

# 立法會 *Legislative Council*

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## **Legislative Council Panel on Financial Affairs**

### **Minutes of Meeting held on Monday, 3 January 2000, at 10:45 am in the Chamber of the Legislative Council Building**

**Members present** : Hon Ambrose LAU Hon-chuen, JP (Chairman)  
Hon Eric LI Ka-cheung, JP (Deputy Chairman)  
Hon James TIEN Pei-chun, JP  
Hon Albert HO Chun-yan  
Hon LEE Cheuk-yan  
Hon Martin LEE Chu-ming, SC, JP  
Dr Hon David LI Kwok-po, JP  
Hon NG Leung-sing  
Hon Ronald ARCULLI, JP  
Hon James TO Kun-sun  
Hon CHEUNG Man-kwong  
Hon HUI Cheung-ching  
Hon Bernard CHAN  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong  
Hon Jasper TSANG Yok-sing, JP  
Hon Emily LAU Wai-hing, JP  
Hon Timothy FOK Tsun-ting, SBS, JP  
Hon FUNG Chi-kin

**Public officers attending** : For Item III  
Hong Kong Monetary Authority  
  
Mr Joseph YAM, JP  
Chief Executive  
  
Mr David CARSE, JP  
Deputy Chief Executive

Mr Norman CHAN, JP  
Deputy Chief Executive

Mr Anthony LATTER, JP  
Deputy Chief Executive

**Attendance by invitation** : For Item IV

Mr Vincent H S LO  
President, BPF  
Chairman, Shui On Holdings Ltd

Mr Wilfred Y W WONG  
Chairman, BPF  
Managing Director, Henderson China Holdings Ltd.

Ms Connie HUI  
Executive Manager - Special Projects, BPF

**Clerk in attendance** : Ms LEUNG Siu-kum  
Chief Assistant Secretary (1)4

**Staff in attendance** : Ms Pauline NG  
Assistant Secretary General 1

Ms Rosalind MA  
Senior Assistant Secretary (1)9

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- I Information paper issued since last meeting**  
LC Paper No. CB(1) 611/99-00 -- Regional Monitor, Issue No. 27,  
November 1999.

Members noted the captioned information paper issued since last meeting.

- II Date of the next meeting and items for discussion**  
(LC Paper Nos. CB(1) 693/99-00(01) and (02))

2. Members agreed that the next meeting would be held on Monday, 14 February 2000 at 10:45 am to discuss the "Performance of the Electrical and Mechanical Services Trading Fund".

3. The Chairman invited members to give their proposals for other discussion items, if any, to the Secretariat after the meeting.

*(Post-meeting note: Upon Hon Bernard CHAN's request and with the concurrence of the Chairman, "Recent performances of information technology-related stocks" would be included in the agenda for the next meeting.)*

### **III Briefing by the Chief Executive of the Hong Kong Monetary Authority (LC Paper No. CB(1) 712/99-00(01))**

4. The Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) briefed members on the work of the HKMA with the aid of computer power point. He reported that an Event Management Centre had been in operation since 31 December 1999 to oversee the rollover to the new millennium. On the first business day of the new millennium, the wellness checks of the banking sector had been completed to satisfaction and the banks appeared to be operating smoothly.

5. On economic recovery after the financial crisis, he explained to members the various factors which had a bearing on the real economy, namely the real effective exchange rate(REER), interest rates and bank credits. With the continued downward adjustment in domestic prices, the REER of the Hong Kong dollar had declined by around 12% from its peak level in August 1998 and returned roughly to its pre-crisis level in July 1997. Interest rates had stabilized since September 1998 and the premium over the US dollars had been substantially narrowed. There was a slight increase in domestic loans by 0.3% in November 1999 which was a first rise in 17 consecutive months of decline between May 1998 and October 1999. The HKMA would continue to monitor the situation of bank lending and explore ways of providing appropriate guidance to banks on credit assessment.

