Darryl Chan: Keynote speech - International conference on Roads and Railways 2025

Keynote speech by Mr Darryl Chan, Deputy Chief Executive of the Hong Kong Monetary Authority, at the International Conference on Roads and Railways 2025, Hong Kong, 12 June 2025.

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Financial Secretary, Director Yau (Director of Highways), President Leung (President, Hong Kong Institution of Highways and Transportation), distinguished guests, ladies and gentlemen,

Good morning. It gives me great pleasure to join you at International Conference on Roads and Railways 2025 today.

When global investors and businesses choose Hong Kong to base their operations, our world-class infrastructure is often one of the deciding factors. True that geographically we are blessed to be located at the heart of Asia. But more importantly, it's the decades of hard work-to provide excellent accessibility within the city and seamless connectivity with the rest of the world-that defines Hong Kong as a global trade, logistics and financial hub.

The theme of this year's conference is smart and green transport infrastructure. In the coming two days there will be ample opportunities to share experiences and insights on how we can build, operate and maintain smart and green infrastructure. We at the Hong Kong Monetary Authority take keen interest in infrastructure financing. We do this in three different capacities: as a promoter of Hong Kong as an international financial centre, as the agent assisting the Government in the execution of its bond programmes, and as the manager of Hong Kong's official reserves that counts infrastructure as an investable asset class. So, let me try to approach this important subject from the perspective of financing.

Hong Kong's pursuit of excellence in infrastructure and financial services goes hand in hand. Our efficient and extensive transport networks enable Hong Kong to serve as the regional focal point of international finance. Our strengths as a financial hub, on the other hand, facilitate infrastructure investment.

This enabling role goes beyond Hong Kong. With mature capital markets, a deep liquidity pool and world-class financial services, Hong Kong is well-positioned to bridge the infrastructure investment gaps in Asia and beyond. A World Bank report estimates that the world needs to spend US$3.7 trillion a year on infrastructure to keep up with the economic and demographic developments till 2040. Roads alone require one-third of that investment, not to mention railways and other transport infrastructures that are vital to a well-functioning economy. In terms of geography, almost 60% of the spending needs are related to Asia.

As we press ahead with an ambitious infrastructure programme, the climate challenge looms large. With climate change intensifying, the world today needs transport infrastructures that are less carbon-intensive and more climate-resilient. The associated long-term economic benefits are significant. According to OECD's estimate, every dollar invested in climate-resilient infrastructure can generate four dollars in economic growth. Yet, the sustainable features may well translate into higher upfront investment, making it more challenging to build financially viable infrastructures.

How can Hong Kong leverage our strengths as a financial hub to support the region to meet these challenges and to capture the benefits? Two ideas come to mind: one is Hong Kong as a platform for infrastructure debt, and the other is an enabler for greater direct participation by private capital in infrastructure investment.

Most if not all infrastructure projects are funded by public money. The source of funding may come from fiscal surplus cumulated over time. But with governments around the globe facing fiscal strains, and given the huge initial investments as well as the long returns horizon, this can hardly be a major funding model. Which leads to debt financing. Bonds and loans have been the leading instruments for infrastructure financing. According to the World Bank, in the decade starting 2013, close to 80% of the private investments in infrastructure projects were raised through debt financing.

Hong Kong, as the region's debt financing hub, has amassed rich experience in supporting infrastructure projects home and abroad. Our public sector has made active use of debt financing to support local infrastructure development.

One notable example is the Hong Kong Government's bond programmes: one on green and sustainability, and the other on infrastructure. So far the Government has issued US$47 billion equivalent of green bonds and infrastructure bonds to fund our capital works projects, some of which relate to climate-resilient infrastructure such as waste and drainage improvement, flood-prevention works, as well as green buildings and energy efficiency. Another public-sector issuer is the Airport Authority, who in January this year raised US$7 billion equivalent, multi-currency notes to fund the airport's three-runway project and expansion of facilities. The issuance is the largest-ever public bond offering by a Hong Kong issuer.

International and Mainland Chinese projects have also turned to Hong Kong's debt-raising platform. For more than a decade Hong Kong has consistently taken the top spot in Asia by arranging around one-third of the region's international bonds. Public sector issuers include international organisations such as the Asian Infrastructure Investment Bank who issued Hong Kong dollar bond to fund sustainable infrastructure projects in Asia. Mainland local governments are repeat issuers of renminbi bonds in Hong Kong to fund local infrastructure projects ranging from railways to underground trains.

These infrastructure bonds and loans arranged in Hong Kong were well received by private investors. But for projects in frontier markets, which have the most acute needs for infrastructure, developers need to go the extra mile to make risk-adjusted returns acceptable to private capital. Asia, in particular, needs to better mobilise private capital, which currently only funds 10% of infrastructure development in the region. With our know-how and diverse investor base, Hong Kong can also play an enabling role in this space.

Public-private-partnership is well-practised in Hong Kong. Over the years, we have adopted various models with great success, such as build-operate-transfer and railway-plus-property. The cross-harbour tunnels and the subway system that we all use on a daily basis are compelling examples. More recently, we adopted the design-build-and-operate model in the development of the newly commissioned Kai Tak Sports Park, where the Government funded the construction cost and receives a share of the revenue from the operating contractor.

Through such partnerships, private investors can gain access to unique infrastructure investment opportunities with a tailored risk and reward profile. The public sector can more flexibly leverage limited resources to expedite the development of infrastructure to deliver long-term social and economic benefits.

We also make good use of securitisation to lower the entry barrier for investors by offering exposure to a diversified portfolio with credit enhancement. This model provides an avenue for investors who may otherwise be discouraged by the hefty size and complex screening process of infrastructure projects.

The Hong Kong Mortgage Corporation is a local pioneer in infrastructure financing securitisation. It acquires senior debt from greenfield and brownfield infrastructure projects, and securitises the loan assets as a standalone alternative asset class. Since 2023, the company has successfully completed two issuances of infrastructure loan-backed securities that amounted to US$820 million in total. Repeated issuances have helped diversify its investor base to include insurers, pension funds and security firms, among other local and international financial institutions.

I should also mention that Hong Kong is home to impact investors who seek out opportunities to support the region's sustainable development. For example, one of the world's leading producers of sustainable aviation fuel was incubated by a family office in Hong Kong, paving the way to raising additional funding from some of the world's major private investment firms.

Ladies and gentlemen, I have outlined different models that can be used to mobilise private capital to help finance infrastructure projects. While private investors naturally look for good returns, they also pay close attention to the governance of these projects.

Take the example of the Government bond programmes, we have developed robust frameworks that set out clearly how the capital raised will be managed, what categories of projects will be eligible, and how the specific projects are selected. In the case of green projects, there is a further requirement to conduct independent pre- and post-issuance review of their compliance with green standards. Detailed regular reporting and disclosure also form part of the commitments under these programmes. We are also prepared to respond to investor scrutiny through engagements with them.

The governance framework I just mentioned is important not just to enable investors to make informed decisions and to keep track of how their investments are deployed. It is also a powerful tool to help the issuer-the Government in this case-to exercise discipline and demonstrate accountability in project planning, evaluation, and execution. In short, it helps us raise and deploy funding for infrastructure projects in a smart and responsible manner, so that these projects will bring tangible economic and social benefits to our community.

I trust the sharing by policy makers, industry leaders and experts at this conference will shed light on how we can strengthen our collaboration in support of inclusive and sustainable growth through smarter and greener infrastructure. I wish you all a most rewarding conference. Thank you!