



PEOPLE'S REPUBLIC OF CHINA—HONG KONG SPECIAL ADMINISTRATIVE REGION

2026 ARTICLE IV CONSULTATION DISCUSSIONS— PRESS RELEASE; AND STAFF REPORT

May 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of 2026 Article IV consultation with People's Republic of China—Hong Kong Special Administrative Region, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions with the officials of People's Republic of China—Hong Kong Special Administrative Region on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 4, 2026.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2026 Article IV Consultation Discussions with the People's Republic of China—Hong Kong Special Administrative Region

FOR IMMEDIATE RELEASE

Washington, DC – May 22, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the People's Republic of China—Hong Kong Special Administrative Region (SAR) and considered and endorsed the staff appraisal without meeting on a lapse-of-time basis.^{1,2} The authorities have consented to the publication of the Staff Report prepared for this consultation.³

Hong Kong SAR's economy has continued to recover, with growth in 2025 stronger than expected, supported by robust technology-related exports, improving private demand, and a rebound in financial market activity. The territory has further reinforced its role as a global financial center and a key super-connector between the Chinese mainland and the rest of the world. However, the recovery remains incomplete: economic activity is still below its pre-pandemic trend, while headwinds persist—notably weak private investment and declining labor force participation, both still below pre-pandemic levels. The banking system remains resilient, underpinned by strong capital, ample liquidity, and solid profitability, although asset quality pressures persist in some segments, particularly domestic commercial real estate exposures, which represent the principal near-term financial risk.

Near-term growth is expected to moderate, reflecting weaker external demand and tighter financial conditions amid the war in the Middle East.⁴ Over the medium term, declining youth labor force participation and population aging are expected to weigh on labor supply and potential growth, projected at around 2¼ percent. In response, the authorities are advancing efforts to develop new growth drivers, including through long-term investment in the Northern Metropolis to foster innovation and technology. The outlook remains subject to downside risks, given Hong Kong SAR's high exposure to geopolitical and trade tensions, global financial volatility, and a potential slowdown in the technology cycle.

¹ The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

² Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. At the request or with the consent of the member, IMF staff may hold separate discussions with respect to territories or constituent parts of a member. These Article IV consultation discussions form a part of the member's Article IV consultation. In such cases, a staff team visits the territory or constituent part, collects economic and financial information, and discusses with officials the territory's or constituent part's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board, which in turn constitutes an integral part of the member's AIV consultation for the relevant cycle.

³ Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the [IMF Country page](#).

⁴ The staff appraisal and projections are based on data available through April 2026. See the [IMF Country page](#) for the latest projections.

Executive Board Assessment

Hong Kong SAR's economy has continued to recover, supported by strong exports and financial market activity, although the recovery remains uneven with persistent slack and structural headwinds. Real GDP surpassed its pre-pandemic peak in 2025, and the financial system remains resilient, with banks well capitalized, liquid, and profitable, and the LERS continuing to operate smoothly as a credible anchor for stability. The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies. However, economic activity remains below its pre-pandemic trend, with persistent slack, weak private investment, and declining labor force participation. While residential property markets have stabilized, CRE continues to face structural headwinds, and deeper integration with the Mainland presents opportunities and exposure to regional risks.

Growth is expected to moderate, with risks tilted to the downside amid elevated global uncertainty and domestic vulnerabilities. In the near term, the impact of the war in the Middle East on trade partner growth and global financial conditions is expected to weigh on activity, with medium-term growth stabilizing at a lower rate. Downside risks stem from an intensification of geopolitical tensions, further tightening of financial conditions, and potential disruptions to trade and financial flows, which could transmit rapidly through Hong Kong SAR's highly open and interconnected economy, particularly affecting vulnerable sectors such as CRE and SMEs. Domestic risks also arise from persistent vulnerabilities in CRE, where further price declines could adversely affect banks and the broader economy. Upside risks include stronger productivity gains from AI and faster implementation of strategic investment projects.

Financial sector risks appear manageable, supported by strong buffers and robust regulatory oversight, but continued vigilance is warranted. Maintaining banking sector resilience will require sustained supervisory focus on exposures to highly leveraged corporates, particularly in real estate and SMEs. Timely recognition of expected credit losses and adequate provisioning remain essential. Remaining SME support measures should be carefully targeted to ease liquidity strains without distorting credit allocation or delaying necessary restructuring of non-viable firms. Macprudential measures related to residential real estate exposures remained unchanged in 2025, which appears appropriate given the stabilization in market conditions, mortgage credit, and asset quality. In CRE, declining collateral values and refinancing pressures warrant continued prudent underwriting, sound valuation practices, and capital buffers commensurate with risks. Expanding system-wide stress testing would further enhance macroprudential oversight, particularly as the NBFIs sector evolves.

The fiscal stance in 2026 is appropriate, but stronger medium-term consolidation is needed to address spending pressures and rebuild fiscal reserves. The incomplete recovery in domestic demand supports maintaining an expansionary stance in the near term. Over the medium term, however, consolidation plans may be insufficient to address rising spending pressures from population aging, social protection needs, and large infrastructure investments. Broader revenue reforms will therefore be needed to strengthen and stabilize the revenue base and reduce reliance on cyclical revenue sources, while preserving growth-enhancing investment.

Improving housing affordability will require a sustained expansion of public housing supply and better targeting of existing programs. While conditions in parts of the private residential market have stabilized, demand for public housing remains elevated and delivery has lagged targets. Authorities' ongoing efforts to scale up public housing production will be critical to reducing

waiting times, while stronger enforcement of eligibility criteria and measures to curb misuse will improve allocation efficiency.

Hong Kong SAR is well positioned to advance its digital and sustainable finance agenda, supported by strong regulatory frameworks and ongoing initiatives such as Fintech 2030. Continued adherence to the “same activity, same risk, same regulation” principle, enhanced cross-sectoral coordination, and improved data collection will be important to manage emerging risks, including from crypto assets and tokenization. At the same time, continued attention to operational and cyber risks remains critical. Advancing climate finance will require scaling up private capital mobilization, supported by high-quality implementation of sustainability disclosure standards and robust frameworks to mitigate greenwashing risks.

In an increasingly fragmented global environment, Hong Kong SAR’s role as a super-connector remains central to sustaining its competitiveness. Continued development as a leading offshore RMB hub, deeper integration with the Mainland through Connect schemes, and strong legal and regulatory frameworks will support its role in global finance and trade. Strategic initiatives, including the Greater Bay Area and the Northern Metropolis, can further strengthen cross-border integration, support innovation, and promote high value-added services.

Industrial policy can support diversification and innovation but should be approached with caution. Any strategy should be grounded in clearly identified market failures and supported by strong governance, transparency, and regular evaluation. Support should be time-bound, targeted, and maintain open access to ensure that resources are directed toward commercially viable investments and that policies achieve their intended objectives.

Addressing the decline in labor force participation will require coordinated policy efforts to mitigate demographic pressures and structural headwinds. Policies should focus on encouraging greater participation among older workers and women, strengthening education and training systems to reduce skills mismatches, and supporting reskilling and job transitions in the face of technological change. Enhancing labor market flexibility and improving job matching will be key to sustaining inclusive growth.

Hong Kong SAR—Selected Economic and Financial Indicators, 2021–31

	2021	2022	2023	2024	Prel.		Projections					
					2025	2026	2027	2028	2029	2030	2031	
NATIONAL ACCOUNTS												
Real GDP (percent change)	6.5	-3.7	3.2	2.6	3.5	2.4	2.4	2.3	2.3	2.2	2.2	
Private consumption	5.6	-2.2	6.8	-0.2	1.7	1.7	1.7	2.1	2.1	2.1	2.1	
Government consumption	5.9	8.0	-3.9	0.7	1.6	1.1	0.6	0.1	-0.1	-0.3	-0.4	
Gross fixed capital formation	8.3	-7.4	11.4	1.9	4.3	7.2	1.3	0.7	0.5	1.4	1.3	
Inventories (contribution to growth)	-1.9	-0.7	0.1	0.2	1.9	-1.2	0.0	0.0	0.0	0.0	0.0	
Net exports (contribution to growth)	2.7	-1.2	-2.7	2.1	-0.4	1.1	0.9	0.8	0.8	0.6	0.6	
Output gap (in percent of potential GDP)	-2.3	-4.1	-3.9	-4.0	-2.6	-2.2	-1.6	-1.2	-0.7	-0.3	0.0	
LABOR MARKET												
Employment (percent change)	-0.6	-1.6	2.7	-0.4	-0.6	0.0	-0.1	0.0	0.2	0.2	0.4	
Unemployment rate (percent, period average)	5.2	4.3	2.9	3.0	3.7	3.3	3.2	3.0	2.8	2.7	2.7	
Real wages (percent change)	-0.5	-1.4	1.4	1.5	1.7	1.1	0.8	1.1	1.2	1.3	1.3	
PRICES												
Inflation (percent change)												
Consumer prices	1.6	1.9	2.1	1.7	1.4	2.1	1.8	2.1	2.2	2.4	2.5	
GDP deflator	0.7	1.7	2.9	4.2	1.0	2.7	1.9	2.1	2.3	2.4	2.5	
GENERAL GOVERNMENT												
Consolidated budget balance (percent of GDP) 1/	0.0	-6.7	-5.8	-5.9	-4.9	-5.3	-3.3	-1.4	-0.8	-0.8	-0.8	
Revenue	24.2	22.1	18.4	17.7	18.8	18.1	20.0	20.5	20.9	20.9	20.9	
Expenditure	24.2	28.9	24.2	23.6	23.7	23.4	23.3	21.9	21.7	21.7	21.7	
Fiscal reserves (as of end-March, percent of GDP)	33.4	29.7	24.6	20.5	19.7	20.0	20.1	20.4	20.4	20.4	20.3	
FINANCIAL 2/												
Interest rates (percent, period average)												
Best lending rate	5.0	5.1	5.8	5.8	5.2	...	...	...	...	...	...
Three-month HIBOR	0.2	2.1	4.6	4.5	3.1	...	...	...	...	...	...
10-year Treasury bond yield	1.2	2.8	3.6	3.4	3.2	...	...	...	...	...	...
MACRO-FINANCIAL 2/												
Loans for use in Hong Kong SAR (excl. trade financing) 3/	4.3	0.9	-0.4	-2.1	1.9	...	...	...	...	...	...
House prices (year-on-year percent change at end-year)	3.7	-15.0	-7.0	-7.1	3.6	...	...	...	...	...	...
EXTERNAL SECTOR												
Merchandise trade (percent change)												
Export value	26.3	-8.6	-7.8	8.7	15.3	12.6	4.7	3.4	3.8	3.6	3.6	
Import value	24.3	-7.2	-5.7	6.0	15.5	12.4	4.4	3.2	3.5	3.5	3.5	
Current account balance (= S-I balance, percent of GDP)	11.8	10.2	8.4	13.1	12.2	12.6	12.3	12.1	11.9	11.5	11.4	
Gross capital formation (percent of GDP)	16.8	15.2	16.2	16.1	18.3	18.8	19.2	19.7	20.4	20.9	21.1	
Gross national savings (percent of GDP)	28.6	25.4	24.6	29.2	30.6	31.4	31.5	31.8	32.3	32.4	32.5	
Foreign exchange reserves												
In billions of U.S. dollars (end-of-period)	497	424	426	422	428	468	499	527	558	592	649	
In percent of GDP	135	118	112	103	100	104	106	107	109	110	115	
Net international investment position (percent of GDP)	574	492	461	490	586	569	558	546	534	522	510	
EXCHANGE RATE												
Market rate (HK\$/US\$, period average, computed from monthly averages)	7.773	7.831	7.830	7.804	7.797	...	...	...	...	...	...
Real effective rate (period average, 2010=100)	111.5	115.6	119.4	122.4	122.0	...	...	...	...	...	...

Sources: Haver Analytics; BIS,CEIC; HKSAR Census and Statistics Department; IMF Informational Notice System and IMF staff estimates and projections.

1/ Staff's baseline projections for FY2026/27 onwards. Before issuance and repayment of government bonds and notes. Transfers from the Exchange Fund (around 4 percent of GDP, split evenly between FY2026/27 and FY2027/28), Bond Fund (1.1 percent of GDP in FY2026/27), and funds outside the government accounts (0.5 percent of GDP in FY2026/27) are treated as below-the-line items.

2/ Using latest data available.

3/ Based on loans for use in Hong Kong SAR, excluding trade financing.



PEOPLE'S REPUBLIC OF CHINA—HONG KONG SPECIAL ADMINISTRATIVE REGION

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION DISCUSSIONS¹

April 30, 2026

KEY ISSUES

Overview. Growth in 2025 proved stronger than expected, buoyed by tech exports, the return of tourism, and a faster recovery in private consumption. Capital markets and business services benefitted from stronger demand, building on the role of Hong Kong SAR as a super-connector between the Chinese mainland and the rest of the world. However, deeper integration with the Mainland also increases exposure to related risks and competition, while weak private investment and lower labor force participation underscore remaining structural headwinds. In response, the authorities are advancing efforts to develop new growth drivers anchored in long-term investment in the Northern Metropolis to promote innovation and technology.

Outlook and risks. Near-term growth is expected to moderate, reflecting weaker external demand and tighter financial conditions amid the war in the Middle East. Over the medium term, declining youth labor force participation alongside population aging will weigh on labor supply and potential growth. The outlook is subject to downside risks, reflecting Hong Kong SAR's high exposure to geopolitical and trade tensions, global financial volatility, and a potential slowdown in the tech cycle. Domestic commercial real estate (CRE) exposures remain the principal near-term financial risk, even as some Mainland-related risks to banks have moderated.

Policies. Policy priorities should focus on rebuilding fiscal buffers, safeguarding financial stability, improving housing affordability, and advancing structural reforms to strengthen resilience and sustain medium-term growth.

¹ These consultation discussions form part of the Article IV consultation with the People's Republic of China.

- **Fiscal policy.** While the stronger fiscal impulse in the near term supports recovery, efforts should focus on fiscal reforms to achieve stronger consolidation in the medium term. Broadening and stabilizing the revenue base, while reducing reliance on property-related revenues, will be necessary to address medium-term spending pressures from aging, preserve growth-enhancing capital investment, improve the adequacy and targeting of social protection, and strengthen resilience to future shocks.
- **Financial and exchange rate policies.** Maintaining financial stability should center on sustained supervisory attention over domestic CRE exposures and vulnerabilities among small and medium-sized enterprises. Strengthening system-wide stress testing will be essential to identify and contain emerging risks. The Linked Exchange Rate System (LERS) remains appropriate and should continue to serve as a credible anchor for economic and financial stability.
- **Housing affordability.** Policy efforts should focus on expanding and better targeting public housing provision to alleviate affordability pressures.
- **Structural policies.** Addressing the decline in labor force participation will require a coordinated strategy to mitigate demographic pressures and other headwinds to workforce participation, including potential labor skills mismatches, and AI-related displacement risks. Policy priorities should include continued talent attraction; expanded childcare and eldercare support; more flexible work arrangements to encourage higher female and older worker participation; stronger active labor market policies to improve job matching; and education and training reforms to facilitate smoother school-to-work transitions and reskilling toward higher value-added, AI-complementary occupations. Deeper integration with the Greater Bay Area can catalyze new growth areas, including fintech innovation, and high value-added services that complement Mainland high-tech manufacturing, while reinforcing Hong Kong SAR's competitive advantage in trade facilitation and financial intermediation. Industrial policy can support diversification and innovation only if it is carefully designed, targeted at market failures, backed by strong governance, and implemented through time-bound, and open-access incentives. In a more fragmented global environment, leveraging its super-connector role can help sustain competitiveness and long-term growth.

Approved By
Thomas Helbling
(APD) and Koshy
Mathai (SPR)

Discussions took place in Hong Kong SAR and Shenzhen, PRC between March 16-27, 2026. The team comprised Ivo Krznar (head), Narayanan Raman, Yizhi Xu, Hamid Reza Tabarraei (all APD), Dan Devlin (FAD) and Sally Chen (Resident Representative, MCM). The mission met with Financial Secretary Paul Chan, Hong Kong Monetary Authority Chief Executive Eddie Yue, and government officials, private sector representatives in Hong Kong SAR and Shenzhen, PRC. Mr. Zhengxin Zhang and Ms. Clarice Zhang (OED) joined the official meetings. Ruihua Yang, Paige Brewer (both APD), Lawrence Tang, Jing Zhao and Atis Lee, (all Resident Representative's Office) provided support to the mission.

