

## Eddie Yue: How Hong Kong is prepared for macro-economic challenges on the horizon in 2019

Opening remarks by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Hong Kong-Paris Financial Seminar, co-organised by the Hong Kong Monetary Authority and Paris Europlace, Hong Kong, 16 January 2019.

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Denis (Beau), Arnaud (de Bresson), distinguished guests, ladies and gentlemen,

1. Good morning. Let me extend a very warm welcome to you all for attending today's Hong Kong-Paris Financial Seminar, co-organised by the HKMA and Paris EUROPLACE. And a special welcome to our guests from France.
2. Hong Kong and France have always had strong ties. We are home to more than 20,000 French people and about 800 French companies. Apart from food and beverage and luxury goods that people are familiar with, French companies are also actively engaging in different industries in Hong Kong, ranging from finance, construction and infrastructure. About 170 of the French companies use Hong Kong as the regional headquarters. Given the existing strong ties, it is particularly good to have forums like today's seminar to talk about how Hong Kong and France can further strengthen their relationship through financial collaboration.
3. Before I talk about the opportunities for further collaboration, let me spend a few minutes to talk about the risks and the rather challenging macro environment that we are facing. I am sure you are familiar with the major global risk areas: China-US trade conflict, Brexit, tightening of global financial conditions and moderation in growth of the Mainland Chinese economy. They are likely to remain relevant in the coming year. As a highly open economy, Hong Kong is sensitive to these external risks.
4. If the past offered any lesson, it is that we must build a robust regulatory framework with very strong buffers, so that whenever these shocks strike, we will be able to come through smoothly. The key is to keep your house in order and get ready for the shocks. Let me highlight three areas that Hong Kong has prepared well for the potential challenges.
5. First is the strong confidence in our monetary system, which is the Linked Exchange Rate System. Second is the strong buffer in the banking system: our banks' capital ratio of 15.8% and liquidity ratio of 158% are well above the international standards. Third is the strong buffer provided by the high level of fiscal reserves, amounting to 40% of GDP, which should rank among the highest in the world.
6. We do spend a lot of our time monitoring risks and studying ways to manage them. But on the other hand, we are also acutely aware of the opportunities provided by the opening-up of Mainland China's financial sector, and we have been making efforts to enhance our role as a bridge between Mainland China and the international markets. This is done mostly in collaboration with other financial centres and overseas authorities, including the Banque de France. Back in 2014, the HKMA and Banque de France signed a memorandum of understanding to strengthen cooperation between the two financial centres. To me, this collaboration can go beyond China opportunities to cover other new market developments, including Fintech and green finance.
7. Let me start with the opportunities in Mainland China. As you are aware, last year marked the 40<sup>th</sup> anniversary of the reform and opening-up of Mainland China. Throughout these years, Hong Kong remains as the gateway to Mainland China. Today, as Mainland China continues to open up its capital markets, we serve as a major platform for international investors to access the world's second largest stock market and third largest bond market. Take **Bond Connect** as an example. It provides a convenient channel for international investors to access the Mainland's bond market using international market practices such

as the nominee holding structure. Similarly, **Stock Connect** provides access channel for international investors to invest in the Mainland's stock markets by engaging brokers and custodians in Hong Kong through existing structure.

8. With the smooth inclusion of A-shares into MSCI Emerging Markets Index last year, more global indices are planning to add RMB products into their constituent assets. For example, RMB bonds will be included in the Bloomberg-Barclays Global Aggregate Index starting this April and FTSE's Global Equity Index Series will also include A-shares from this June. The inclusion of RMB assets into global indices has driven up the demand for these assets and a good part of the investment is done through Hong Kong. At the same time, we are also working closely with the Mainland to expand and enhance these Connect schemes, including expanding the product scope to cover derivative products in the case of Bond Connect and ETF in the case of Stock Connects.
9. Talking about China opportunities, one key development is the **Guangdong-Hong Kong-Macao Bay Area** (the Greater Bay Area, or GBA). The GBA combines Mainland China's wealthiest and economically most advanced cities along the Pearl River Delta into a metropolitan cluster. It covers a population of nearly 70 million and generates GDP of about US\$1.5 trillion, providing a unique stage for financial institutions to launch and expand their business. Besides, the depth of Hong Kong's financial markets could help enterprises in the GBA to access global capital. At the initial phase, we are studying ways to facilitate capital flows within the GBA at the individual level, such as cross-border use of mobile payment and mutual access of wealth management products by residents in Hong Kong and in the Mainland part of the GBA.
10. Apart from being a major platform for capturing China opportunities, the HKMA is actively moving towards the new era of Smart Banking. We launched the Faster Payment System (FPS) last September – a round-the-clock instant payment platform that achieves full connectivity between banks and stored value facilities. In just over three months' time, we have got more than two million registrations for FPS. Another important development is the promotion of virtual banking. We have received about 30 applications for our virtual banking licences and we hope to begin granting the first batch of licences within this quarter. In a short span of a few years, we have gone through a very high speed journey into Fintech, and I am sure that there is a lot that we can share and discuss in the later panel on new finances.
11. Another exciting development is **green finance**. The French government issued the first sovereign green bonds in 2017, which set an important market benchmark. Hong Kong is also actively promoting its green finance platform. In fact, in the first three quarters in 2018, 28 green bonds were issued in Hong Kong, with an aggregate size of over US\$8 billion. The HKSAR Government is launching a HK\$100 billion Government Green Bond Programme and the first green bond will be issued later this year. With France being a forerunner in green finance and the third largest global issuer of green bonds, we look forward to sharing experiences and collaborating with Paris in this area.
12. This is a quick overview of the recent developments in Hong Kong and the new opportunities ahead. I am sure the industry experts here today would have a lot more to share on these topics in the panel sessions, and I hope you will have a very fruitful discussion.
13. Thank you.