 economic systems round the globe, Macao ranks 19th. In a free market economic system, funds can move without obstacles, can facilitate and provide foundation for development of cross-border RMB business.

Second, Macao has a safe and stable banking system all along. It has developed cross-border services with other nations and regions. At the moment, there are 29 banks permitted to operate in Macao. They mainly come from the Mainland, Portugal, Hong Kong, the UK, the US, Singapore and Chinese Taipei. The biggest players are from the Mainland. As per the end of April this year, aggregate assets of Macao banking system stood at MOP732.8 billion, a year-on-year increase of 21.3%; total loans stood at MOP355.9 billion, a year-on-year increase of 21.8%; total deposits were valued at MOP476.9 billion, a year-on-year increase of 26.2%. Non-performing loan ratio was only 0.32%; capital adequacy ratio reached 15.1%, composed mainly of tier one capital. At the same time, liquidity in the banking system is relatively ample, as per the end of April, one month liquidity ratio of the banking system was 69.7%, three month ratio was 70.4%. There is one thing worth special mentioning; up to this moment, direct impact of the recent international financial crisis on the Macao banking system is rather limited. In business operation, apart from servicing local demand, Macao

banks make use of Macao as their business development platform. Through their global networks, they proactively develop services with other nations and regions, among which, a substantial part is cross-border financial business between the Mainland and other nations or regions.

Third, Macao has been an important liaison platform in the economic and commercial cooperation between China and Portuguese speaking countries. Macao is the only city in China to maintain such special relationship with these countries. The Central Government attaches much importance to it. As early as 2003, the standing secretariat of the “Forum for Cooperation and Development between China and Portuguese Speaking Countries” was set up in Macao. It carries the function of enhancing economic and trade relation between China and Portuguese speaking countries (including Angola, Brazil, Cape Verde, East Timor, Guinea Bissau, Mozambique and Portugal). Premier Wen Jiabao was present in Macao in November 2010 for its third ministerial conference and made an important speech. He raised a series of policy measures which would promote Macao to be the platform for economic and trade cooperation between China and Portuguese speaking countries. Vice Premier Wang Qishan met with delegates of Macao financial sector in October last year. He had high regard of Macao for its function as bridge and hub belt servicing liaison between China and Portuguese speaking countries. He also hoped that Macao would play a pivotal role in promoting trade settlement denominated in RMB with Portuguese speaking countries. At the same time, Macao and Europe has rather long relationship. The linkage of Macao and Europe can be traced back to the 16th century. At that time, religious practices, culture, technology and manufactured products of Europe were imported into Macao from South Asia, and then were transmitted to other regions of East Asia. Before the 19th century, Macao played an important role in communication in economic and cultural aspects between civilians of the Mainland and European countries. After the establishment of the SAR, the Chief Executive visited a number of member states of the European Union which has further strengthened linkage in a number of realms of the European Union. In addition, the SAR Government has established the Office to the European Union, which would further reinforce relationship between Macao and the European Union.

Fourth, the financial supervision of Macao has achieved international standard. In 2008, IMF conducted an appraisal of financial supervision of Macao. Out of the 25 core principles for effective banking supervision, 21 were compliant, 4 were largely compliant. Financial institutions in Macao have fine risk management. The regulator carries out effective supervision in a consistent manner. This creates a solid ground work for the RMB to “reach out”.

Fifth, as aforementioned, Macao was designated, as early as 2004, one of the testing grounds for offshore RMB business. Banks of Macao have accumulated ample experience related to RMB business operation and management which is conducive to helping the further widening of circulation and use of RMB notes. For RMB to be able to “reach out”, apart from the activities of offshore centres as a core support, the support from “satellites” is equally important. Macao can be and is willing to be one of the satellites.

Cross-border circulation of RMB is an irreversible trend. In promoting Guangdong-Macao cooperation to facilitate cross-border RMB business development, we do sincerely hope that along the process it can further deepen the context of Macao RMB business. While we provide financial support to Guangdong-Macao cooperation, we will make full use of the competitive edge of Macao, especially the historical attachments and relations between Macao and Portuguese speaking countries and the E.U. In this way, we contribute our part in the “reaching out” of RMB and, at the same time, we are motivating the development of the Macao financial industry which will enhance appropriate diversification of the Macao economy and promote continued prosperity and stability of the MSAR.

Finally, I would like to wish everybody good health, plain sailing at work and happiness in the family. Thank you!