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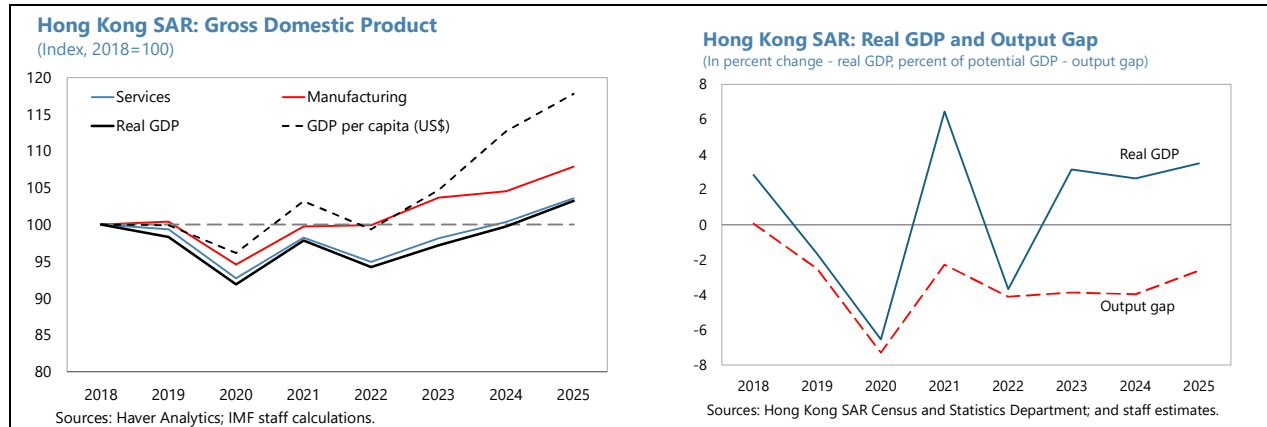
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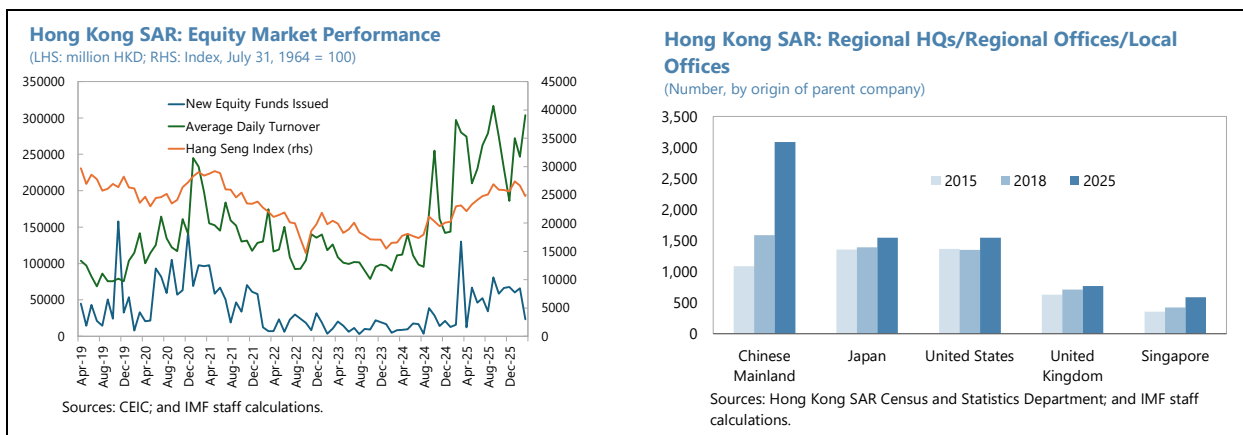
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CONTEXT: UNEVEN RECOVERY AND REINFORCED SUPER-CONNECTOR ROLE

1. Hong Kong SAR real GDP surpassed its pre-pandemic peak in 2025 following a series of severe shocks. Economic activity was first disrupted by social unrest in 2019 and subsequently by the pandemic beginning in 2020. Growth resumed in 2023, and the output gap started narrowing in 2025. The recovery was supported by a rebound in both manufacturing and services.

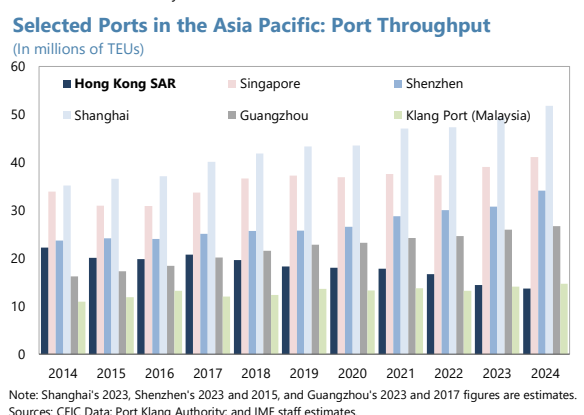
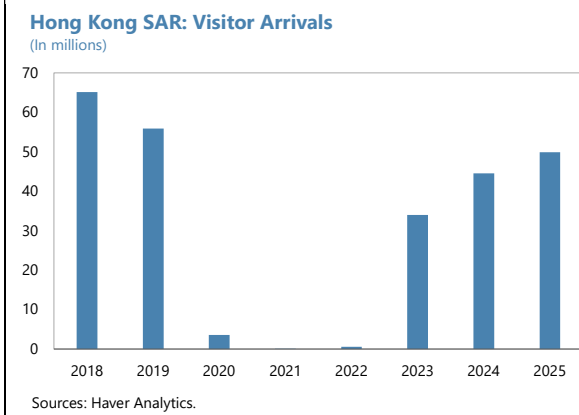
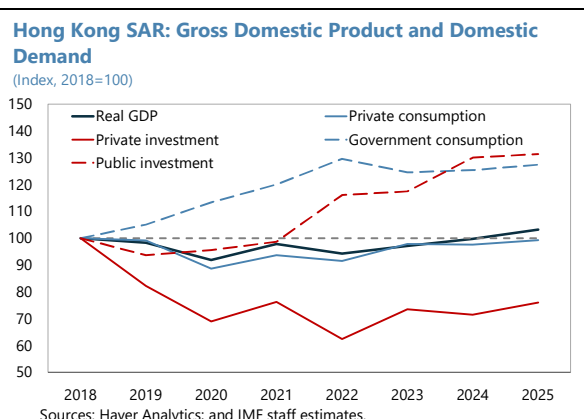
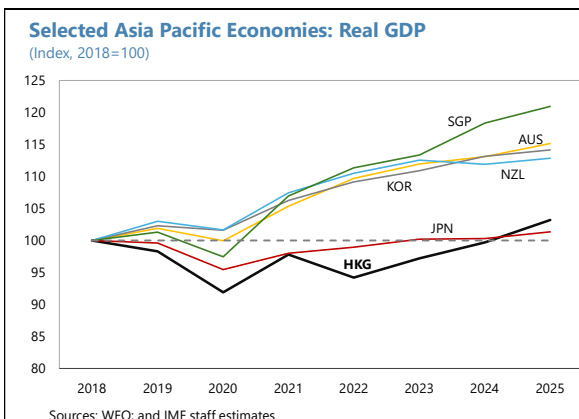
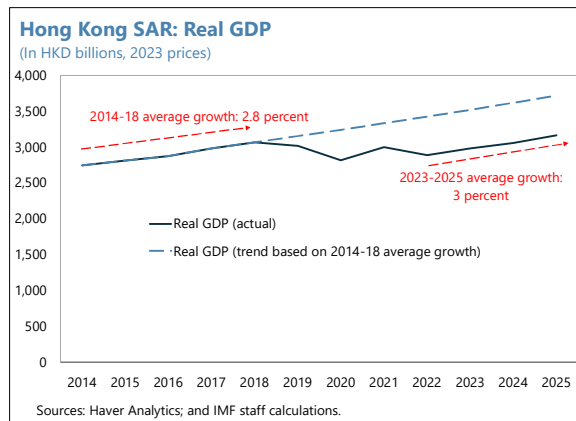


2. The territory has continued to reinforce its position as a global financial center and super-connector between the Chinese mainland and the rest of the world. Equity fundraising and asset management activity surged in 2025 alongside improved market sentiment, strengthening its role as a leading international fundraising hub. Its position as the premier offshore renminbi (RMB) center deepened further, supported by expanding cross-border flows (Figure 9). The authorities also advanced digital finance initiatives to position the financial sector at the forefront of regulated financial innovation in Asia. At the same time, strong performance, prudent supervision, and continued alignment with international regulatory standards underpinned investor confidence and financial stability. Hong Kong SAR also remains a key regional headquarters center, with Mainland firms accounting for a growing share regional headquarters and offices in recent years.



3. Nevertheless, the recovery remains uneven and structural headwinds persist.

Economic activity remains below its pre-pandemic trend, with persistent slack, and growth has underperformed regional peers, reflecting the compounded impact of the 2019 social unrest and the pandemic. Private investment remains below its 2018 levels, the labor force participation rate (LFPR) is at historically low levels (Selected Issues Paper), the CRE market is undergoing significant correction, and visitor arrivals are yet to return to pre-pandemic levels. Deeper economic integration with the Chinese mainland brings clear benefits but also increases sensitivity to related developments, risks, and competition.

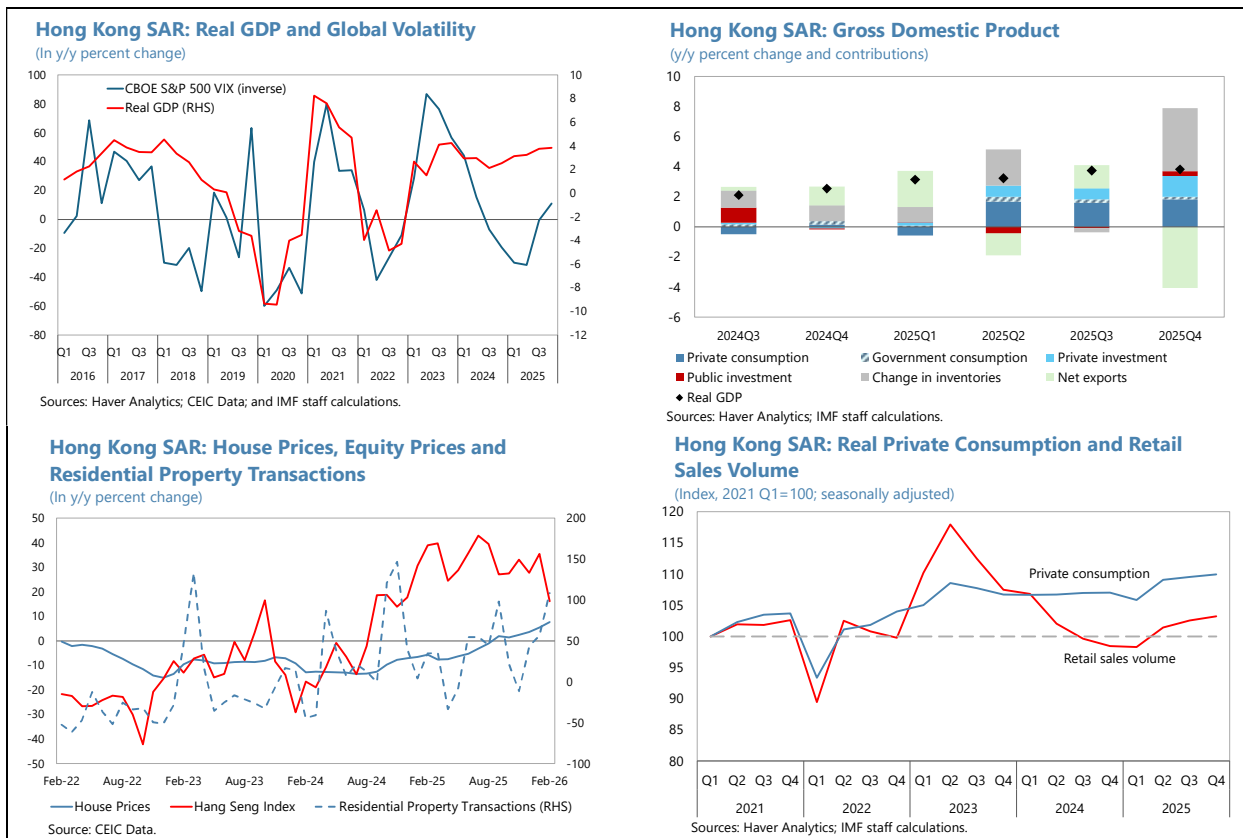


4. Policy initiatives underway address several of these challenges, but a more comprehensive reform effort will be required to secure durable medium-term growth.

Steps taken so far, including addressing property market pressures, advancing strategic infrastructure projects to deepen Greater Bay Area integration, and enhancing talent attraction schemes are important. However, a more comprehensive structural reform agenda focused on broadening revenue sources and strengthening workforce development—as outlined in this report— will be necessary to sustain momentum and bolster resilience in a more uncertain global environment.

RECENT DEVELOPMENTS: RESILIENT GROWTH IN VOLATILE GLOBAL ENVIRONMENT

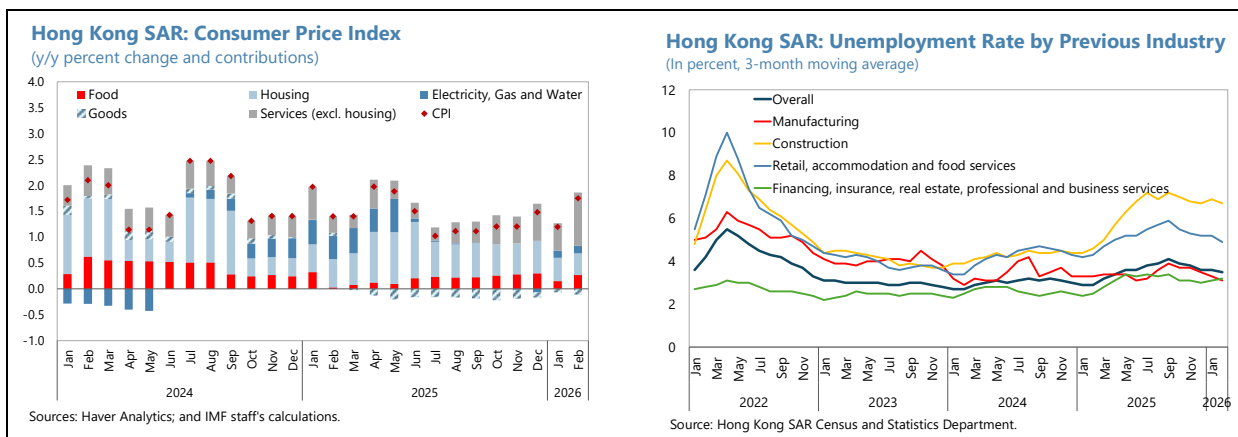
5. Real GDP growth rose from 2.6 percent in 2024 to 3.5 percent in 2025 despite elevated trade tensions and heightened global uncertainty (Table 1). The acceleration was supported by strong domestic demand and robust export performance, with the latter driven by robust technology- and AI-related demand.² Private consumption and investment recovered on the back of continued income growth and improved financial and property market conditions. Residential property prices stabilized in the second half of the year, Initial Public Offering (IPO) activity surged, and domestic financial conditions improved as US monetary easing transmitted through the Linked Exchange Rate System (LERS; Figure 6). The output gap narrowed to -2.6 percent of potential GDP.



6. Inflation moderated, reflecting imported disinflation, mainly from the Chinese mainland, and subdued retail activity. Consumer price inflation slowed to 1.4 percent in 2025, from 1.7 percent a year earlier as lower prices for imported goods offset limited domestic prices pressures, amid a negative

² The real GDP growth outturn for 2025 was significantly higher than staff's projections in the October 2025 World Economic Outlook (2.4 percent) as well as the authorities' forecast in the 2025/26 Budget (2-3 percent), reflecting stronger-than-expected global private investment fueled by the technology cycle, consistent with developments observed across several Asia Pacific economies.

output gap, with retail sales lagging private consumption due to the still-incomplete recovery in tourism and shifts in consumption patterns (Box 1). Inflation increased slightly in early 2026, with the CPI rising by 1.7 percent y/y in February, largely driven by higher prices for services.



7. Labor market conditions softened, driven by weaknesses in construction and retail sectors.

The unemployment rate peaked at 4.1 percent in July-September 2025 and has declined since, reaching 3.5 percent by December 2025-February 2026, higher than the 2.9 percent reported in November 2024-January 2025. The median duration of unemployment spells increased to highest levels since 2021Q4, while the LFPR continued its decline, reflecting cyclical factors, population aging, and delayed labor market entry (see discussion on Structural Transformation and Selected Issues Paper).

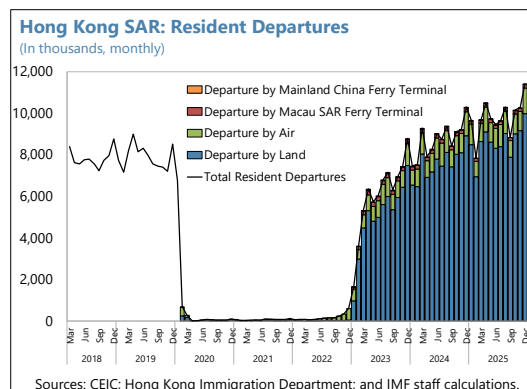
Box 1. Deeping Integration with the Mainland and Changing Consumption Patterns¹

Cross-border travel by Hong Kong SAR residents—particularly to the Chinese mainland—has increased rapidly since the 2023 reopening, with total crossings now surpassing pre-pandemic levels.

Departures began rising sharply in early 2023 following the lifting of travel restrictions. In 2025, outbound travel by Hong Kong SAR residents was 27 percent higher than in 2018. Most passenger flows are northbound, primarily to nearby Mainland cities via land boundary control points.