6. CE/HKMA further advised that as an open economy, Hong Kong had to face the challenges of advancement in technology, globalization of the financial market, and volatile capital flows. Banks had to increase their efficiency as well as competitiveness through consolidation, strategic alliances, etc. to achieve economy of scale. The Hong Kong economy, like other small open economies, had to build bigger markets and strengthen its financial systems in order to minimize the impacts of volatile capital flows on Hong Kong. At the international level, there was a need to improve counterparty risk management and transparency. Hong Kong had put forward and the international financial community had shown interest in the development of a Code of Good Practices to encourage proper risk management and responsible market behaviour. At the regional level, the idea of an Asian Monetary Union was floated but it remained a remote ideal. In the meantime, a number of regional initiatives for technical cooperation were being pursued. Another challenge for Hong Kong would be China's accession to the World Trade Organization (WTO). Hong Kong would need to explore how its intermediary role could evolve with the changing situation.

In addition, the economy of Hong Kong itself would need to undergo a significant transformation from a physical industries-based to a knowledge-based economy.

7. As regards the work priorities of HKMA in 2000, CE/HKMA briefed members on the major areas of work as follows : -

- (i) On maintaining monetary stability, the Subcommittee on Currency Board Operations established in mid 1998 would continue to explore measures to strengthen the currency board system. To enhance HKMA's research and policy analysis capabilities, the Hong Kong Institute for Monetary Research (HKIMR) was established in August 1999.
- (ii) On promoting banking stability, the recommendations of the banking sector consultancy study would be implemented in stages. The deregulation of the remaining interest rate rules would be undertaken in two phases in mid 2000 and mid 2001. The HKMA would also conduct a detailed study in the first half of 2000 on ways to increase depositor protection in Hong Kong. It would also carry out an in-house study on the feasibility of establishing a central credit register of commercial enterprises for reference of banks in Hong Kong. With the increasing competition in the banking industry, it was expected that banks would have to think hard about the need for consolidation or making strategic alliances to enhance their competitiveness. This would be a matter of commercial decision. As the supervisor of banking industry, the HKMA's role was to facilitate, by advocating publicly the idea of consolidation, and following up with private discussions with banks. The HKMA would also keep the regulatory structure under continuous review to ensure that it did not contain features that might inhibit healthy competition in the sector or delay the response of banks to such changing environment.
- (iii) On improvement of financial market infrastructure, HKMA would work towards the establishment of the US Dollar clearing system to enhance the competitiveness of Hong Kong as a leading international financial centre.
- (iv) On community relation, HKMA aimed at maintaining its accountability, transparency and accessibility to the public. These would be done through accessible website, regular publications, public education programmes, regular briefings to the Legislative Council and exhibitions at districts.

## Discussion with members

### Exchange rate and interest rate

8. Miss Emily LAU expressed concern about the difficulties encountered by businessmen and the overall competitiveness of Hong Kong in the region under the linked exchange rate system. She enquired about whether the linked exchange rate was hindering economic recovery of Hong Kong. CE/HKMA said that though certain sectors of the industry, for example, those engaging in export trading, might prefer a weaker exchange rate, a stable exchange rate was an important anchor of monetary and financial stability for Hong Kong at large. Furthermore, Hong Kong economy was largely based on service industry which was less exchange rate sensitive. The linked exchange rate system on the whole should be beneficial to the Hong Kong economy. CE/HKMA added that there was wide support amongst the community of Hong Kong for the exchange rate link. HKMA would continue to consider measures to further improve the operation of the system.

9. On the issue of high real interest rate, Mr FUNG Chi-kin enquired whether HKMA had any measure to lower the real interest rate so as to encourage investment and domestic credit activities. He was also concerned about the possible increase in interest rates in the year 2000 in view of the booming US economy. CE/HKMA explained that under the current linked exchange rate system, the primary objective was to maintain a stable exchange rate for the long term benefit of Hong Kong economy. The interest rate had to follow closely the US rates. In this regard, there would be very limited room in our monetary policy framework for any discretion to determine the interest rate. As to the anticipated rise of US interest rate this year, he said that such increase would hopefully not be to such an extent that would impede the momentum of the clear recovery of the Hong Kong economy.

