

IMF commends resilience of Hong Kong's financial system and welcomes Government's policies to support economy and safeguard financial stability

An International Monetary Fund (IMF) Staff Mission has commended the resilience of Hong Kong's financial system and Linked Exchange Rate System (LERS) despite a slowing economy, noting that a history of prudent macroeconomic policies has left Hong Kong with significant buffers to navigate through cyclical and structural challenges. The Mission also expressed support for the Government's various policies to support the economy and safeguard financial stability.

The assessment was made in the Concluding Statement of the IMF Mission published today (December 4), following the 2019 Article IV Consultation with the Hong Kong Special Administrative Region (HKSAR).

The Financial Secretary, Mr Paul Chan, said, "I welcome the IMF's recognition of our robust policy framework and significant buffers built up over the years to cushion possible shocks to our economy and financial system, amid weakened economic activity and mounting headwinds on the outlook. I am glad that the IMF supports the relief measures we formulated earlier to cope with the economic challenges. We will stay vigilant and monitor the economic situation closely. We are prepared to roll out further relief measures if necessary."

Mr Chan further said, "I also welcome the IMF's recognition of our ongoing work to enhance Hong Kong's long-term competitiveness. We will step up efforts to capitalise on the emerging opportunities from green finance, fintech and the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA).

The Chief Executive of the Hong Kong Monetary Authority (HKMA), Mr Eddie Yue, said, "I welcome the IMF's staunch support for the LERS. The IMF's vote of confidence speaks volumes about the LERS's credibility and its importance as an anchor of monetary and financial stability in Hong Kong. Despite increasing global and domestic uncertainties, the LERS continues to operate smoothly and has demonstrated once again its resilience. We have the capability, resources and determination to safeguard the LERS, and we will continue to communicate effectively with the public to maintain international and domestic confidence in our financial and monetary system."

Mr Yue added, "I also welcome the IMF's positive assessment of our regulatory and supervisory framework. As noted by the IMF, the HKMA will

continue to enhance and update our supervisory regime in light of the evolving market landscape and financial stability challenge, particularly with the rapid adoption of technology by the banking industry."

The Concluding Statement notes that Hong Kong's economic activity weakened significantly in 2019 and fell into a technical recession in the third quarter. Hong Kong's real Gross Domestic Product is expected to contract by 1.2 per cent in 2019 and return to positive growth of 1 per cent in 2020, led by a recovery of private consumption. Near- and medium-term risks to the growth outlook are tilted to the downside against the backdrop of US-China trade tensions and the sociopolitical situation in Hong Kong, but the GBA development is expected to improve growth prospects in the medium term.

The Mission reckoned that Hong Kong's financial markets remain resilient despite a slowing economy. It assessed that a history of prudent macroeconomic policies has provided Hong Kong with strong buffers to address cyclical and structural challenges. These buffers include sizeable foreign exchange reserves, a large net international investment position, banks' strong capital and liquidity buffers at levels well above international standards, and large fiscal reserves.

The Mission reaffirmed the IMF's support for the LERS, noting that it has continued to function well amid increased global financial market volatility. The Mission underlined that the LERS remains an appropriate arrangement for Hong Kong, anchoring the stability of its highly open economy and globally integrated monetary and financial system.

The Mission welcomed the Government's recent introduction of fiscal stimuli to support the economy, which include support for small- and medium-sized enterprises, further tax relief, extra social security payments and subsidies for households. The Mission considered that expansionary fiscal policy is needed to support the slowing economy in the near term.

The Mission commended Hong Kong for strengthening the regulatory and supervisory framework for safeguarding financial stability and noted that its solid anti-money laundering and counter-terrorist financing system is delivering good results. The Mission also reckoned that the development of green finance and the GBA offers opportunities for Hong Kong to maintain its competitiveness as a global financial centre.

The Mission supported the Government's three-pronged approach of increasing housing supply, implementing countercyclical macroprudential measures and implementing demand-management stamp duties to contain housing market risks and increase housing affordability. It considered that the current macroprudential stance should be maintained.

The Mission visited Hong Kong from October 23 to November 4 for the 2019 Article IV Consultation with the HKSAR. It held discussions with government officials, regulators and private sector representatives. The Mission's Concluding Statement is attached in the Annex. The full report of the Article

IV Consultation will be discussed by the IMF Executive Board later this month.