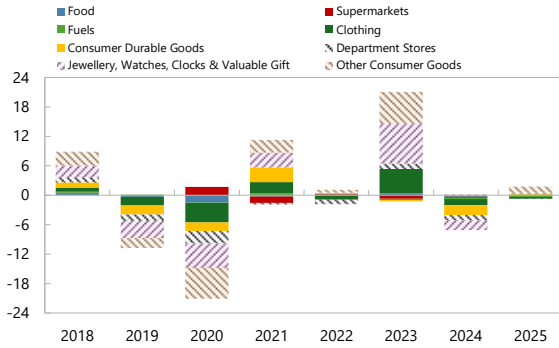
As cross-border travel increased, spending by Hong Kong SAR residents abroad rose markedly, while domestic spending remained broadly stable.

The composition of domestic consumption shifted, with the share devoted to consumer goods and food declining from 45 percent at end-2018 to 34 percent by December 2025. Retail performance has been subdued, not only in tourism-related and discretionary segments—reflecting still-recovering inbound tourism—but also in several non-discretionary categories such as food, supermarkets, fuel, and clothing. These trends point to a reallocation of household consumption toward cross-border spending, which reached 8.9 percent of total household consumption by 2025Q3. Although detailed data on spending in the Mainland are limited, anecdotal evidence and AlipayHK statistics suggest increased weekend travel northbound, with expenditures concentrated in services such as dining, beauty, and personal care.

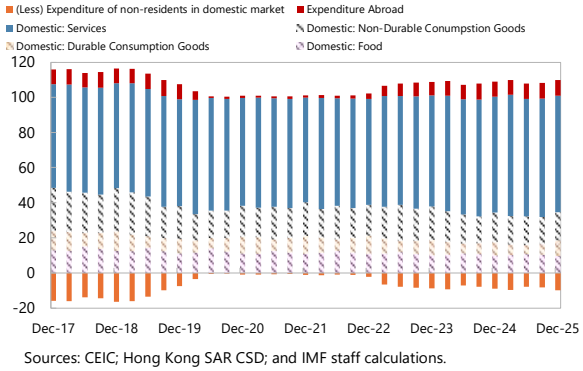


Box 1. Deeping Integration with the Mainland and Changing Consumption Patterns
(concluded)

Hong Kong SAR: Composition of Retail Sales Value Change
(In percent, yoy)



Hong Kong SAR: Private Consumption Expenditure
(In percent of total)

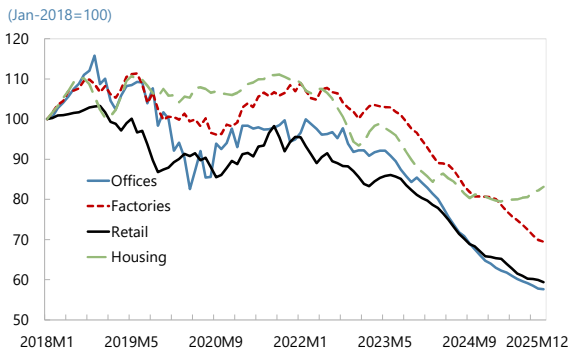


Looking ahead, improved cross-border transport connectivity and deeper integration with nearby Mainland cities are likely to further reshape Hong Kong SAR residents' consumption patterns. The Greater Bay Area initiative and the Northern Metropolis project are expected to enhance cross-border mobility and strengthen regional economic linkages over time. Existing infrastructure—including the Hong Kong–Zhuhai–Macao Bridge and expanded high-speed rail services from West Kowloon—has already made travel faster and more frequent.

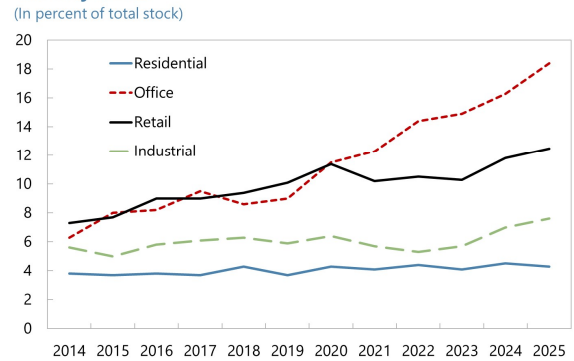
¹Prepared by Ruihua Yang (APD).

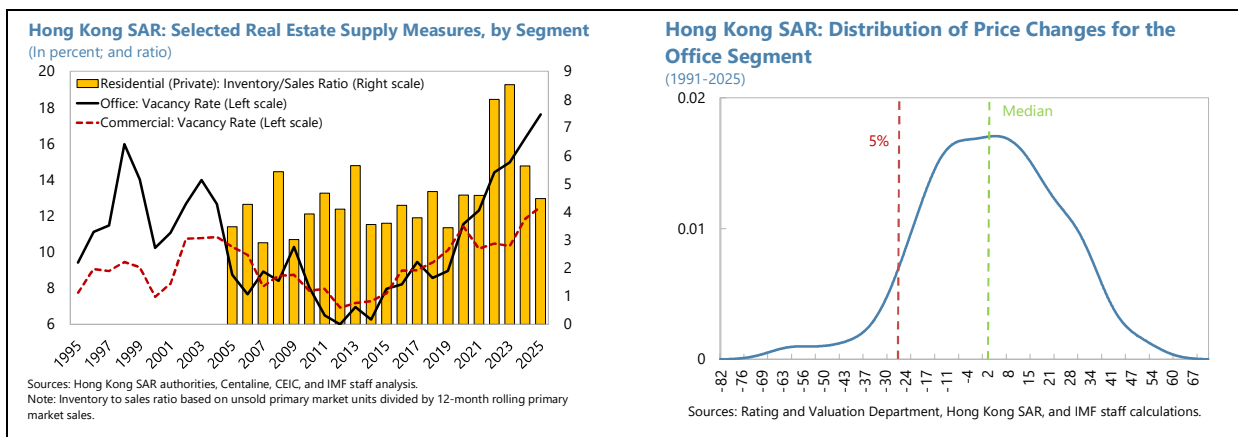
8. Divergent dynamics between Residential Real Estate (RRE) and CRE have led to different downside risk profiles: RRE risks have moderated after a prolonged downturn, while the adjustment in the CRE market is ongoing. Under current conditions, forward-looking downside risks in RRE appear contained, consistent with the correction of prior overvaluation. Price-at-risk estimates suggest that CRE markets have operated near a lower-tail risk regime in recent years, particularly in the office segment, possibly indicating that much of the adverse tail risk has already materialized.

Hong Kong SAR: Residential and Commercial Real Estate Price Indices
(Jan-2018=100)



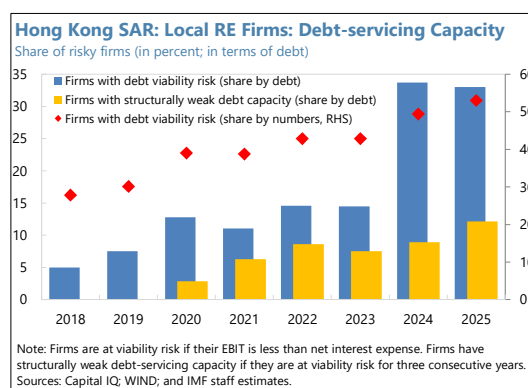
Hong Kong SAR: Residential and Commercial Real Estate Vacancy Rates
(In percent of total stock)





9. The debt-servicing capacity of local non-financial corporates (NFCs) has weakened, particularly among smaller firms and real estate (RE) developers. Staff analysis based on listed firms (see 2024 Selected Issues Paper) points to deteriorating repayment capacity in vulnerable segments.

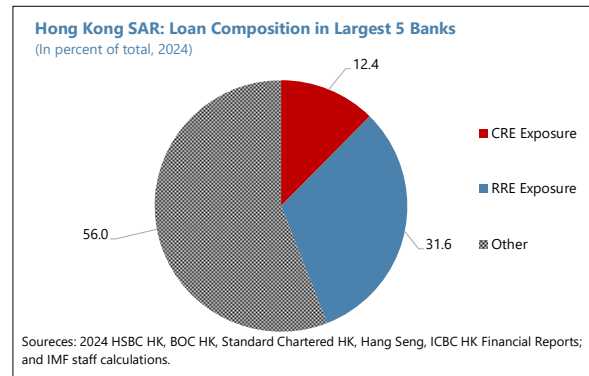
- Local RE developers:* Financial pressures have intensified during the property downturn, with about half of listed developers (by number of firms) and about a third (by debt) are at viability risk in 2025. Although most bank exposures remain overcollateralized, rising defaults could lead to collateral liquidation, intensifying property market adjustment.
- Local non-RE developers:* The share of risky local non-RE firms remained unchanged in 2025, with about half of them at viability risk, although their share in total non-RE firm debt remains below the pandemic peak. By sector, consumer discretionary sector experienced the most significant increase in the share of firms at viability risk, likely reflecting the incomplete recovery of the tourism sector.
- Small businesses:* More than 80 percent of smaller, non-RE, listed firms³, accounting for 72 percent of their debt, are at viability risk, pointing to significant vulnerability among Hong Kong SAR's SMEs.



10. The banking sector remains resilient, supported by strong capital, ample liquidity, and solid profitability, although asset quality pressures persist in some segments. Overall risks remain broadly unchanged since the last Article IV consultation, though their composition has shifted across real estate exposures.

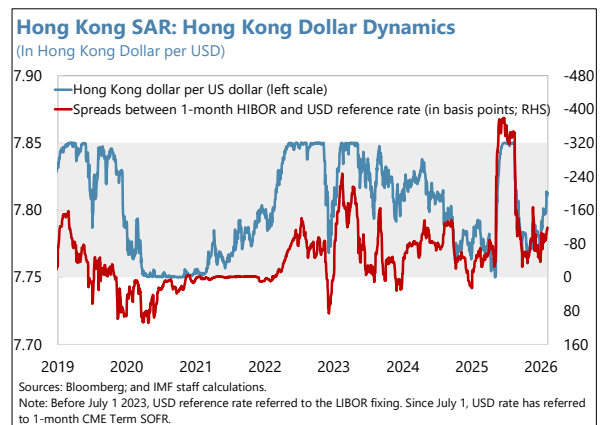
³ Small, non-RE, listed firms are local listed firms whose total assets are below 20 percentile of the listed firms sample.

- **Capital and liquidity:** As of 2025Q4, the total capital ratio stood at 25.1 percent, significantly higher than regulatory requirements. Liquidity indicators have edged down recently but remain well above minimum requirements.
- **Asset quality and profitability.** Problem loans (special mention plus nonperforming loans) rose to 4.2 percent as of 2025Q4, with the nonperforming loan (NPL) ratio at 2.2 percent, largely driven by CRE exposures ([HKMA, 2025](#)), which account for 12 percent of total loans at the five largest banks and 78 percent of their CET1 capital. Nevertheless, strong net interest margins, underpinned by the higher interest rate environment, and improved cost efficiency continue to cushion rising credit risk.
- **Credit growth.** Loan growth turned positive (2.3 percent) in 2025, led by domestic lending and accelerating economic activity. However, credit conditions surveys indicate that small and medium enterprises (SME) lending standards remain tighter than pre-pandemic averages, reflecting cautious bank risk appetite and lingering sectoral vulnerabilities. Banks' Mainland-related lending fell further to around 11.5 percent of total assets (38.9 percent of total loans)⁴, due to a combination of subdued credit demand, ongoing deleveraging in the Mainland property sector, and more conservative risk appetite toward cross-border lending. Meanwhile, the classified loan ratio fell and has stabilized at around 2 percent.



11. The non-bank financial sector (NBFI) remains robust. The asset and wealth management industry exceeded HK\$35 trillion in 2025 (more than 10 times GDP) supported by improved market conditions. The insurance sector also recorded solid growth, with gross premiums rising by 32 percent, while major insurers maintained solvency ratios above 200 percent under the risk-based capital regime.

12. Financial markets were buoyed by sizeable new listings, with several large IPOs lifting sentiment despite persistent -global uncertainties. Technology and consumer-sector offerings by Mainland firms attracted strong investor demand and boosted trading activity on the Hong Kong Stock Exchange. Fundraising volumes and market liquidity rebounded, reinforcing Hong Kong SAR's role as a regional listing hub.



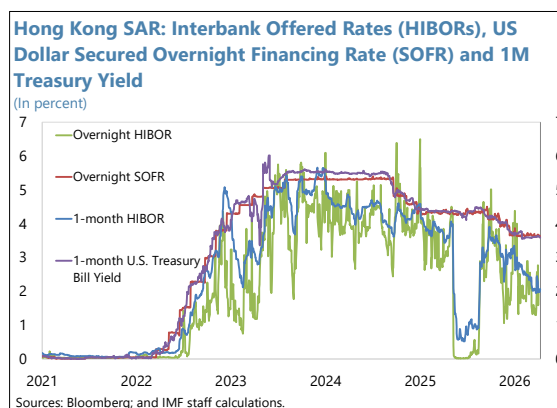
⁴ The ratio is derived as Mainland related lending originated by authorized institutions' Hong Kong SAR offices and Mainland branches divided by total loans originated by authorized institutions' Hong Kong SAR offices only.

13. Volatile cross-border financial flows led to pronounced fluctuations in liquidity and interbank rates under the LERS. Large two-way capital movements repeatedly pushed the Hong Kong dollar (HKD) toward the edges of its trading band. Capital inflows in May 2025 triggered HKMA liquidity injections, followed by withdrawals during June–August 2025 as conditions reversed. The HKMA Aggregate Balance adjusted accordingly, with HIBOR responding to liquidity shifts (Box 2). These episodes underscore the effective, rules-based functioning of the currency board framework.

Box 2. The Role of HKMA in Stabilizing Liquidity and Exchange Rates in Hong Kong SAR¹

The LERS continues to operate as designed, supported by its well-established rule-based Convertibility Undertakings (CUs) and ample foreign reserves.

Under the LERS, the HKD is maintained within the HK\$7.75–7.85 band against the US dollar, with the Hong Kong Monetary Authority (HKMA) selling HKD at the strong-side (HK\$7.75) and buying HKD at the weak-side (HK\$7.85) Convertibility Undertakings (CUs) to maintain stability. These automatic operations adjust the Aggregate Balance, the key indicator of interbank HKD liquidity, and influence short-term interest rates in line with the currency board framework. The system remains backed by substantial foreign reserves and has withstood repeated episodes of global and regional financial stress over the years.

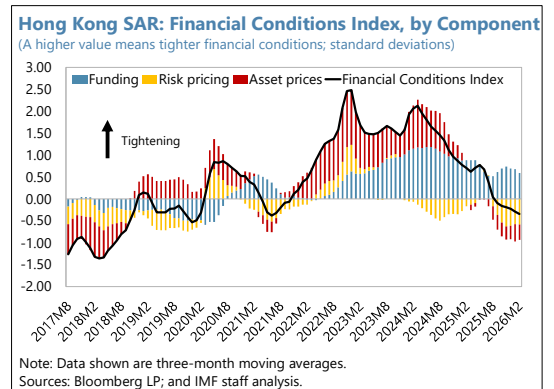


In mid-2025, the HKD faced sharp two-way pressures amid global currency volatility, shifts in capital flows, and domestic equity-market dynamics. In early May, the HKD repeatedly touched the strong-side CU, prompting HKMA purchases of US dollars and injections totaling HK\$129.4 billion amid capital inflows and buoyant stock-market activity, strong Southbound Stock Connect demand, large IPOs, and sizable pre-funding for dividend payments. At the same time, sharp appreciation of several Asian currencies, associated with US tariff-related volatility, triggered a rapid unwinding of long USD positions, further adding to HKD demand. As these temporary inflows reversed—reflecting the end of the dividend payout season, IPO-related repatriation, and the easing of half-year liquidity needs—HKD demand softened. Widened HKD-USD rate differentials encouraged carry-trade outflows, pushing the HKD toward the weak-side CU, which was triggered on June 26 for the first time since 2023.

The HKMA's automatic CU operations ensured orderly adjustment. Strong-side CU operations in early May injected liquidity, lowering interbank rates as the Aggregate Balance expanded. Conversely, weak-side CU between late June and mid-August withdrew HK\$119.95 billion in liquidity, reducing the Aggregate Balance to HK\$53.7 billion and tightening money market conditions, consistent with the currency board mechanism. These adjustments illustrate the rules-based functioning of the currency board framework and demonstrate the LERS' capacity to accommodate volatile capital flows while maintaining exchange-rate stability. Even though short-term liquidity and interest rates can be volatile, exchange-rate stability is preserved through automatic balance sheet adjustments.

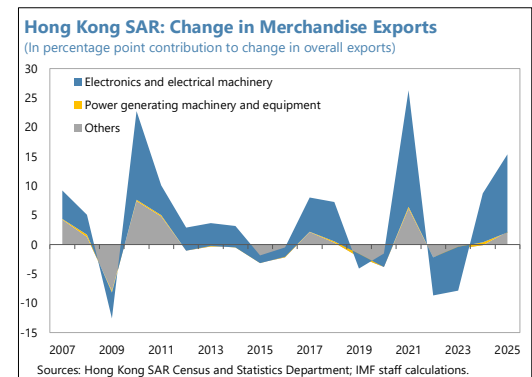
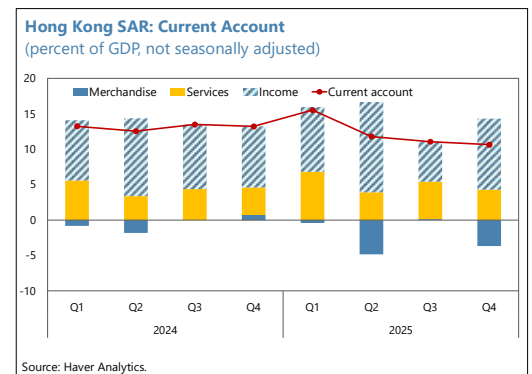
¹ Prepared by Yizhi Xu (APD).

