

Press Release
**IMF acknowledges Hong Kong's strong buffers for
tackling future challenges**

Wednesday, December 7, 2016

An International Monetary Fund (IMF) Staff Mission has commended the Hong Kong Special Administrative Region (HKSAR) for its strong policy frameworks, robust oversight of the financial system and ample buffers, which stand the economy in good stead to meet challenges ahead.

The assessment was made in the Concluding Statement of the IMF Mission published today (December 7) following the 2016 Article IV Consultation with the HKSAR.

The Mission forecast Hong Kong's real GDP growth to be around 1.5 per cent in 2016, with consumption being supported by a resilient labour market and the global economy slowly picking up. The major risks ahead include a steeper-than-expected rate cycle in the United States (US), Hong Kong's exposure to stresses in the Mainland, and accelerated price adjustment in the property market. The Mission assessed that these risks could be tackled with the strong buffers that Hong Kong enjoyed.

The Mission acknowledged the healthy fiscal position of the Government. Recognising the need to strike a balance between supporting aggregate demand and preserving a buffer for meeting the challenge posed by an ageing population, the Mission considered the planned fiscal impulse in the 2016-17 Budget appropriate. In the longer term, measures for reprioritising expenditures, raising revenues and managing assets would help alleviate the fiscal impact of an ageing population.

The Mission acknowledged the Long Term Housing Strategy and "Hong Kong 2030+" as a demonstration of the Government's commitment to addressing the housing supply shortage in an integrated manner by guiding land, planning and infrastructure development and addressing urban renewal. With housing prices rising again, the Mission considered that the three-pronged approach to limit risks in the property market - boosting housing supply, macroprudential measures to limit stability risks, and stamp duties to contain speculative activity - should remain in place. The strict counter-cyclical

macroprudential measures have contained bank exposure to the property boom.

The Mission considered that addressing inequality and increasing labour force participation (particularly among female and older workers) would support the inclusive and sustainable growth of the economy. Openness to foreign workers also contributes to a flexible economy. Noting that the minimum wage had helped boost labour supply without damaging flexibility, the Mission considered that a further moderate increase could be accommodated.

The Mission acknowledged Hong Kong's track record as a standard setter in financial regulation and supervision and in filling data gaps, which enabled it to limit the build-up of systemic vulnerabilities. Areas for continued attention include further enhancing stress testing and reviewing financial institutions' plans in response to stress events.

Leveraging on Hong Kong's strong position as an international financial centre, the Mission noted that Hong Kong could further tap opportunities from the Mainland's growth, global integration and capital account liberalisation. In this regard, the Mission recognised the Government's efforts in maintaining Hong Kong's role as the leading Renminbi (RMB) offshore centre, developing the asset management industry, encouraging corporate treasury centres to domicile in Hong Kong and enabling the healthy development of Fintech.

The Mission reaffirmed its support for the Linked Exchange Rate System (LERS), considering it the best arrangement for Hong Kong. The LERS serves as an anchor of stability for Hong Kong as a small and open economy with a globally integrated financial services industry. The link to the US dollar is appropriate since Hong Kong is a conduit for global trade and financial flows between advanced economies and the Mainland.

The Financial Secretary, Mr John C Tsang, said, "I welcome the IMF's reaffirmation of our robust regulatory and strong policy frameworks. Hong Kong's economy has been broadly stable on a modest growth path and with a steady labour market. With the sound economic fundamentals and healthy fiscal position of the Government, we have the confidence, the experience and the capability to tackle challenges in the days to come.

"I also welcome the Mission's support for our efforts in fostering the stable and healthy development of the property market. We would continue to monitor the market situation closely, and take appropriate measures as and when necessary to maintain macroeconomic and financial stability.

"Looking ahead, I am confident that Hong Kong can continue to capitalise on our unique advantages and seize the massive opportunities arising from the growing economic and financial ties with the Mainland."

The Chief Executive of the Hong Kong Monetary Authority, Mr Norman Chan, said, "I welcome the IMF's continued support of the LERS, which is the cornerstone for Hong Kong's monetary and financial stability. I am pleased to note the IMF's recognition of our measures to safeguard banking stability. I am also grateful for the Mission's support for our efforts in maintaining Hong Kong's role as a global financial centre as well as the leading RMB offshore business centre. We will continue to strengthen our work in these areas, with a view to enhancing Hong Kong's competitiveness in financial development."

The Mission visited Hong Kong from October 25 to November 3 for the 2016 Article IV Consultation with the HKSAR and held discussions with government officials, regulators 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 2017.

Ends