10. Mr Albert HO commented that while the interest rate of Hong Kong had to follow closely US rate movements under the linked exchange rate system, the economy of Hong Kong was in fact more closely tied to that of China and other Asian countries. He asked whether HKMA could take any measures to minimize the impact of this interest rate bondage on the economy of Hong Kong. CE/HKMA responded that while there were close ties between Hong Kong and its neighbouring economies, the important role of US in the international financial market should not be neglected. Taking into account US's dominance in the world economy, linkage with a strong currency would be beneficial to the economy of Hong Kong in the long run.. In reply to Mr Albert Ho's enquiry on the relative importance of boosting economic recovery and maintaining Hong Kong's status as an international financial centre, CE/HKMA said that this was more a matter of practicability rather than priority. Both were equally important. He added that Hong Kong should not follow blindly the measures taken by some other jurisdictions to boost their economies by, for example, exchange rate adjustment. Hong Kong was different from those other jurisdictions as it maintained an open market without any exchange controls. It would be more

beneficial for Hong Kong to adopt a policy maintaining currency stability in the long run rather than directing the economy to boost up in the short term.

### Domestic credit

11. Mr Eric LI said that with the advancement of technology and China's accession to the WTO, there would be increasing investment opportunities in telecommunication, financial, and technology services. These would result in a greater demand for non-collateral lending. In addition, banks would be facing keen competition with the growth of the debt market. He was concerned about whether regulation of the banking sectors should be more relaxed to enable banks to take initiatives to address new challenges. He therefore sought information on HKMA's role in monitoring the credit risk assessment of banks. CE/HKMA said that in response to the changing economic environment, banks had to critically review their lending policy, in particular the reliance on collateral lending. To provide banks with more information for credit risk assessment, HKMA was exploring the feasibility of establishing a central credit register. As to the competition from the debt market, he said that the banking sector, the stock and capital markets all provided effective channels for financial intermediation and they should be complementary to one another. The Deputy Chief Executive of HKMA (DCE/HKMA) added that HKMA was adopting a risk based approach for supervision of banks. Like the developments in the US, banks were required to put more emphasis on preventive risk management i.e. proactively identifying the risk they were taking and establishing appropriate policies, procedures and control systems for the management of risk.

12. Mr NG Leung-sing asked whether the emphasis on collateral lending had contributed to the banks' resilience during the Asian financial crisis in 1997. He sought clarification on HKMA's stance on the change of the lending policy of banks. He would also like to know whether HKMA, as a regulator, would encourage the banks to take their own initiative to change or would enforce the change by administrative measures. He expressed concern about the implication of this change on the provisioning policy in relation to non-performing loans and bad debts. CE/HKMA said that banks in Hong Kong had indeed weathered the financial crisis very well. In preparation for the Reunification in 1997, banks had strengthened their capital position. This had provided the much needed cushion for banks during the crisis. On the need for a change in the banks' credit policy, he said that the changing process must be market-driven instead of being introduced through administrative measures. Although lending secured by properties bore relatively lower risk, credit policy with over-emphasis on collateral lending was becoming out-dated and there was a trend for banks to move towards quality credit risk assessment through, for example, analysis of cash flows. It would be difficult to generalize on the need for any adjustment in the provision for non-performing loans and bad debts. This would depend upon individual bank's credit portfolio and risk control management.

### Challenges and opportunities

13. Mr CHEUNG Man-kwong expressed concern over the global trend for banks to develop a broader array of banking and investment products and to expand their services into financial markets. He asked whether the Administration would consider the need for a single super regulatory body to better regulate the convergence of these investment product areas, instead of the existing arrangement of having different regulatory bodies for banking, securities, and insurance services. CE/HKMA responded that with the advancement in technology such as the development of internet banking, banks were facing keen competition both in the domestic and global market. The banking sector was increasing its investment in technology and expanding its business into various financial products to achieve economy of scale. As to the need for the establishment of a single regulatory body, he said that this had been introduced in the United Kingdom and Australia. However, the effectiveness of this arrangement had yet to be tested. Also, the different regulatory bodies in Hong Kong had been working in cooperation to ensure effective monitoring of the institutions under their purview. In light of these, it did not appear that there was an immediate need to consider the establishment of a single regulatory body.

14. In response to Mr SIN Chung-kai's enquiry on the supervision and regulatory measures for internet banking, DCE/HKMA said that HKMA would enhance its expertise in this area by recruiting a specialist team of examiners to look into the information security controls of banks. HKMA would keep abreast of the developments in the market and ensure that its regulatory approach was keeping pace with measures taken in other jurisdictions.