14. Financial conditions eased in 2025, with the composite index shifting toward a more accommodative stance, driven by lower risk premia and rising asset prices. Credit spreads narrowed and risk appetite improved. Gains in equity and residential property markets offset earlier tightening, although funding conditions remained relatively tight amid still-elevated interest rates.



15. Strong economic activity and improved financial and property markets boosted fiscal revenues in FY25/26. Total revenue rose by 38 percent y/y as of February, driven by higher income-related tax receipts and a rebound in stamp duties due to higher equity and residential real estate market activity. The broader recovery helped narrow the consolidated deficit relative to earlier projections. Combined with ongoing consolidation—expenditure growth slowed to 3.1 percent y/y—this strengthened fiscal performance despite continued structural spending pressures (para. 27). Fiscal reserves rose to HK\$717 billion (21.3 percent of GDP), up 11.6 percent y/y, though still about 20 percentage points below their historical peak.

16. The current account surplus narrowed to 12.2 percent of GDP in 2025 due to a sharp increase in merchandise imports in Q4. While merchandise exports remained robust, supported by tech- and AI-related external demand despite higher US tariffs (Box 3),⁵ import growth outpaced exports leading to inventory accumulation that is expected to unwind in 2026. The services surplus improved, underpinned by a recovery in financial and travel services exports. The income account, which remained broadly stable, remains the most important driver of the current account surplus, reflecting Hong Kong SAR’s large positive net international investment position (586 percent of GDP), driven by the territory’s status as an international financial center. From a savings-investment perspective, the decline in the surplus reflects a stronger increase in investment (+2.3 pp of GDP) compared to savings (+1.4 pp), reflecting the ongoing recovery in private investment. Based on the 2025 data, Hong Kong SAR’s external position in 2025 is assessed to be broadly in line with medium-term fundamentals and desirable policies (Appendix I).



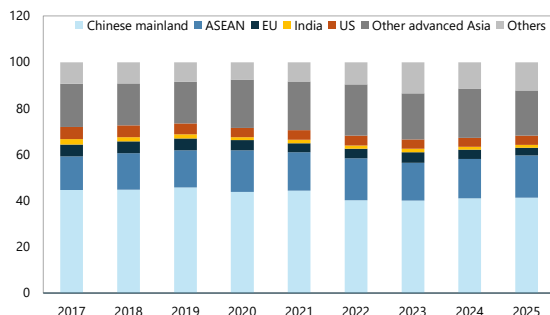
⁵ As a transshipment hub, Hong Kong SAR’s export growth is supported by higher imports, taking advantage of its proximity and integration with the technology hub in the Greater Bay Area, especially Shenzhen. The increase in trade volumes benefits industries related to trade facilitation, with value added largely coming from the services sector.

Box 3. Evolution of Hong Kong SAR's External Trade and Impact of US Tariffs¹

External trade remains central to the economy, with Hong Kong SAR continuing to serve as a global trading hub. Trade in goods amounted to over 374 percent of GDP in 2025. The Chinese mainland is the territory's largest goods trading partner, followed by other advanced Asian economies, ASEAN, the US, and the European Union. In recent years, the importance of regional partners—particularly the Mainland and other Asian economies—has increased, while the relative share of the US has declined.

Hong Kong SAR: Origin of Gross Imports of Goods

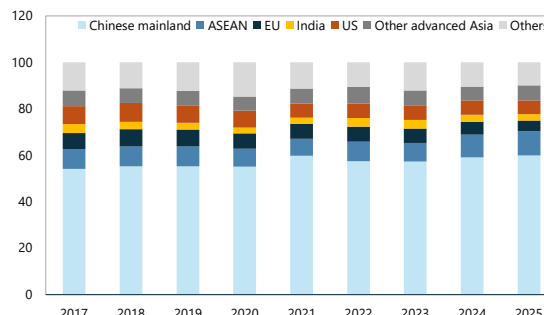
(In percent of total imports)



Source: International Trade in Goods database.

Hong Kong SAR: Destination of Gross Exports of Goods

(In percent of total exports)



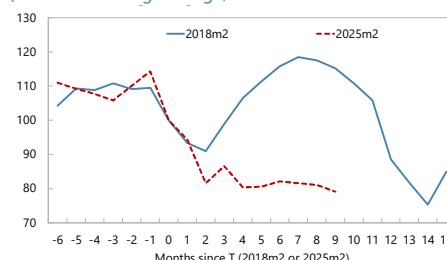
Source: International Trade in Goods database.

The imposition of higher US tariffs on China has also affected Hong Kong SAR. The effective US tariff rate on China, including Hong Kong SAR, is estimated at about 32.3 percent, a marked increase relative to end-2024. Unlike in 2018, when Hong Kong SAR was not covered, shipments to the US have declined.

Nonetheless, the direct impact appears limited, as trade exposure to the US is modest and has declined over time. Staff estimates indicate that 3.3 percent of total value added generated in Hong Kong SAR meets US demand—around 2 percent through direct exposure and 1.2 percent indirectly via third-country exports (the use of Hong Kong SAR's output in third countries that is exported to the US). Direct exposure of the goods-producing sector is very small, reflecting Hong Kong SAR's role as a shipping and transshipment hub with high import content in exports. Overall, the primary transmission channel is likely operating through the impact of tariffs on major trading partners, particularly the Chinese mainland and the US.

Hong Kong SAR: Re-exports from Chinese Mainland to the US

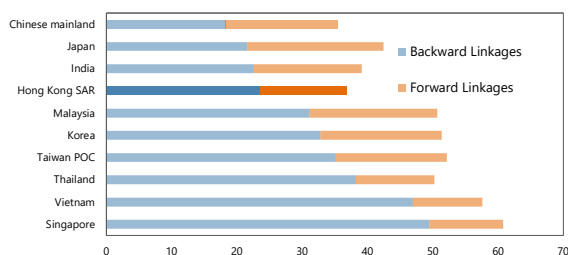
(3-month moving average, 2018m2 and 2025m2 = 100)



Sources: CEIC; and IMF staff calculations.

Backward and Forward Linkages of Exports in Selected Asia Pacific Economies, 2024

(percent of total exports)



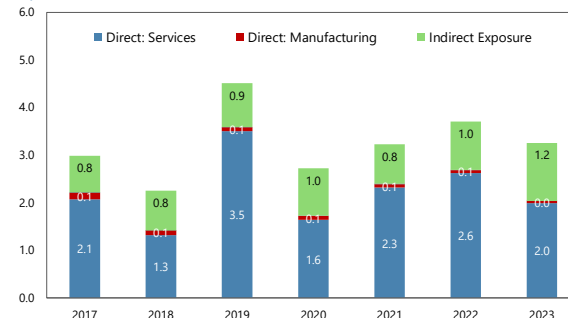
Source: Asian Development Bank.

Taiwan POC refers to Taiwan, Province of China.

Backward linkages refer to foreign inputs used in the gross exports of each reporting country, forward linkages measure the inputs from the reporting country used by its partners in their exports.

Hong Kong SAR: Exposure to US Demand

(percent of total value added)



Sources: ADB MRIO database, IMF staff (W. Xin) calculations.

¹Prepared by Narayanan Raman (APD).

OUTLOOK AND RISKS: MODERATING NEAR-TERM GROWTH AND ELEVATED RISKS

17. Real GDP growth is projected to moderate to 2.4 percent in 2026, reflecting weaker external demand and a return of tighter financial conditions amid the war in the Middle East. The adverse impact of the war is expected to be largely offset by the continued growth momentum into early 2026 and support from public sector demand. Private investment is expected to remain supported by sustained business confidence, including in technology-related sectors. Private consumption is projected to grow by 1.7 percent, underpinned by positive real wage growth, but dampened by slower than expected monetary easing. Net exports are projected to contribute around 1.1 percentage point to growth, supported by tech-related investment, though partly offset by weaker tourism and other external demand. Public expenditure is expected to remain supportive amid remaining economic slack. Inflation is forecast to rise to 2.1 percent due to higher commodity prices, while the output gap narrows to -2.2 percent of potential GDP in 2026.

18. Growth is projected to converge toward potential over the medium term. Private consumption should strengthen over the medium term as the recovery from the pandemic-induced downturn continues. Private investment is projected to expand supported by increased spending on technology and new growth activities, including strategic initiatives such as the Northern Metropolis. On the other hand, public expenditure is projected to exert a negative impulse on growth from 2029 onwards as declines in government consumption outweigh increases in public investment. As a result, growth is expected to settle at around 2 1/4 percent by 2031, with the output gap closing gradually.⁶ Inflation is projected to return to its long-run average of about 2.5 percent. Stronger domestic demand and broadly stable savings are expected to narrow the current account surplus to around 11.4 percent of GDP by 2031. The medium-term outlook assumes continued strengthening of Hong Kong SAR's super-connector role, successful talent attraction and effective mobilization of private investment in the Northern Metropolis⁷.

19. The outlook is subject to high uncertainty with risks tilted to the downside (Appendix II). As a highly open economy, Hong Kong SAR remains exposed to external shocks.

- *External downside risks.* The intensification and widening of conflicts, including the war in the Middle East, escalating geopolitical tensions, a prolonged period of higher commodity prices, particularly oil prices, further trade restrictions and heightened financial market volatility could weaken external demand and tighten financial conditions even more. Spillovers would transmit quickly through fund

⁶ As noted in the [staff report](#) for the 2024 Article IV consultation discussions, structural factors, including demographic headwinds and lower contribution from capital accumulation, are expected to result in slower potential output growth over the medium term relative to the pre-pandemic period.

⁷ The medium-term baseline incorporates only the direct investment into the Northern Metropolis. The project is envisioned as a multi-decade effort, with the government prioritizing readying 900 hectares of "spade ready" land by 2030. The final project will cover over 3,000 hectares (see the [Chief Executive's 2025 Policy Address](#)). At this stage, the full benefits from the project are difficult to enumerate.

flows, corporate balance sheets, and market-based financing channels⁸. Greater NBF activity increases sensitivity to global risk-off episodes⁹. Tighter global financial conditions could raise domestic interest rates, compress property valuations, and strain debt-servicing capacity, particularly in more vulnerable segments such as parts of small and medium size enterprises and the real estate sector. A downturn in the global tech cycle, including due to an abrupt revision of expected productivity gains from AI, could further weigh on activity, while cyber risks remain elevated given the system's high interconnectedness. Bank exposures to the Mainland property market, though declining, remain a risk.

- *Domestic downside risks*: Although pressures in RRE have eased, vulnerabilities persist in CRE, particularly in the office segment (Appendix VIII). A further decline in prices—potentially triggered by risk-off shocks or a further tightening of financial conditions could adversely affect banks and the broader economy under a severe shock. HKMA's scenario analysis, however, indicates that banks' strong capital buffers and profitability provide them with the capacity to absorb potential losses under a prolonged and severe CRE downturn.
- *Upside risks*. Faster-than-expected AI productivity gains could raise potential and actual growth, while accelerated implementation of strategic projects, including ramped up private investment in the Northern Metropolis, could boost overall investment and support structural transformation.

20. An adverse scenario encompassing notably higher global oil prices, supply chain disruptions, and a further tightening of financial conditions would have significant implications for Hong Kong SAR's economy¹⁰. Under this scenario, global GDP would decline by 0.8 percent relative to the baseline in 2026. For Hong Kong SAR, the impact would be material, primarily through the adverse impact on domestic activity, weaker external demand and tighter financial conditions, reducing real GDP by about 0.5 percent in 2026 and 0.6 percent in 2027. Inflation would be 0.7 percentage points higher in 2026, reflecting the pass-through from higher global energy prices. The fiscal deficit would widen in 2026 and 2027 by 0.2 pp and 0.5 pp of GDP respectively, absent

⁸ International spillover risks for Hong Kong SAR stem from the concentration of foreign exposures and the system's significant reliance on US dollar funding (panel figures 5 and 10). The Bank for International Settlements (BIS) consolidated data indicate that foreign banks' claims on Hong Kong SAR are mostly locally booked exposures to the non-bank private sector, implying that external stress would transmit mainly through corporate balance sheets and market-based finance channels. BIS locational statistics further show that banks located in Hong Kong SAR maintain geographically concentrated cross-border positions on both the asset and liability sides, particularly vis-à-vis the Chinese mainland, the UK, the US, and Japan, with cross-border liabilities predominantly denominated in US dollars. This structure makes global dollar funding conditions a key external risk amplifier.

⁹ Spillovers are most likely to materialize through credit line drawdowns and tightening of funding, as exposures are dominated by contingent commitments. Banks' direct exposures to NBFs have grown over the past decade but remain limited at 13 percent of banks' asset/liabilities. Within the financial sector, banks' exposure to more leveraged NBFs, such as hedge funds, private equity, and private credit funds, account for only a small share of banking sector assets. Banks' claims are primarily in loans and debt securities, whereas funding from NBFs is largely deposit-based, with limited reliance on market-based instruments.

¹⁰ See April 2026 WEO, in which an adverse scenario features a pronounced and persistent oil price shock, an increased one-year-ahead global inflation expectations, and a risk-off episode with increases in corporate premia and sovereign spreads.

adjustment. HKMA's stress tests suggest that, even under an even more severe tail-risk scenario, banks would remain above regulatory minima for capital adequacy.

21. The deterioration envisaged in this downside scenario could be accommodated by recalibrating the fiscal consolidation path. Automatic stabilizers, primarily through lower revenues, should be allowed to operate, given available fiscal space. Direct economic support could be deployed if conditions deteriorate further, particularly in light of Hong Kong SAR's lack of standing countercyclical tools such as comprehensive unemployment benefits. The experience during the pandemic, which involved expanded support to firms and workers, could be contemplated again, targeting the most vulnerable segments of the population. However, given that a portion of fiscal space was used during the pandemic,¹¹ additional adjustment could be achieved by reprioritizing expenditure within the existing spending envelope.

Authorities' Views

22. The authorities saw somewhat stronger near-term growth, with a broadly similar assessment of risks. They expect continued expansion in 2026, with growth projected at 2.5–3.5 percent, supported by improving domestic demand and robust external conditions. Signs of recovery are evident in consumption, investment, and a pickup in residential property markets, although commercial real estate continues to face headwinds. They consider the output gap is narrower and the current fiscal stance is appropriate. The external outlook was viewed as highly uncertain, with risks tilted to the downside, particularly from geopolitical developments, including the war in the Middle East, and potential spillovers through external demand, commodity prices, supply chains, and global financial conditions. At the same time, the authorities did not rule out upside risks, including stemming from stronger AI-driven export growth and productivity gains, emerging growth engines such as "AI+" and "Finance+", and an enhanced role for Hong Kong SAR as a super-connector, including through trade diversion, investment attraction and increased tourism. While uncertainty complicates contingency planning, the authorities noted that fiscal space remains available and could be deployed if needed, including by adjusting the pace of consolidation.

REBUILDING BUFFERS AND SAFEGUARDING RESILIENCE

23. Hong Kong SAR's strong macroeconomic policy framework provides a solid foundation to rebuild fiscal buffers in the medium term and maintain forward-looking financial oversight. The framework continues to function smoothly, anchored by the credibility of the LERS, a record of prudent fiscal management, robust financial regulation with sizeable capital and liquidity positions, and flexible markets. Looking ahead, rising aging-related spending, expanding social needs, and large-scale investments—including the Northern Metropolis—will require a broader and more stable revenue base. Policy discussions emphasized comprehensive revenue reform, including consideration of a broad-

¹¹ Fiscal reserves declined from 40.8 percent of GDP (23 months of government spending) in 2019 to 19.7 percent of GDP (10 months of government spending) in 2025.

