

Howard Lee: Keynote address - Asia Pacific Loan Market Association Global Loan Market Summit

Keynote address by Mr Howard Lee, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Asia Pacific Loan Market Association (APLMA) Global Loan Market Summit, Hong Kong, 26 February 2025.

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Tibor (Papp, Chair of APLMA), distinguished guests, ladies and gentlemen,

Let me first thank APLMA for inviting me here today. The loan markets were full of challenges in 2024. Geopolitical conflicts, high interest rate environment and uneven economic performances across regions have put pressure on loan demand in the Asia Pacific. Despite the uncertain environment, 2024 will probably be remembered as the starting point of mass adoption of Generative A.I. (GenA.I.) technologies. A few market statistics for putting this into perspective. Globally, fueled by the GenA.I. race, syndicated loans surged 35% to roughly USD 6 trillion, marking the highest volume on record. There was a 70% increase in syndicated loans in the high technology industry¹.

The spike in loan demand last year was mostly observed in the North American market. But we have also seen more GenA.I. innovations in other parts of the world, such as the sudden emergence of the cost-effective DeepSeek last month. To support GenA.I. development, large investments will be required for data centers and communication technology. We are probably still in the first inning of what is to come from GenA.I., and GenA.I. related syndicated loan transactions will likely be a running theme in the loan market for years to come.

Harnessing Gen A.I.: A Smarter, Data-Driven Future

With GenA.I.'s unique capabilities in processing vast amounts of documents and unstructured data, as well as its ability to handle cross-media inputs and outputs, such as text, audio and graphics, the technology has the potential to revolutionise the operation of financial institutions, from customer-facing functions such as remote account onboarding and customer chatbots, to middle and back-office operations for risk management, fraud detection and automation of work processes.

At the HKMA, we are committed to promoting responsible GenA.I. adoption, and ensuring that innovation aligns with ethical standards and regulatory requirements. As a banking regulator, we are tasked not only with safeguarding the integrity and stability of financial systems but also with fostering an environment where innovation can flourish.

Regulatory innovation is more than just introducing new rules; it involves creating an adaptable framework that encourages experimentation while ensuring consumer protection and market integrity. By collaborating with the industry, we aim to better understand the application of emerging technologies in the financial sector. We have adopted an "explorer" mindset, embracing innovative thinking even at an early stage.

We have recently launched our GenA.I. Sandbox in collaboration with the Cyberport². Within that, banks may partner with technology companies to test new ideas that leverage the latest GenA.I. technologies, refine innovative strategies and obtain early supervisory feedback.

A total of 15 use cases from 10 banks and 4 technology partners have been selected as the inaugural participants in the GenA.I. Sandbox. Notable use cases include augmenting credit assessment and fraud detection by automated processing of unstructured data, and enhancing customer service to handle more personalised and complex enquiries. This initiative ensures that we harness the benefits of A.I. while mitigating potential risks, facilitating innovation in a controlled environment.

Sustainability: The New Frontier in Finance

Development of GenA.I. goes hand-in-hand with increase in power demand. In addition to investments in digital infrastructure, we will also see increase in investments for power generation and transmission. With rising temperatures and a rapidly changing global climate, it is imperative such increase in power demand is met in a sustainable manner.

Our Sustainable Finance Action Agenda outlines a vision for integrating sustainability at the core of our financial system. It calls on all banks to strive to achieve Net Zero in their operations by 2030 and in their financed emissions by 2050, reflecting Hong Kong's commitment to a greener economy.

Green and sustainable finance is closely tied to financial innovation. For instance, tokenisation technology could help solve long-standing challenges such as double counting in carbon credits, a key issue in carbon trading. This could unlock new business models and create opportunities for businesses and investors to engage in sustainable practices. We have also assisted the HKSAR Government in issuing two tokenised green bonds, creating demonstrative effect and promoting broader technology adoption in the capital market.

As announced by the Financial Secretary in his Budget Speech this morning, the Government will regularise the issuance of tokenised bond. So the HKMA is preparing for issuing the third tranche and will also continue to encourage private issuances through the Digital Bond Grant Scheme.

At the same time, the Financial Secretary also announced a bond issuance programme of \$150 billion to \$195 billion per year in the next five years. The Government debt-to-GDP ratio will remain at manageable levels of 12 to 16.5%. The proceeds will be used to invest in infrastructure but not fund Government recurrent expenditure. So this would bring more opportunities to the debt capital market and provide good quality assets for investors.

On the investment front, the HKMA is prioritising ESG investments across all asset classes under the Exchange Fund, striving toward the Net Zero target by 2050 while contributing to a sustainable economy. Our investment approach integrates both quantitative indicators and the long-term sustainable value of investments.

Infrastructure Financing for a Sustainable and Digital Future

Even with its vast scale, funding raised from the syndicated loan market may not be enough to support the global transition to a digital and sustainable future. More needs to be done to channel market capital into high-quality infrastructure development. In 2019, the Hong Kong Mortgage Corporation (HKMC) entered the infrastructure financing business, aiming to address the funding gap in the infrastructure market through securitisation.

So far, the HKMC has successfully issued two series of infrastructure loan-backed securities in the institutional market, with total value of over US\$800 million. The securitisation issues received a strong response from investors, and promoted the development of local debt market.

In alignment with our vision for Hong Kong to play a central role in supporting green and sustainable financing needs in Asia and globally, both securitisation issues include sustainability tranches which are backed by sustainable, green and social assets, and issued in accordance with the HKMC's Social, Green and Sustainability Financing Framework.

Conclusion

Looking ahead, we envision a future where new technologies will not only enhance connectivity among users, data, and services but also drives economic progress across sectors.

As we continue to evolve as regulators, it is imperative that we remain agile and responsive to the changing landscape. The journey of regulatory innovation and market transformation is one of immense opportunity and responsibility. By working together, we can create a financial ecosystem that is innovative, sustainable, and inclusive.

Thank you for your attention. I look forward to engaging with you in meaningful discussions that will shape our collective future. Once again, I thank APLMA for today's invitation.

¹ [\(Nikkei Asia\) AI drives global syndicated lending to record \\$6tn in 2024](#)

² [HKMA announces inaugural cohort of GenA.I. Sandbox](#)