

HKSAR Government's response to Moody's announcement of change to Hong Kong's credit outlook rating

In response to the announcement by Moody's Investors Service today (September 16) to change the credit outlook of Hong Kong to "negative" from "stable", while affirming the "Aa2" long-term issuer rating, the Financial Secretary, Mr Paul Chan, made the following comments:

"While Moody's affirmed Hong Kong's long-term issuer rating at 'Aa2', the third highest rating, given Hong Kong's strong fiscal position and large foreign currency reserves which give the city ample buffers to navigate through the current challenges, we disagree with its decision to change Hong Kong's credit outlook to 'negative' on the ground that the recent social incidents may have eroded Hong Kong's institutional strength. Such an inference is not founded on facts.

"Moody's has concerns that closer linkages with the Mainland may affect Hong Kong's legal and regulatory regime as well as policy effectiveness. We must point out that since Hong Kong's return to the Motherland, the Basic Law has provided a strong safeguard to the 'one country, two systems' principle and the continued prosperity of the Hong Kong Special Administrative Region (HKSAR). The HKSAR Government remains committed to upholding the 'one country, two systems' principle and the Basic Law, which are the most important and solid foundations for Hong Kong's sustainable social and economic development.

"Hong Kong remains an international financial centre and the best place to do business. The social incidents over the recent months have not affected Hong Kong's core competitiveness, including the free movement of capital, goods, information and people; a simple tax system with low tax rates; a sound regulatory system; rule of law and an independent judiciary; and quality professional services. Built up through incessant efforts, these strengths of Hong Kong have withstood different tests and remain well in place.

"Hong Kong's deeper economic and financial ties with the Mainland of China are a positive driver for the city's long-term development. China is one of the key sources of growth for the global economy. The Mainland economy grew by 6.3 per cent year-on-year in the first half of 2019, and continued to outpace other major economies, notwithstanding the easing global economic momentum and heightened trade tensions. It continues to deepen the opening up of its market while making progress in its economic restructuring and risks control. It continues to generate immense demand for high value-added services, which Hong Kong, having a highly competitive services sector, stands to benefit. There is a broad-based consensus among the business community that the growing economic and financial linkages with the Mainland

will bring about significant economic development opportunities for Hong Kong.

"In spite of the concern over the recent social incidents, Hong Kong's financial markets and its banking system have been functioning normally in the past few months. The Linked Exchange Rate System has been operating smoothly. Banks remain well capitalised with ample liquidity. There has been no noticeable outflow of funds from the Hong Kong dollar or from the banking system. The levels of Hong Kong dollar deposits and US dollar deposits in Hong Kong have remained stable.

"Hong Kong's fiscal capability has once again been acknowledged by Moody's, which considers that it will help Hong Kong weather shocks. As of August 2019, our foreign currency reserves stood at US\$432.8 billion while our fiscal reserves reached HK\$1,143.7 billion as at the end of July 2019, which is equivalent to about 23 months of government expenditure or 38.3 per cent of GDP. In fact, Hong Kong's strong economic fundamentals and ample reserves enable us to navigate through the current challenges and ensure continued macroeconomic and financial system stability. The HKSAR Government will make use of its considerable fiscal space to introduce measures to support the economy when needed. In mid-August, I announced a package of relief measures, totalling HK\$19.1 billion, to support small and medium-sized enterprises (SMEs), safeguard jobs and relieve people's financial burden. Subsequently in early September, I launched another two new initiatives to boost liquidity support for SMEs in coping with difficult external and internal business environment. The HKSAR Government will remain vigilant in assessing the impacts of the global economic environment and introduce support measure as appropriate."