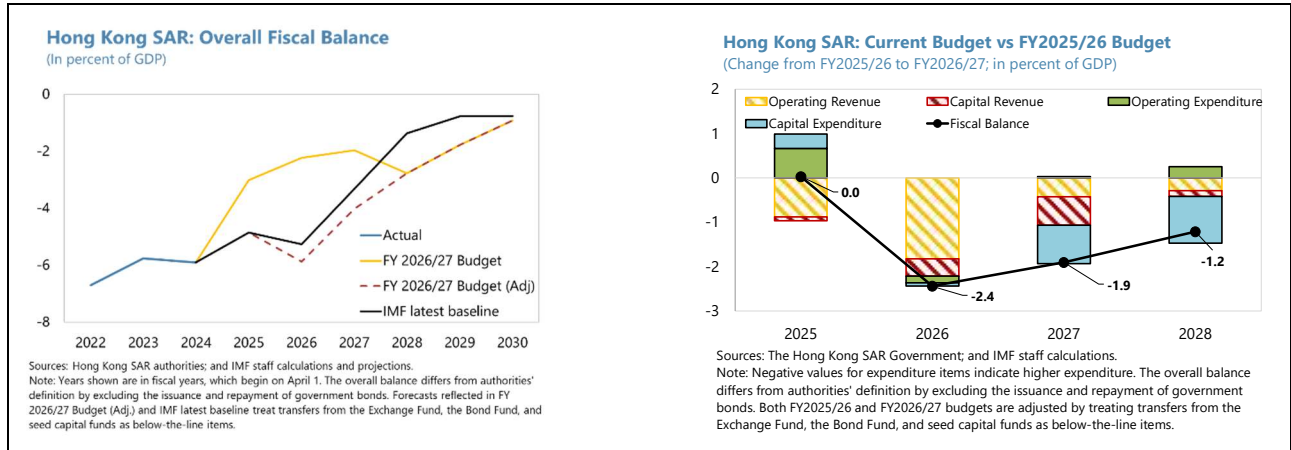
based goods and services tax (GST) with well-designed compensation measures, alongside expenditure prioritization and strengthened medium-term fiscal planning. Preserving financial stability will require continued monitoring of corporate and CRE risks, and introduction of system-wide stress testing. Safeguarding growth-enhancing capital spending, strengthening the social safety net, and improving the targeting and supply of public housing will support more inclusive growth. Well-designed industrial policy can support diversification and innovation only if grounded in addressing identifiable market failures and supported by strong governance and targeted, time-bound incentives. Together, these measures would strengthen fiscal space, support structural transformation, and bolster resilience to macro-financial shocks.

A. Fiscal Policy: Balancing Near-Term Support with Medium-Term Consolidation

24. The fiscal deficits that have emerged in recent years are expected to persist over the medium-term. The authorities have financed the deficits by drawing on the fiscal reserves and raising the bonds issuance ceiling (from HK\$500 billion in the FY2024/25 budget to HK\$900 billion in the FY2026/27 budget), thereby supporting economic activity. In addition, the deficit financing in FY2026/27 also entails off-budget transfers. These include a transfer of HK\$150 billion (around 4 percent of GDP) from the Exchange Fund to the Capital Works Reserve Fund (split evenly between 2026 and 2027), alongside transfers of HK\$37 billion (1.1 percent of GDP) from the Bond Fund in 2026 and HK\$15.8 billion (0.5 percent of GDP) from funds outside the government accounts in 2026.¹² On a GFSM basis, staff projects the budget deficit to widen to 5.3 percent of GDP in FY2026/27¹³, mainly reflecting the lower operating revenue. Over the medium term, consolidated deficits are projected to persist through 2031, as revenue gains moderate and capital spending remains elevated, with some uncertainty around the increase in revenue absent off-budget transfers.

¹² While the Government records these inflows as revenue without distinguishing between above- and below-the-line items, under the IMF's Government Finance Statistics Manual (GFSM) these transfers are treated as below-the-line financing operations. Under GFSM 2014 transactions are classified based on their economic substance, and these transfers would therefore be treated as below-the-line operations.

¹³ In addition to differences in the treatment of off-budget transfers, staff's baseline projections for government revenue and expenditure differ from those in the budget. In the near term, staff's baseline shows a smaller deficit widening, reflecting assumptions of only partial execution of planned capital spending and more conservative projections for capital revenues and land sales. Over the medium term, it projects stronger consolidation due to lower capital spending in line with past under-execution.



25. While the fiscal stance in 2026 is appropriate, medium-term consolidation efforts should be stronger, given spending pressures and the need to rebuild fiscal reserves. The still-negative output gap and low inflation point to an incomplete domestic demand recovery. Under these cyclical conditions, the fiscal stance in FY2026/27—as measured by the change in structural primary balance—is broadly appropriate (Text Table 1). However, stronger medium-term consolidation efforts will be needed to rebuild fiscal reserves and address rising structural spending pressures, while bolstering the capacity to respond to future shocks in a more uncertain global environment.

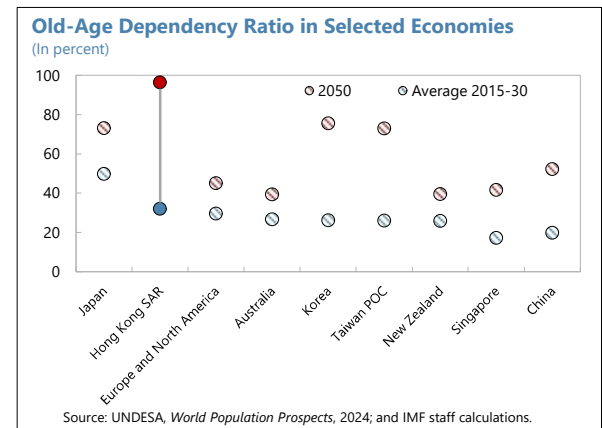
Text Table 1. Fiscal Stance

Annual change in structural primary balance	2025	2026	2027	2028	2029
2024 Staff Report	3.0	1.7	1.6	1.5	0.2
Current	2.6	-1.0	1.9	1.9	0.3

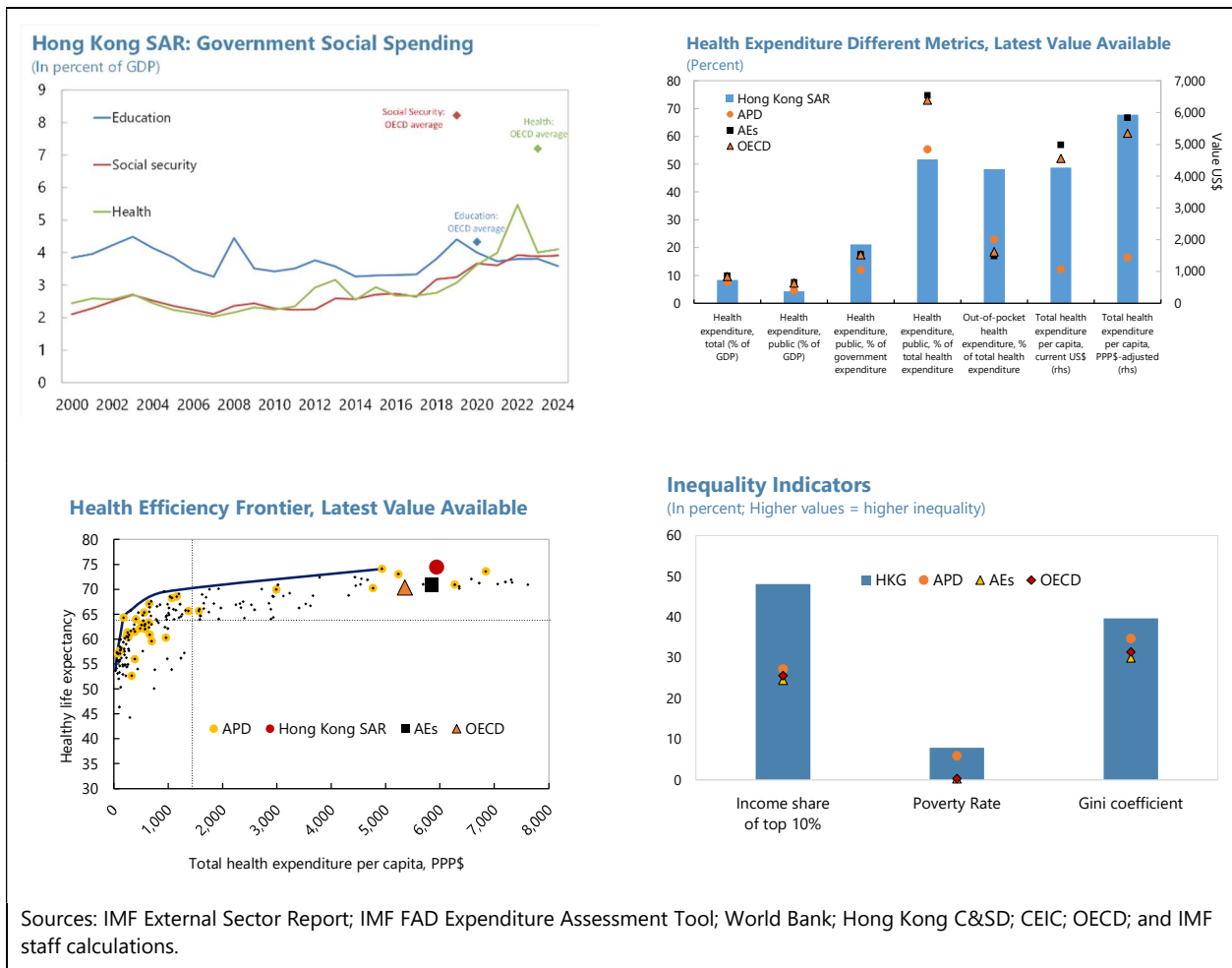
Source: IMF staff calculations.
Note: Higher values indicate more contractionary fiscal stance.

26. Spending pressures will rise with population aging, gaps in social protection, and large infrastructure projects. Absent broader reforms, reliance on incremental savings and selective “user-pay” adjustments (Appendix IV) may prove insufficient to secure durable fiscal balance.

- Aging-related pressures.** The FY2025/2026 Budget expanded care service voucher schemes, increasing annual expenditure by over HK\$2.6 billion. As aging accelerates, health care, long-term care, pension obligations, and elderly support are expected to rise significantly. By 2040, the extra spending is projected at around 1.8 percentage points of GDP annually (Hoyle, 2025), with potential social security enhancements adding a further 0.9 percentage points of GDP per year.



- Social spending gaps.** While education spending is broadly comparable to advanced-economy peers, health and social security expenditure remain relatively modest.

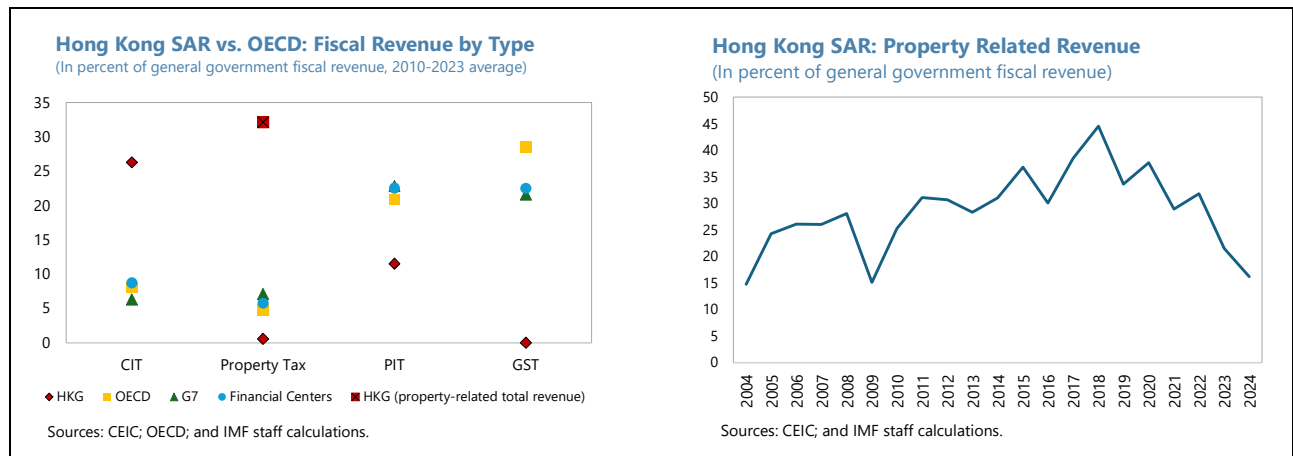


- Limited unemployment protection.** Hong Kong SAR lacks a formal unemployment-protection insurance system¹⁴. Support relies solely on the means-tested Comprehensive Social Security Assistance (CSSA) scheme, which has strict eligibility criteria and low take-up (around 10 percent during the 2020 unemployment surge¹⁵). Stronger protections for the unemployed would increase automatic stabilizers in fiscal policy settings.
- Large infrastructure projects.** Large multi-year projects, particularly the Northern Metropolis, could raise long-term growth but entail a conservatively estimated annual costs of 0.2–0.4 percent of GDP, per year, over the medium term. A clear long-term financing plan, reduced reliance on one-off transfers, careful sequencing, transparent cost management, and a strengthened medium-term fiscal framework will be essential.

¹⁴ The size of unemployment benefits is limited, whereas the OECD average is 63 percent of disposable household income.

¹⁵ See the [study](#) by the Research Office of the Legislative Council Secretariat.

27. At the same time, the territory's revenue system remains narrow and highly concentrated, relying heavily on the profits tax and property-related revenue. Effective tax rates are low by international standards, with no broad-based GST and no taxes on dividends or capital gains, while personal income tax (PIT), and corporate income tax (CIT, the profits tax) rates are set at the lower end of peer economies. The CIT contributes 5–6 percent of GDP, and roughly one quarter of total government revenue, well above the OECD norms. Property-related revenues have historically accounted for around 30 percent of total fiscal revenue but are highly volatile. By contrast, the PIT and indirect taxes play only a limited role, leaving the system concentrated and sensitive to economic and property-market fluctuations.



28. Comprehensive medium-term tax reforms are needed to sustain the strong fiscal position given the increased spending pressures. While the authorities have introduced incremental revenue and expenditure measures, a broader and more stable revenue base will be required. Earlier reform efforts, including the 2006–07 tax consultation, already identified the narrow tax base and the case for major revenue reforms, notably the introduction of a GST.

- **Incremental measures.** Adjustments within the existing framework—such as extending the progressive PIT schedule to all salary income, broadening excise duties, and modestly increasing the CIT rate—could generate additional revenue while preserving Hong Kong SAR's low-tax and competitiveness objectives. The introduction of the Hong Kong minimum top-up tax and global minimum tax framework for in-scope multinational enterprise groups is welcome and is expected to bring in additional tax revenue of about HK\$15 billion annually starting from FY2027/28 onward ([Hong Kong SAR Government FY2026/27 Budget](#)). However, the overall revenue potential of the incremental measures is limited. Staff estimates that a combination of moderate revenue measures and expenditure restraint would raise about 1 percent of GDP in additional revenue by 2040 (see Selected Issues Paper).
- **New measures.** A broad-based GST would broaden and diversify the tax base and align with the territory's saving and investment-oriented model. Revenue yields would depend on the rate and base coverage; for example, an 8 percent GST could generate 3–4 percent of GDP in revenue (see

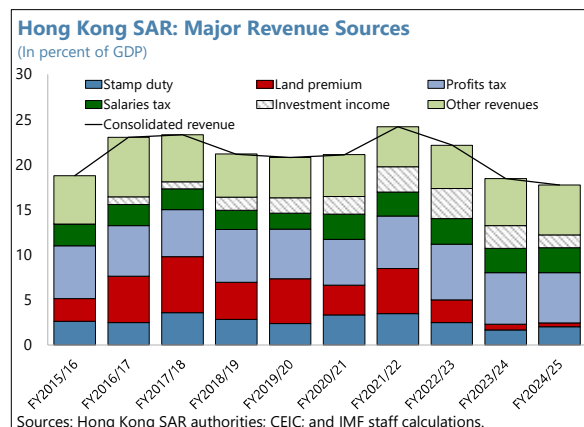
Selected Issues Paper), sufficient to meet projected medium-term spending needs. Well-designed compensation, such as calibrated increases in social security payments and targeted tax rebates for low- and middle-income households, would be important to offset one-off price effects, while selective excise adjustments could help contain price pressures and limit cross-border substitution.

Authorities' Views

29. The authorities emphasized that fiscal policy remains prudent and supportive of growth, underpinned by Hong Kong SAR's simple and low tax regime. Stronger-than-expected revenues in 2025—driven in part by higher stamp duties and higher profits taxes through robust economic activity—are expected to carry over into 2026, reflecting solid growth prospects supported by Mainland-related activity and new growth engines (“AI+” and “Finance+”). Besides, the overall government expenditure has a modest increase. Maintaining the operating balance remains a principle and is expected to be achieved primarily through containing the growth of the Government's operating expenditure, supported by revenue gains and consolidating the Government's financial resources, and revenues to be generated through further diversification of the economy. At the same time, significant capital spending will keep the capital account in deficit and be financed through increased bond issuance and a HK\$150 billion transfer from the Exchange Fund. The authorities viewed these investments as critical to long-term growth and diversification, including through targeted support to priority sectors, and emphasized that fiscal reserves remain adequate. While acknowledging potential room to further strengthen assistance for the needy, the authorities emphasized that existing schemes such as the CSSA have provided adequate support to the vulnerable population. Looking ahead, they underscored efforts to contain demographic-related spending pressures through expenditure rationalization, while maintaining a low-tax framework and relying on economic diversification, rather than substantial tax increases, to strengthen the revenue base over time.

B. Financial Sector Policies: Safeguarding Financial Stability Through Sustained Vigilance

30. Vulnerabilities among highly leveraged NFCs—particularly SMEs, real estate developers, and firms with significant Mainland exposures—should continue to be an area of supervisory focus. Timely recognition of expected credit losses and adequate provisioning remains essential to safeguard bank balance sheets. Remaining support measures for SMEs should be carefully targeted and calibrated to ease liquidity strains among companies without distorting credit allocation or delaying necessary restructuring and the orderly exit of non-viable firms. Greater use of digital infrastructure, such as the Commercial Data Interchange, could help reduce information asymmetries and improve financing access for viable firms. In CRE, with declining collateral values and refinancing pressures



heightening risks for exposed banks, the HKMA should continue to enforce prudent underwriting, sound valuation practices and capital buffers commensurate with concentration risks. Continued strengthening of surveillance of Mainland exposures, including counterparty interconnectedness and property spillovers, should remain a priority.