### HKMA and the community

15. Miss Emily LAU appreciated HKMA's efforts in increasing its transparency, in particular, its work in public education and publicity at district level. She enquired about the work of HKMA in the improvement of the overall business environment of Hong Kong, which was what the general public were mostly concerned about. CE/HKMA agreed that it was desirable to do more to increase public understanding of its work. But it was not easy to explain and for the public to understand the technical concepts behind the currency board system. In the past HKMA had been striving to enhance this understanding through a public education programme, explaining in layman terms important concepts like under a fixed exchange rate system, it was inevitable that interest rate volatility would be higher, thereby inflicting pain on the public in the short term. But this pain was unfortunately necessary if a stable exchange rate was to be maintained. It would be beneficial to the economy of Hong Kong in the long run. HKMA would continue to try its best to maintain its transparency, accessibility and accountability so as to enhance public understanding of its work.

16. On the maintenance of accountability, accessibility and transparency of HKMA, Mr Jasper TSANG enquired about the sensitivity of HKMA to the recommendations or views expressed by the public. CE/HKMA said that

communication with the public was an interactive process and in the past there were cases where the opinions expressed by some sectors, for example the academics, were taken by HKMA in formulating its proposals.

#### Frequency of future briefings

17. Members welcomed regular briefings on the work of HKMA and suggested that this should be arranged on a quarterly basis. CE/HKMA informed members that the next briefing would be arranged after the publication of the 1999 annual report of HKMA. He would be happy to brief members regularly on developments in the monetary and banking systems.

18. The Chairman thanked CE/HKMA and the DCEs for attending the meeting.

#### **IV Briefing by the Business and Professionals Federation of Hong Kong** (LC Paper Nos. CB(1)405/99-00 and 712/99-00(02))

19. Mr Vincent LO, the President of the Business and Professionals Federation of Hong Kong (BPF), briefed members on the report prepared by BPF on Hong Kong's economic future. He said that BPF had worked with leading figures from the business, professional and academic sectors to produce the report. All the participants shared the common vision for Hong Kong to become the world city of Asia. He introduced the major findings of the report with the aid of computer power-point as follows:-

- (i) The report highlighted ten key factors for the success of Hong Kong, namely, international character, external promotion, environmental/quality of life, cooperation with the Mainland, immigration policy, cost of doing business, broadening of the economy, government leadership, education and language. The report also set out an agenda for action under each of these ten factors.
- (ii) The importance of the four economic pillars of Hong Kong was elaborated in the report. The two core pillars were the role of Hong Kong as a world financial centre and a major commercial city in China. The two other supporting pillars were the services sector and human resources and technology. Recommendations for actions to strengthen these four pillars were made in the report.



## **Discussion with members**

### Factors for success

20. Mr Martin LEE commented that in addition to the key factors and economic pillars mentioned in the report, the rule of law and the freedom of speech and press should also be important factors for the future economic development of Hong Kong. Mr Vincent LO agreed that these were crucial factors for the success of Hong Kong. However, the study by BPF focused more on exploring improvement measures on economic aspect. It was therefore unable to address all issues on other aspects contributing to the success of Hong Kong. He undertook to give further consideration to the comment made.

21. On government leadership, Mr SIN Chung-kai expressed concern about the increasing trend for senior government officials to leave the civil service for new jobs in the private or non-government organizations. He sought BPF's advice on what could be done to retain the best talent in the civil service and to ensure good government leadership. Mr Wilfred WONG, Chairman of BPF, said that Hong Kong was well-recognized as a free society in which people were free to decide their own careers. While some government officials were taking up jobs in the private sector, some people working in the private sector would choose to join the civil service as well. This natural phenomenon of exchange of human resources existed in other countries. He opined that the government should develop a flexible mechanism which allowed it to tap talents from the private sector to fill senior government officers' posts so that there would be a free flow of human resources among different sectors of the community.

