

Press Release
**IMF acknowledges Hong Kong's strong buffers for
meeting challenges ahead**

Tuesday, December 15, 2015

An International Monetary Fund (IMF) Staff Mission to the Hong Kong Special Administrative Region (SAR) has lauded the Government's prudent fiscal management and robust regulatory regime for the financial system.

The IMF Mission also remarked that, together with the Linked Exchange Rate System, those strengths would provide Hong Kong with strong buffers to deal with near-term challenges, while laying the foundations for steady growth and healthy job creation in the medium term.

The assessment was made in the Concluding Statement of the IMF Mission published today (December 15), following the 2015 Article IV Consultation with the Hong Kong SAR.

The Mission forecast Hong Kong's real GDP growth to be around 2¼ per cent in 2015, fuelled by robust domestic demand and supportive fiscal policy, despite a drag from the global demand and trade slowdown. The major challenges ahead include the impact of rising interest rates in the United States, possible price correction in the property market, and Hong Kong's exposure to stresses in the Mainland. The Mission assessed that the risks would be manageable, considering the strong buffers in place in Hong Kong.

The counter-cyclical fiscal measures incorporated under this year's Budget were commended for having struck the right balance between providing near-term macro relief and budgeting for the medium-term needs of the aging society. The Mission welcomed the planned initiatives, including the Low-income Working Family Allowance Scheme, which would incentivise labour force participation and help mitigate rising dependency burdens, and the proposed Future Fund, which would help address the long-term fiscal challenges emanating from the expected demographic changes.

The Mission recognised the Government's Long Term Housing Strategy as a reaffirmation to identify additional housing sites and expand supply. The Mission considered the demand-side management measures effective in

restraining excess demand. Those measures include the macroprudential measures introduced since 2009 which had limited banks' leverage exposures to the property price run up, without impairing the banking system's key function to provide credit commensurate with the needs of the real economy.

The Mission noted Hong Kong's strong track record of filling regulatory and data gaps, assessing systemic risks, and strengthening financial institutions' loss absorption buffers in a pre-emptive manner. The Mission also acknowledged the authorities' efforts in providing infrastructure support for healthy market development, including those underpinning its offshore Renminbi business.

As for areas for further attention, the Mission recommended that the authorities should complete the legislative process on a resolution regime, continue to strengthen the regulatory regime for the securities market, broker dealers and asset managers, and fully implement a risk-based capital regime for insurance groups.

The Mission reiterated its continued support for the Linked Exchange Rate System as the best arrangement for Hong Kong, serving as an anchor of its stability. The smooth functioning of the system derives from the robust institutional, legal and policy framework, the ample fiscal reserves, a healthy financial system, as well as the flexible assets, goods and labour markets.

The Financial Secretary, Mr John C Tsang, said, "I welcome the IMF's recognition of our well-preparedness for key challenges ahead. The Government will continue to enhance Hong Kong's economic and financial resilience in managing potential market risks and unforeseen external developments.

"Looking ahead, we will continue to capitalise on Hong Kong's unique advantages and seize the opportunities arising from the increasing trade and financial links with the Mainland."

The Chief Executive of the Hong Kong Monetary Authority, Mr Norman Chan, said, "I welcome the IMF's continued affirmation that the Linked Exchange Rate System remains the most suitable regime for Hong Kong as a small and open economy. We are also glad to note the IMF's endorsement of

the counter-cyclical macroprudential measures implemented by the HKMA. We will remain vigilant in maintaining the stability and resilience of the banking system."

The Mission visited Hong Kong from November 3 to 12 for the 2015 Article IV Consultation with the Hong Kong SAR. It held discussions with Government officials and private sector representatives. The Concluding Statement is attached at the Annex. The full report of the Article IV consultation will be discussed by the IMF Executive Board in January 2016.

Ends