31. Strengthening the monitoring framework is welcome as the NBFIs sector evolves. While private credit funds and other higher-yielding strategies remain modest relative to global peers, they could increase interconnectedness and sensitivity to global liquidity conditions and risk sentiment. The SFC and HKMA have strengthened their surveillance framework by integrating granular supervisory and trade-repository data to identify leveraged entities and risk concentrations. The authorities have also enhanced systemic risk assessments and market-wide monitoring of higher-risk activities, including derivatives exposures which remain limited so far. Expanded risk assessments and stress testing have improved early-warning capacity and enabled more targeted supervision.

32. Introducing system-wide stress testing could further strengthen macroprudential surveillance. A system-wide approach would assess the resilience of the broader financial network under severe but plausible macro-financial scenarios, jointly evaluating solvency, liquidity, and contagion risks across banks, NBFIs, key non-financial sectors, and digital markets. Supported by enhanced data collection of intersectoral claims, as recommended by the 2021 FSAP, such framework would better capture domestic and cross-border transmission channels and provide a more comprehensive assessment of systemic resilience. The exercise could be coordinated through existing interagency arrangements and initially focus on targeted areas where risks are most apparent, given the resources required to develop a comprehensive system-wide framework.

33. Policies aimed at safeguarding financial stability during the adjustment in the RRE were broadly maintained in 2025, which appears appropriate.

- *Macroprudential measures.* In 2023–24, the authorities loosened countercyclical macroprudential measures through a series of targeted adjustments. The loan-to-value (LTV) caps and debt service ratio (DSR) limits for property mortgage loans¹⁶ were brought back to their supervisory limits, which reflect authorities' risk tolerance and which they are not prepared to relax. LTV caps on net-worth-based mortgage lending were increased. Previously binding add-on constraints were also removed, including the 10 percentage-point LTV/DSR adjustment for borrowers with overseas income and the 5 percentage-point DSR reduction linked to high aggregate leverage. These macroprudential measures remained unchanged in 2025, which is appropriate given the stabilization in market conditions, mortgage credit and asset quality.
- *Fiscal measures/Capital flow management and macroprudential measures.* Amendments to stamp duty in February 2025 raised the maximum property value eligible for the lowest \$100 duty rate from \$3 million to \$4 million, providing targeted relief to lower-priced transactions.¹⁷ This follows

¹⁶ Property mortgage loans in Hong Kong SAR include both residential and non-residential property loans.

¹⁷ Based on staff assessment, this measure raises no capital flow management concerns.

the earlier removal of demand-side measures in 2023–2024, including removal of stamp duties, which were assessed by Fund staff to be capital flow management and macroprudential measures.

34. Future adjustments to the positive-neutral countercyclical capital buffer (CCyB) should be carefully calibrated to balance credit support with preserving banking system resilience.

Introduced at 1 percent in April 2024 to build releasable capital, the buffer was reduced to 0.5 percent in October 2024 as part of a broader package to support SMEs and has remained unchanged since. Going forward, buffer releases should be reserved for episodes of broad-based stress, while sector-specific vulnerabilities are better addressed through targeted macroprudential tools, including a potential use of a sectoral CCyB.

35. Maintaining strong compliance with AML/CFT standards remains important to safeguard financial integrity and preserve market confidence.

The authorities have demonstrated a strong commitment to enhance the AML/CFT system, as reflected in the 2019 Mutual Evaluation Report by the Asia Pacific Group (APG) of the Financial Action Task Force (FATF) and the 2023 Follow-Up Report¹⁸. Supervisory intensity has increased, with onsite examinations doubling in 2025 alongside expanded offsite reviews, while disciplinary actions have risen and investigation times have shortened markedly. The HKMA is advancing a more forward-looking approach to monitoring, supported by the Banking (Amendment) Ordinance 2025, which strengthens information sharing and collaboration, including through intelligence sharing among banks and improved identification of cross-border risks. The authorities should continue ensuring robust risk-based AML/CFT supervision of financial and non-financial sectors and maintain close cooperation with international counterparts to identify and combat money laundering threats posed by foreign proceed-generating crimes.

36. The authorities have advanced implementation of the 2021 FSAP recommendations (Appendix VI), strengthening the crisis management and resolution framework and enhancing cyber risk supervision.

Following the 2024 review of the Deposit Protection Scheme (DPS), depositor protection was reinforced by raising the coverage limit to HK\$800,000, refining levy arrangements, and strengthening liquidity backstops. Amendments to the Financial Institutions (Resolution) Ordinance have been consulted to enhance the flexibility of resolution triggers, and initiatives are underway to enhance resolution execution, inter-agency coordination and cross-border coordination. Cyber risk supervision has been intensified through joint crisis simulation exercises and mapping of systemic interdependencies. Oversight of virtual assets has also been strengthened through enhanced data collection, reporting, licensing, and surveillance.

¹⁸ The 2023 report upgraded the rating for the supervision of Designated Non-Financial Businesses and Professions (DNFBPs) to “Largely Compliant,” reflecting the adoption of risk-based supervision. However, the rating for “New Technologies” was downgraded to “Partially Compliant” following updated standards on Virtual Asset Service Providers. Additional AML/CFT requirements for virtual asset service providers were introduced since the 2023 Follow-Up Report, including amendments to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance to introduce a licensing regime for centralized virtual asset exchanges trading non-security tokens (effective June 1, 2023), and the enactment of the Stablecoins Ordinance, which requires stablecoin issuers to implement AML/CFT controls (effective August 1, 2025).

37. The LERS continues to serve Hong Kong SAR well, consistent with its high degree of openness and globally integrated financial system. Its credibility rests on a transparent, rules-based framework, substantial fiscal and foreign reserve buffers, a well-capitalized and closely supervised banking sector, and a strong track record of policy discipline. Flexible labor and product markets support internal adjustment, helping preserve competitiveness despite exchange rate and capital flow volatility. During episodes of heightened capital flow swings in 2025, the framework operated as designed, absorbing fluctuations while maintaining exchange rate stability.

Authorities' Views

38. The authorities assessed the financial system as resilient, with risks well contained and supported by strong buffers and proactive supervision. They viewed banking sector vulnerabilities as limited, noting that while domestic CRE—particularly exposures to small and medium-sized developers—remains the main risk, exposures to financially weak Chinese mainland property developers have largely been downgraded and provisioned for, with a significant share of exposures secured and at relatively conservative loan-to-value ratios. Residential mortgage portfolios continue to perform well, with low delinquency rates, and borrower leverage broadly moderate. Banks were seen as well positioned to absorb shocks, supported by strong provisioning coverage, solid profitability, and the absence of significant concentration risks. Supervisory priorities remain focused on credit risk—particularly CRE and SMEs—alongside heightened attention to operational and cyber risks amid rapid digitalization, including third-party dependencies, as well as fraud and scams. They also emphasized that macroprudential settings, including LTV limits, are broadly appropriate, and that existing tools remain effective in the Hong Kong SAR context. The authorities noted that NBFIs exposures to risky activities remain limited. To avoid procyclical tightening of credit, HKMA will continue to encourage banks to maintain credit flows to SMEs facing short-term liquidity strains, subject to prudent risk management, noting that vulnerabilities remain in some sectors, including construction and retail.

C. Property Markets: Improving Housing Affordability

39. Improving housing affordability will require sustained expansion of public housing supply and stronger targeting of existing programs. While some segments of the private RRE market face excess supply, demand for public rental and subsidized housing remains elevated¹⁹, and delivery has lagged targets²⁰. Scaling up public housing production will therefore be essential to reduce waiting times. At the same time, authorities' ongoing efforts to strengthen enforcement of eligibility criteria

¹⁹ Although the average waiting time for public rental housing has declined to about 5.1 years in 2025 from a peak of 6.1 years in 2022, it remains high by historical standards.

²⁰ In the 2025 Annual Progress Report on long-term housing strategy the government revised the 10-year housing supply target down to 420,000 units (from 440,000 units in the 2024 report), with about 294,000 earmarked for public housing.

should improve allocation, including through more rigorous reviews and application of income and asset limits and stronger measures to curb tenancy abuse.

Authorities' Views

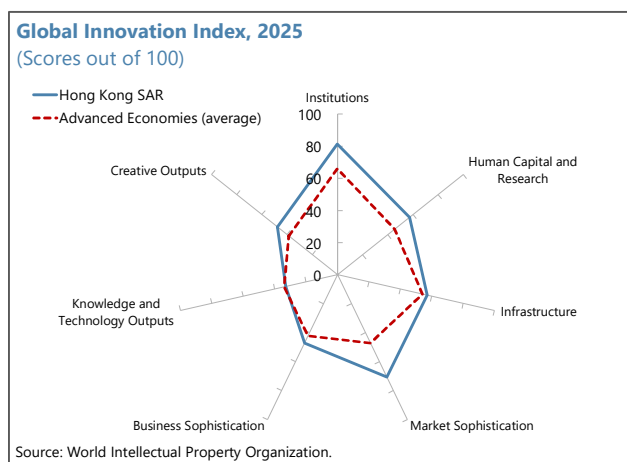
40. The authorities are taking steps to expand public housing supply and strengthen the targeting of housing support. The government highlighted plans to ramp up the provision of public housing, including through a 10-year (from 2026-27 to 2035-36) target to deliver 294,000 units, relaxation of mortgage arrangements for subsidized sale flats (SSF), and other initiatives to promote upward mobility. The authorities have also strengthened measures to combat tenancy abuse, including by criminalizing serious abuse of public rental housing (PRH) and requiring tenants to declare income, assets, domestic property ownership in Hong Kong SAR, and occupancy status biennially as part of regular eligibility reviews to ensure that scarce public housing resources are allocated to those in genuine need. In the meantime, the government would continue to closely monitor the situation in the private residential property market and take appropriate measures in response to market developments having regard to the changing circumstances.

PURSuing STRUCTURAL TRANSFORMATION IN A CHANGING GLOBAL LANDSCAPE

41. Global and regional shifts are reshaping Hong Kong SAR's growth landscape, creating both opportunities and structural challenges. Its super-connector role—underpinned by an open business environment, strong institutions, and flexible markets—remains a key advantage amid geoeconomic fragmentation and supply chain realignment. While innovation performance remains solid and productivity compares favorably with regional peers, much of these gains predate the Global Financial Crisis.

Revitalizing growth will require greater investment in Research and Development (R&D), stronger human capital development, and leveraging financial sector strengths to support innovation. Policy discussions therefore centered on sustaining financial competitiveness, reinforcing the super-connector role, and addressing structural labor market gaps, including low youth labor force participation.

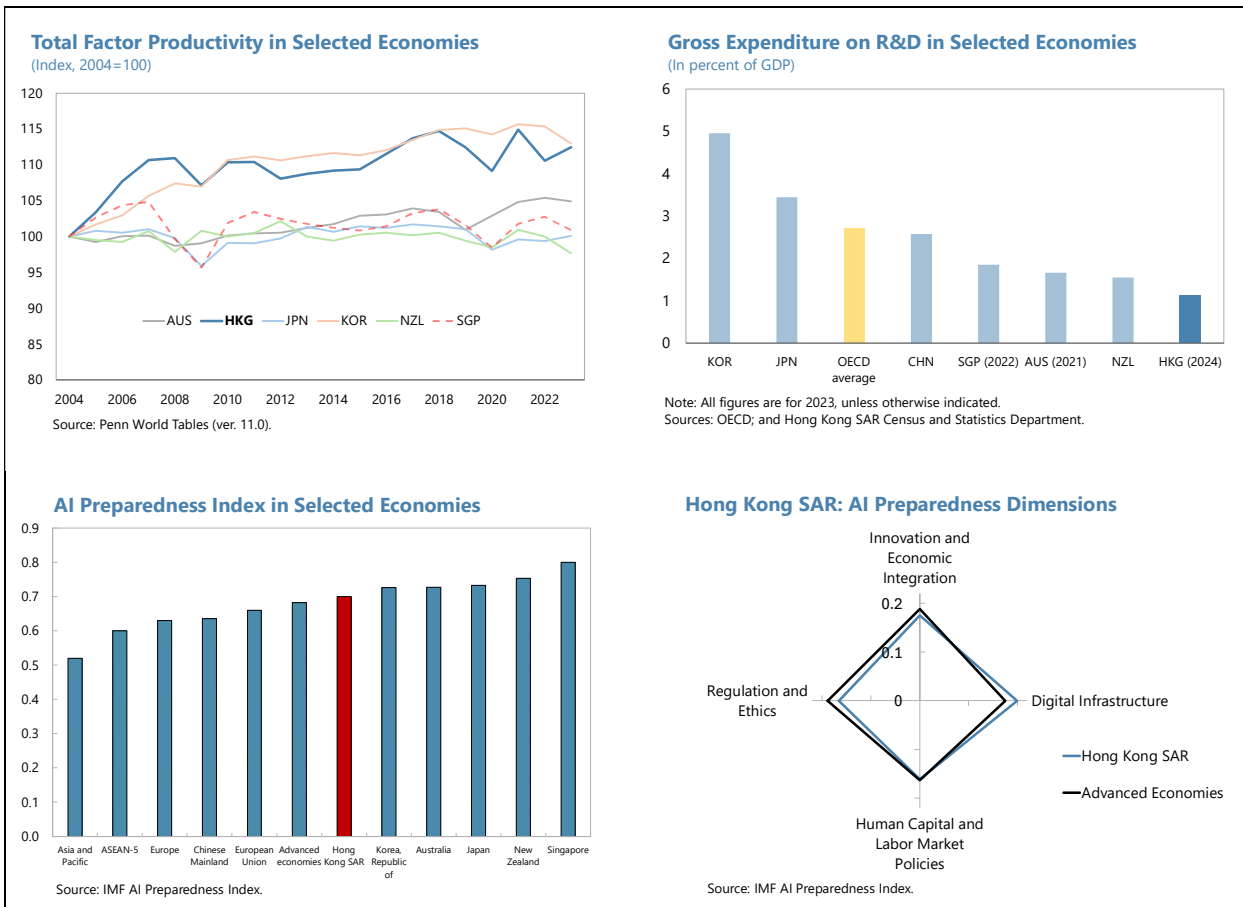
42. Artificial intelligence could serve as a catalyst for the next phase of productivity growth and structural transformation. Despite strong digital infrastructure and sophisticated services base, AI preparedness, while above the advanced economy average, trails some regional peers, particularly in regulatory and ethical frameworks governing AI deployment. The Government's "Artificial Intelligence



+” agenda—spanning strategic coordination, R&D support, computing infrastructure, workforce upskilling, public-sector digitalization, and data utilization—alongside the “AI training for all” initiative, is a welcome step toward strengthening preparedness and accelerating adoption. The authorities have also advanced AI governance through updated ethical and technical guidelines. Further strengthening digital skills, workforce retraining, and governance for responsible AI use would help translate adoption into sustained productivity gains and reinforcing Hong Kong SAR’s position as a high-value service hub.

43. The proposed use of industrial policy (IP) can support the strategic objective of economic diversification and enhance innovation and productivity but should be approached with caution.

The authorities have announced targeted and tailored preferential policy packages to attract firms in key sectors—such as advanced manufacturing, cutting-edge research and development, and high value-added services—to generate high-quality growth. While no projects have yet been approved and some measures, particularly tax incentives, may require legislative changes, the authorities are confident this approach will attract high-value investors. To be successful, IP should be grounded in a clear identification of market failures and supported by strong governance frameworks, transparency, and regular evaluation to ensure effectiveness. Support should be time-bound and targeted in scope, while maintaining open access to ensure it flows toward commercially viable investments and achieves the intended outcomes.



A. Leveraging New Opportunities in the Financial Sector

44. The HKMA has advanced an integrated digital finance agenda under its “Fintech 2030” strategy, focusing on modernizing market infrastructure, and promoting asset tokenization within a robust regulatory framework. Key initiatives include Project Ensemble, which enables settlement of tokenized assets using tokenized deposits initially anchored to the HKD RTGS system; the introduction of a licensing regime under the Stablecoins Ordinance to ensure prudential safeguards for fiat-referenced stablecoins²¹; and participation in Project mBridge, a cross-border wholesale CBDC platform, alongside the e-HKD pilot, exploring also potential domestic retail applications. Together, these initiatives prioritize wholesale and cross-border applications with clear efficiency gains. Meanwhile, the HKMA has completed the preparatory work for potential future use of an e-HKD for individuals and corporates, and the timeframe for implementing such an extension would be subject to international developments, latest technologies, and market needs.

45. Building on the significant progress achieved in strengthening the crypto-asset regulatory framework, further efforts should focus on deepening implementation and enhancing systemic oversight. As the regulatory perimeter expands to cover advisory, custodial, and asset management activities²², consistent application of the “same activity, same risk, same regulation” principle will be essential to prevent regulatory arbitrage. Stronger cross-sectoral coordination, improved data collection, and integration of crypto exposures into macro-financial surveillance and stress testing would help monitor emerging links with the banking system. Continued attention to operational, cyber, and interoperability risks remains essential to safeguard financial stability and market integrity.