22. Mr NG Leung-sing enquired about the measures which Government could take to promote Hong Kong and BPF's recommendation of bringing all external promotion work under one bureau secretary. Mr Vincent LO said that Hong Kong was facing fierce competition from its neighbouring economies and it was essential to promote Hong Kong robustly and positively. Despite the excellent job done by a number of organizations responsible for the external promotion of Hong Kong, Hong Kong should adopt a one stop shop approach to enhance communication with overseas authorities and to promote Hong Kong's vision and ambitions and the advantages of investing in Hong Kong. In this connection, BPF recommended the appointment of a Secretary as the coordinator of external promotion activities. The Secretary would assume the role of coordinating the efforts of different organizations in projecting a positive image of Hong Kong overseas.

### Potential for economic development and challenges ahead

23. Mr Ronald ARCULLI raised concern about the unemployment problem in Hong Kong, in particular, for the age group of 40 to 60 and the younger group with only Form three to Form five education. Mr Wilfred WONG said that continued education and training programmes could be provided for those low skill labours so that they could be better equipped to take up new employment. He

admitted that it would be easier to train labour in the younger group than the older one because young people were more receptive to new knowledge.

24. Mr Eric LI appreciated the efforts of BPF in making valuable recommendations in its report. He commented that recently there was an increase in business opportunities in Hong Kong, in particular, for those small and medium enterprises (SMEs) in view of the drop in rent and the rise of knowledge-based industry. Mr Ronald ARCULLI however expressed concerns about the difficulties encountered by SMEs in raising funds for investment. As regards the follow-up to the report, Mr Eric LI asked whether BPF could assume a monitoring role to ensure that its recommendations would be taken up by the government. Mr Vincent LO said that BPF had regular liaison with the Administration for discussion of measures to improve the economy of Hong Kong. In following up the suggestions made, BPF would assume an assisting and advising role rather than a monitoring one.

25. In response to Mr HUI Cheung-ching's enquiry on BPF's view on the proposed introduction of sales tax, Mr Vincent LO said that the proposal had not been considered in detail. However, he agreed that the tax base should be widened in the near future and the over-reliance of revenue on land sale and property related taxes should not continue. Referring to Section Two of the report, Mr HUI Cheung-ching sought information on BPF's assessment on the development potential of the Yangtze Basin for Hong Kong investors in comparison with that of the Pearl River Delta. Mr Vincent LO said that the rapid growth in the economy of the Yangtze Basin was already changing South China's predominance as the economic power house of China. Taking into account the dominant supply of labour and other resources in the Yangtze Basin, it was anticipated that the area had higher development potential compared with the Pearl River Delta. Hong Kong investors could make good use of this potential and work in cooperation with other major commercial cities of China, such as Shanghai, for a breakthrough in the economy of China.

26. On the impact of China's accession to WTO on Hong Kong's status as the major commercial centre of China, Mr Albert HO enquired about how this status could be maintained in view of the keen competition from other major cities, such as Beijing and Shanghai. Mr Vincent LO agreed that the unique intermediary role of Hong Kong between Mainland and other countries would become less important upon China's accession to WTO. Nevertheless, being a big country, China could accommodate more than one commercial centre. If Hong Kong could take up the challenges and adapt to the changes, it could maintain its status as one of the major commercial cities of China.

#### Role of BPF

27. Miss Emily LAU enquired about the role of BPF. Mr Wilfred WONG referred to page two of the report and said that BPF encouraged active participation by the business and professional sectors in matters of public interest and importance by promoting their ideas to the public and offering constructive

advice to the Government. The main objectives of BPF were also listed in the same page. Mr Vincent LO added that BPF tried its best to carry out study on Hong Kong's economy and make recommendations on actions to be taken for improving the business environment of Hong Kong.

28. The Chairman thanked Mr Vincent LO and his colleagues for briefing the Panel on the findings of its report.

**V Any other business**

Overseas duty visit

29. The Chairman invited members to consider if they had any suggestions for arranging overseas duty visit for Panel members before the end of the current Legislative Council session. The Clerk to Panel would seek members' views on this after the meeting.

*(Post-meeting notes: A circular was sent to members on 6 January 2000 vide LC Paper No. CB(1) 722/99-00 in this regard.)*

30. There being no other business, the meeting was adjourned at 12:55 pm.

Legislative Council Secretariat  
8 March 2000