46. Hong Kong SAR has also strengthened its role as a regional sustainable finance hub, with continued evolution of its supporting regulatory framework. By end-November 2025, green bonds issued by the Hong Kong SAR Government reached a HK\$252 billion equivalent, including HK\$17 billion equivalent in digital green bonds. The extension of the Green and Sustainable Finance Grant Scheme through 2027, expansion of the Sustainable Finance Taxonomy, and a phased roadmap toward adoption of the IFRS Sustainability Disclosure Standards, targeting full alignment by 2028, further underpin Hong Kong SAR’s position as a regional sustainable finance hub. Integration of climate risks into supervisory prudential frameworks is also advancing.

47. Going forward, priority should be given to the timely implementation of the taxonomy and international disclosure standards, and stronger integration of climate-related risks into financial sector oversight. Continued refinement of the Sustainable Finance Taxonomy with respect to

²¹ The Stablecoins Ordinance (August 2025) brings stablecoin issuance and offering under a regulatory framework supervised by the HKMA. Issuers of stablecoins in Hong Kong SAR, or Hong Kong dollar-referenced stablecoins in Hong Kong SAR or abroad, must be licensed, meet requirements on reserve backing, risk management, and AML/CFT, and only licensed stablecoins may be marketed to the public. Two entities have been recently granted a stablecoin issuer license.

²² The Financial Services and the Treasury Bureau and the Securities and Futures Commission have recently laid out the groundwork for the comprehensive licensing and regulation of virtual asset (VA) dealing, advisory, investment management and custodian service providers in Hong Kong SAR. This represents an important step toward completing the regulatory architecture for virtual assets, helping to ensure consistent oversight across the full-service value chain.

transition activities, adaptation, and interoperability with major international frameworks would enhance cross-border consistency. The Hong Kong Taxonomy for Sustainable Finance Phase 2A, published in January 2026, expands coverage to include transition and additional green activities, incorporates climate adaptation, and is set to be further broadened in the next phase. Ensuring timely and high-quality implementation of the IFRS Sustainability Disclosure Standards, supported by robust assurance and data infrastructure, will be critical to maintaining market confidence and minimizing greenwashing risks. Continuing embedding climate risks in supervision and macro-financial surveillance would strengthen resilience.

B. Deepening Hong Kong SAR's Super-Connector Role

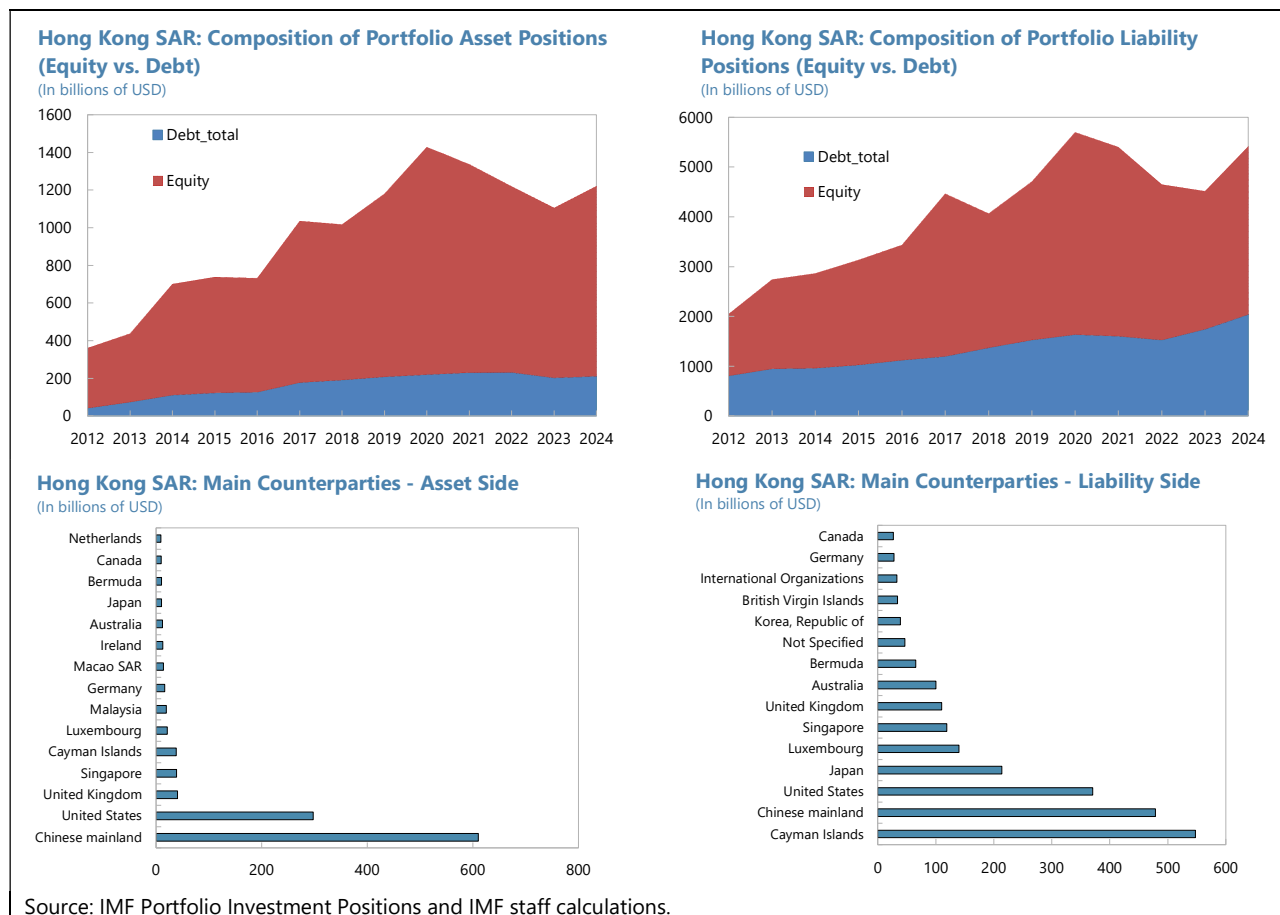
48. The authorities have continued to strengthen Hong Kong SAR's super-connector role by deepening cross-border financial integration and enhancing market infrastructure. This role rests on four pillars: (i) its position as the leading offshore renminbi hub, with deep RMB liquidity and derivatives markets, (ii) the capital market Connect schemes²³ and related channels, which facilitate two-way portfolio flows, (iii) its central role in intermediating FDI between the Mainland and the rest of the world, supported by deep capital markets, professional services, and international financial infrastructure, and (iv) a common-law framework and strong regulatory credibility that underpin investor confidence. The Greater Bay Area initiative and the Northern Metropolis development²⁴ could further entrench this role by expanding innovation capacity, and cross-border intermediation.

49. Hong Kong SAR's role as the leading offshore renminbi hub²⁵ and primary gateway for Mainland portfolio liberalization continues to shape cross-border capital flows. Portfolio liabilities have risen from about US\$414 billion in 2010 to US\$659.5 billion in 2025, while portfolio assets increased to around US\$2.7 trillion, underscoring Hong Kong SAR's intermediary role. Asset exposures remain concentrated in the Mainland through Connect schemes, while liabilities are largely sourced from global financial centers and offshore fund domiciles. The predominance of equity instruments underscores Hong Kong SAR's central role in facilitating equity market access, price discovery, and cross-border risk transfer.

²³ The capital market Connect schemes (Bond, Stock, Swap and Wealth Management) are programs to encourage deeper financial integration between the Chinese mainland and Hong Kong SAR, with guidelines and limits to manage risks, particularly for flows originating in the Mainland. A fifth scheme, Payment Connect, links the Mainland's Internet Banking Payment System with Hong Kong's Faster Payment System to speed up cross-border transactions. The connect schemes expanded markedly in 2025. Southbound Stock Connect flows reached about US\$100 billion in the first half of 2025, with trading accounting for about a quarter of main-board turnover. Swap Connect volumes quadrupled year on year to about RMB 7.16 trillion by end-June, while Bond Connect was strengthened through offshore repo, expanded Southbound access, and operational enhancements. Additional measures—including planned inclusion of REITs and RMB counters, a RMB 100 billion trade financing facility, and progress on cross-boundary payment linkages—further deepened financial integration.

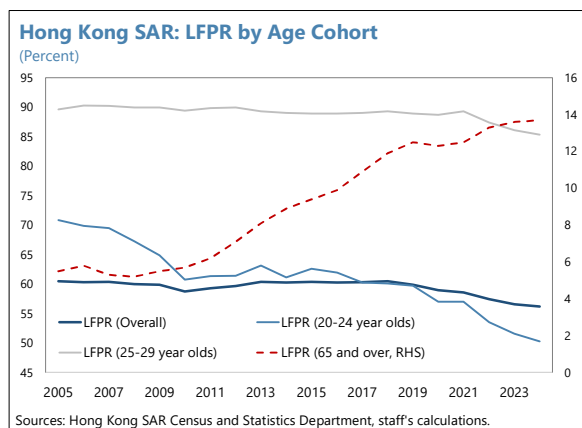
²⁴ See also discussions in the [2023](#) and [2024](#) Staff Reports on the Article IV discussions with Hong Kong SAR.

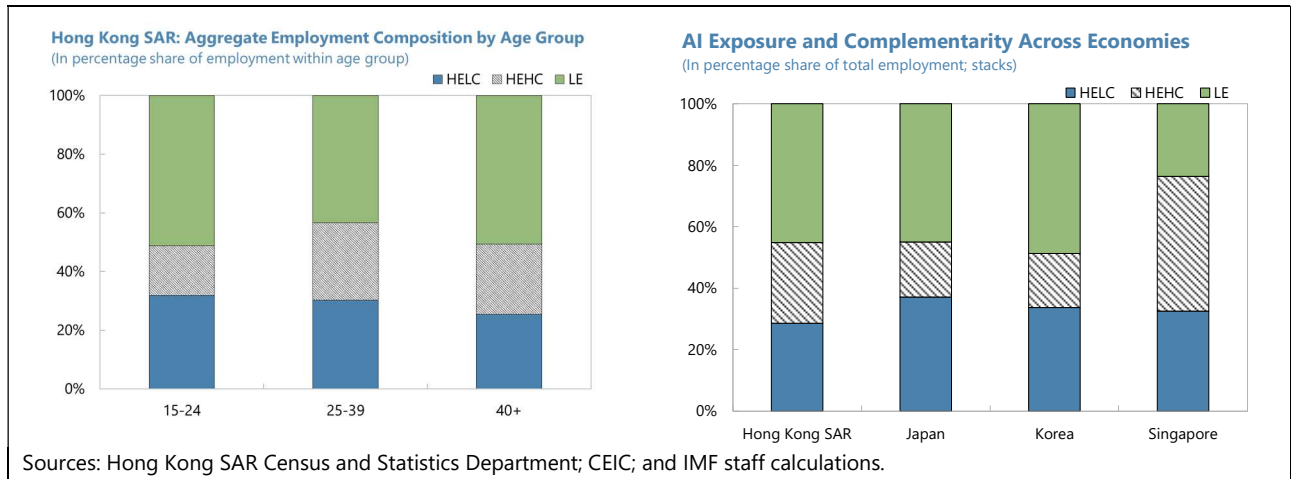
²⁵ See Box 6 in the 2025 Staff Report on the Article IV consultation with the People's Republic of China.



C. Addressing the Decline in Labor Force Participation and Preparing for Technological Change

50. The LFPR in Hong Kong SAR has been in steady decline for over a decade, with the pace accelerating in recent years. While population aging remains the dominant factor, a marked drop in youth participation has amplified the trend. Beyond effects from higher educational enrollment and a larger share of non-local students, the decline suggests delayed labor market entry as competition intensifies with rising educational attainment, shifting skill demands associated with structural change, and greater uncertainty related to technological transformation and AI adoption (see Selected Issues Paper).

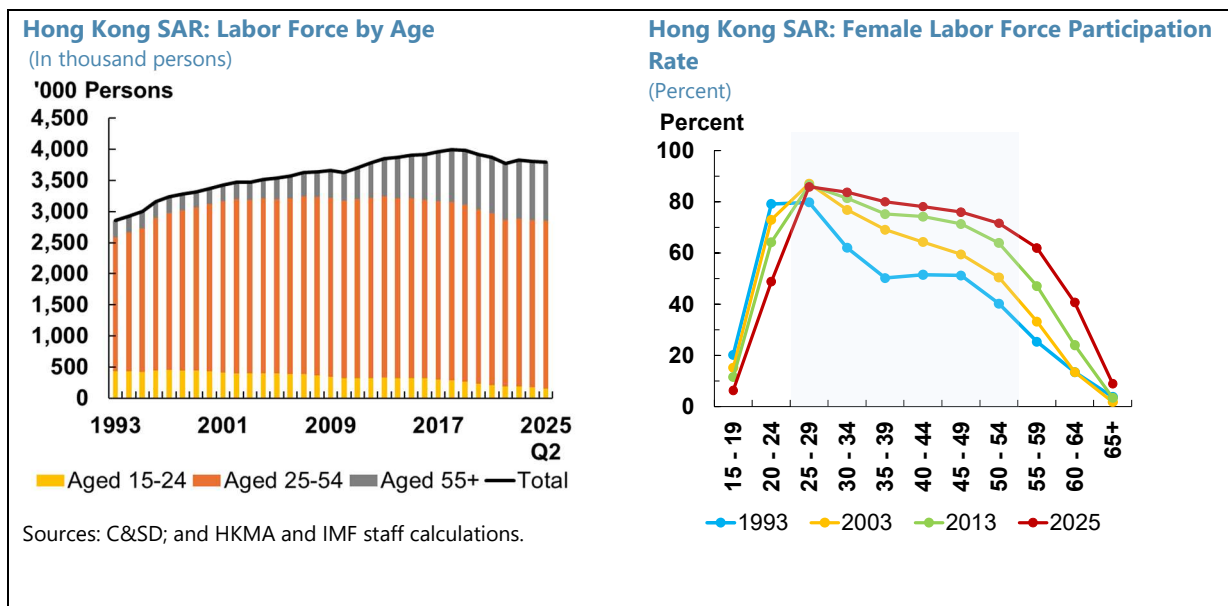




51. AI adoption is likely intensifying labor market segmentation, particularly at the entry level. Younger workers are disproportionately concentrated in routine occupations with high automation exposure where vacancy growth and wage prospects may weaken as adoption advances. By contrast, non-routine cognitive and interpersonal roles appear more resilient, increasing the premium on adaptable skills. Although Hong Kong SAR's employment share in high-exposure, high-complementarity occupations (see Selected Issues Paper) is broadly comparable to some regional peers, it remains below that of AI-frontier economies, underscoring the need to strengthen early-career skill formation and adaptability.

52. Addressing these overlapping demographic and structural pressures requires a coordinated policy response:

- **Population aging and female labor force participation:** Policies should promote longer and healthier working lives through incentives to raise effective retirement ages, flexible and phased retirement options, targeted mid-career reskilling, and expanded eldercare infrastructure to ease participation constraints. The Northern Metropolis development offers scope to attract younger skilled workers by integrating housing, employment, and innovation ecosystems. Although female labor force participation has improved at older ages, it remains below that of men during prime working years, reflecting childcare and family care responsibilities. Expanding affordable childcare and flexible work arrangements would support stronger attachment.



- **Skill mismatch:** As demand shifts toward digital, green, professional, and advanced services skills, education and training systems should emphasize market-relevant competencies. Targeted support for vulnerable youth would limit scarring effects and ease school-to-work transitions.
- **AI risk:** Policy priorities should accelerate acquisitions of AI-complementary skills, strengthening occupational mobility, and reinforcing social protection during transitions. Enhanced unemployment insurance and active labor market policies would improve resilience and facilitate efficient reallocation.

Authorities' Views

53. The authorities emphasized a strategy to support innovation and diversification while strengthening Hong Kong SAR's role as a digital finance hub, a super-connector, and a super value-adder. They highlighted that geopolitical shifts and increasing demand for diversification present opportunities for Hong Kong SAR to strengthen its role as a gateway for Mainland and global capital, including through further development of RMB markets, expansion of Connect schemes, and attracting corporates to establish regional headquarters and treasury functions. At the same time, they noted that fintech development is constrained by limited domestic scale and emphasized the importance of building shared digital infrastructure and enhancing data interoperability under ongoing strategies, including Fintech 2030, with a focus on tokenization, AI, and digital finance ecosystems. The authorities are advancing AI adoption through a comprehensive strategy alongside broad-based training initiatives, strengthened and up-to-date governance frameworks, and the planned establishment of an AI R&D institute. A risk-controlled GenAI Sandbox initiative has been launched and in operation since 2024 to support responsible AI innovation across financial sectors by providing technical assistance, free computing resources, targeted supervisory guidance, and opportunities for cross-sector collaboration. Climate finance was seen as a necessary but challenging agenda, requiring the mobilization of private

capital at scale, including through expanded taxonomies and multilateral support. Regarding industrial policy, the authorities stressed the importance of targeted and time-bound incentives to support priority sectors—particularly innovation and technology—while ensuring strong governance and efficient use of resources. On labor market developments, they attributed the decline in labor force participation mainly to population aging. The delayed labor market entry among younger cohorts to pursue further education was mainly driven by shifts in skills demand associated with sustained economic upgrading. This development will strengthen human capital and enhance the competitiveness of the labor force, thereby supporting Hong Kong SAR's long-term growth potential. To mitigate the drag from population aging, they have stepped up efforts to support retraining and upskilling, and to trawl for non-local talents through various talent attraction schemes.

STAFF APPRAISAL

54. Hong Kong SAR's economy has continued to recover, supported by strong exports and financial market activity, although the recovery remains uneven with persistent slack and structural headwinds. Real GDP surpassed its pre-pandemic peak in 2025, and the financial system remains resilient, with banks well capitalized, liquid, and profitable, and the LERS continuing to operate smoothly as a credible anchor for stability. The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies. However, economic activity remains below its pre-pandemic trend, with persistent slack, weak private investment, and declining labor force participation. While residential property markets have stabilized, CRE continues to face structural headwinds, and deeper integration with the Mainland presents opportunities and exposure to regional risks.

55. Growth is expected to moderate, with risks tilted to the downside amid elevated global uncertainty and domestic vulnerabilities. In the near term, the impact of the war in the Middle East on trade partner growth and global financial conditions is expected to weigh on activity, with medium-term growth stabilizing at a lower rate. Downside risks stem from an intensification of geopolitical tensions, further tightening of financial conditions, and potential disruptions to trade and financial flows, which could transmit rapidly through Hong Kong SAR's highly open and interconnected economy, particularly affecting vulnerable sectors such as CRE and SMEs. Domestic risks also arise from persistent vulnerabilities in CRE, where further price declines could adversely affect banks and the broader economy. Upside risks include stronger productivity gains from AI and faster implementation of strategic investment projects.

56. Financial sector risks appear manageable, supported by strong buffers and robust regulatory oversight, but continued vigilance is warranted. Maintaining banking sector resilience will require sustained supervisory focus on exposures to highly leveraged corporates, particularly in real estate and SMEs. Timely recognition of expected credit losses and adequate provisioning remain essential. Remaining SME support measures should be carefully targeted to ease liquidity strains without distorting credit allocation or delaying necessary restructuring of non-viable firms. Macroprudential measures related to residential real estate exposures remained unchanged in 2025,

which appears appropriate given the stabilization in market conditions, mortgage credit, and asset quality. In CRE, declining collateral values and refinancing pressures warrant continued prudent underwriting, sound valuation practices, and capital buffers commensurate with risks. Expanding system-wide stress testing would further enhance macroprudential oversight, particularly as the NBFIs sector evolves.

57. The fiscal stance in 2026 is appropriate, but stronger medium-term consolidation is needed to address spending pressures and rebuild fiscal reserves. The incomplete recovery in domestic demand supports maintaining an expansionary stance in the near term. Over the medium term, however, consolidation plans may be insufficient to address rising spending pressures from population aging, social protection needs, and large infrastructure investments. Broader revenue reforms will therefore be needed to strengthen and stabilize the revenue base and reduce reliance on cyclical revenue sources, while preserving growth-enhancing investment.

58. Improving housing affordability will require a sustained expansion of public housing supply and better targeting of existing programs. While conditions in parts of the private residential market have stabilized, demand for public housing remains elevated and delivery has lagged targets. Authorities' ongoing efforts to scale up public housing production will be critical to reducing waiting times, while stronger enforcement of eligibility criteria and measures to curb misuse will improve allocation efficiency.

59. Hong Kong SAR is well positioned to advance its digital and sustainable finance agenda, supported by strong regulatory frameworks and ongoing initiatives such as Fintech 2030. Continued adherence to the "same activity, same risk, same regulation" principle, enhanced cross-sectoral coordination, and improved data collection will be important to manage emerging risks, including from crypto assets and tokenization. At the same time, continued attention to operational and cyber risks remains critical. Advancing climate finance will require scaling up private capital mobilization, supported by high-quality implementation of sustainability disclosure standards and robust frameworks to mitigate greenwashing risks.

60. In an increasingly fragmented global environment, Hong Kong SAR's role as a super-connector remains central to sustaining its competitiveness. Continued development as a leading offshore RMB hub, deeper integration with the Mainland through Connect schemes, and strong legal and regulatory frameworks will support its role in global finance and trade. Strategic initiatives, including the Greater Bay Area and the Northern Metropolis, can further strengthen cross-border integration, support innovation, and promote high value-added services.

61. Industrial policy can support diversification and innovation but should be approached with caution. Any strategy should be grounded in clearly identified market failures and supported by strong governance, transparency, and regular evaluation. Support should be time-bound, targeted, and maintain open access to ensure that resources are directed toward commercially viable investments and that policies achieve their intended objectives.

62. Addressing the decline in labor force participation will require coordinated policy efforts to mitigate demographic pressures and structural headwinds. Policies should focus on encouraging greater participation among older workers and women, strengthening education and training systems to reduce skills mismatches, and supporting reskilling and job transitions in the face of technological change. Enhancing labor market flexibility and improving job matching will be key to sustaining inclusive growth.

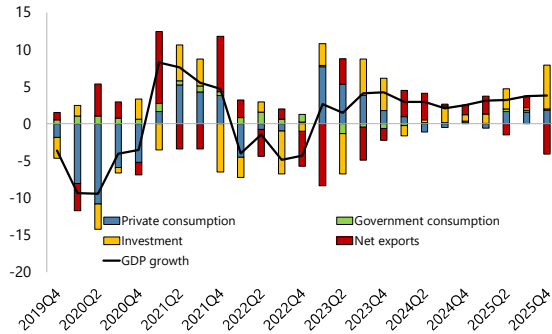
63. It is recommended that the next Article IV consultation discussions with Hong Kong SAR be held on the standard 12-month cycle.

Figure 1. Hong Kong SAR: Recent Developments

Robust real GDP growth in 2025 was supported by both net exports and domestic demand...

Contribution to GDP Growth by Expenditure Component

(In percent; year-on-year)

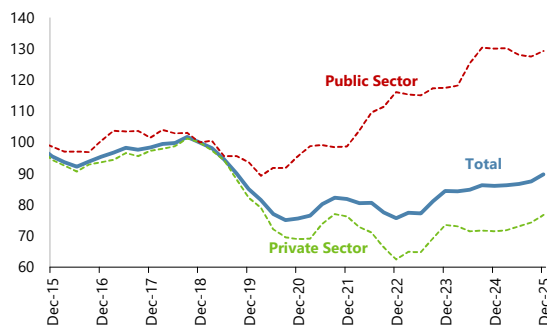


Sources: Haver Analytics; and IMF staff calculations.

Overall investment has increased as private sector shows signs of recovery...

Real Investment by Sector

(Index: 100=end-2018; four-quarter moving average)

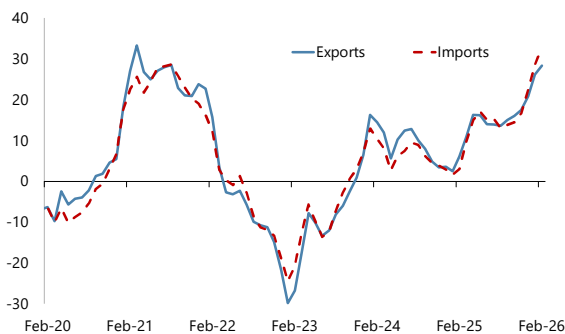


Sources: Haver Analytics, IMF staff calculations.

External trade strengthened in 2025...

External Trade: Merchandise

(Three month moving average, year-on-year percent change)

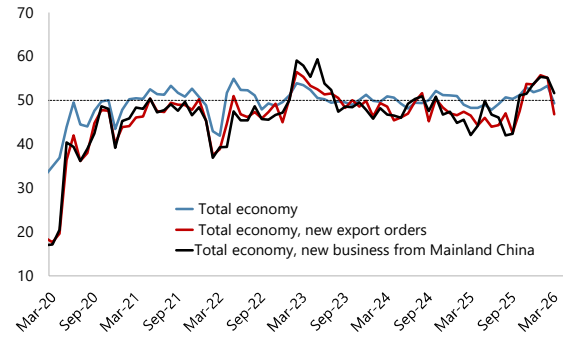


Sources: Haver Analytics; and IMF staff calculations.

...as the Purchasing Managers Index (PMI) returned to expansionary territory.

Purchasing Managers Index (SA, 50+ = Expansion)

(Index)

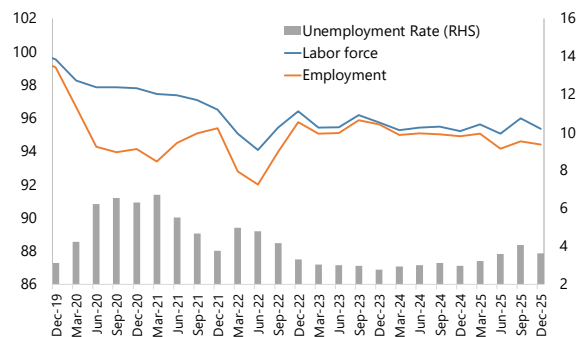


Source: Haver Analytics.

...while higher unemployment rate has picked up.

Labor Market Indicators

(Index: 100=end-2018, 3-month moving average; and percent)

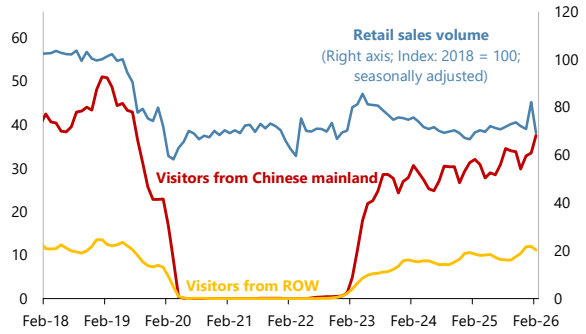


Sources: Haver Analytics, IMF staff calculations.

...but visitors remain below pre-pandemic levels, weighing on retail activity.

Retail Sales and Visitor Arrivals

(Index levels and 100 thousand people, 3mma)

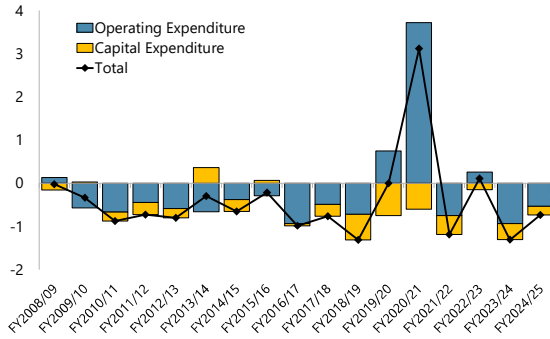


Sources: Haver Analytics; and IMF staff calculations.

Figure 2. Hong Kong SAR: Fiscal Developments

Government expenditures were below budgeted levels in FY2024/25...

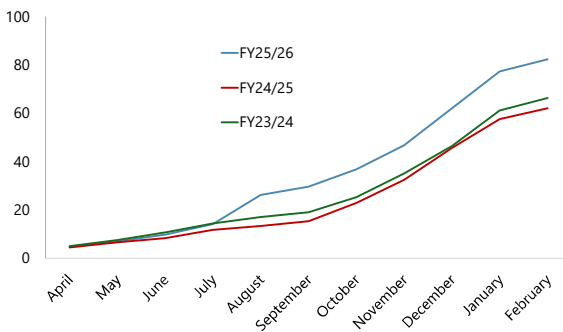
Discrepancy Between Actual and Budgeted Expenditures
(In percent of GDP)



Sources: Hong Kong SAR authorities; and IMF staff calculations.

Revenue performance has improved in FY25/26...

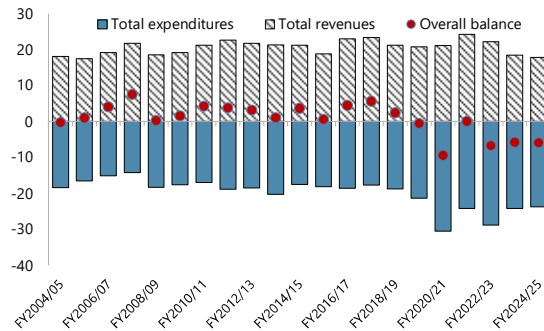
Fiscal Revenue Outturn
(Percent of Budgeted Revenue)



Sources: CEIC; and IMF staff calculations.

Fiscal deficit remained at the similar level as the previous year...

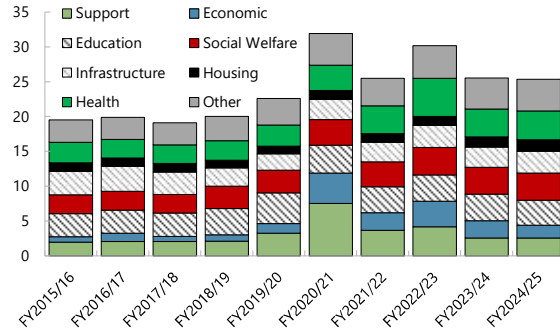
Fiscal Revenues, Expenditure, and Balance
(In percent of GDP)



Sources: CEIC; and IMF staff calculations.

... with overall public spending remaining broadly similar to FY2023/24.

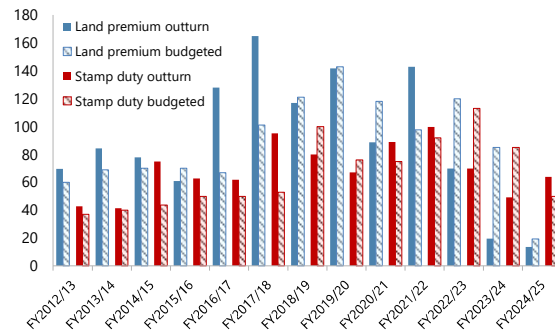
Public Expenditure By Policy Area
(In percent of GDP)



Sources: CEIC and IMF staff calculations.

...but land premium and stamp duties remained subdued.

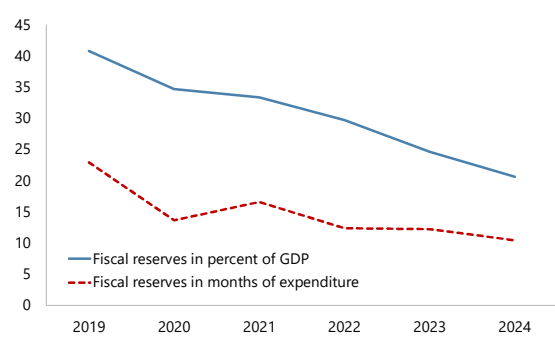
Fiscal Revenues: Real Estate-Related
(HKD billions)



Sources: Hong Kong SAR authorities; CEIC; and IMF staff calculations.

...while reserves declined further, to around 20 percent of GDP by end-2024.

Fiscal Reserves
(In percent of GDP and months of expenditure)



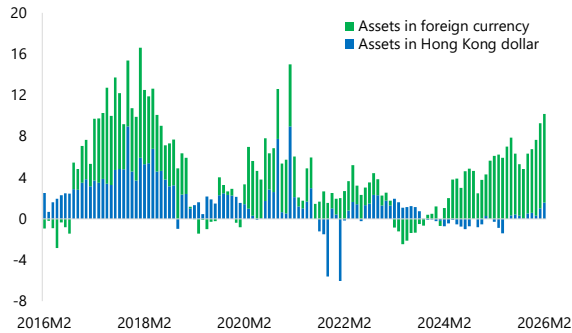
Sources: Hong Kong SAR authorities; and IMF staff calculations.

Figure 3. Hong Kong SAR: Banking System Indicators

Hong Kong SAR's banks' balance sheets expanded in 2025 driven by FX assets...

Contribution to Growth of Bank Balance Sheet

(In percentage points)

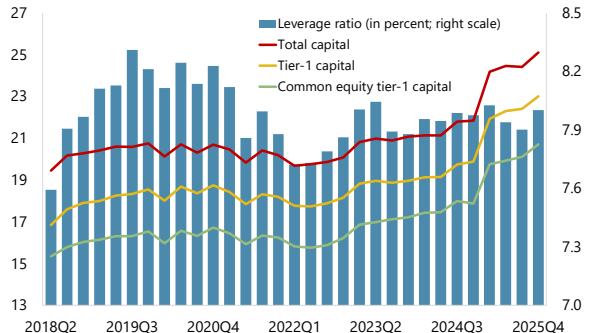


Sources: CEIC; and IMF staff calculations.

...supported by higher capital ratios, which remain well above the regulatory levels...

Capital Adequacy and Leverage

(In percent of risk weighted assets)

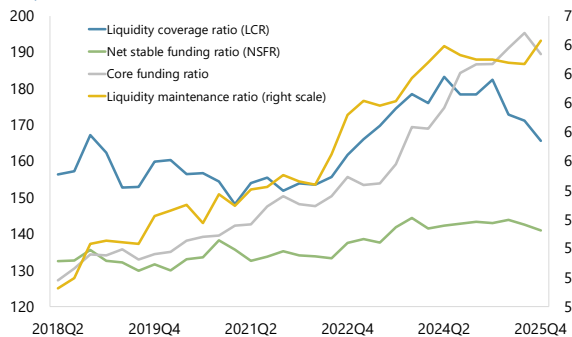


Sources: Hong Kong SAR authorities; and IMF staff calculations.

...and large liquidity buffers.

Liquidity Ratios

(In percent)

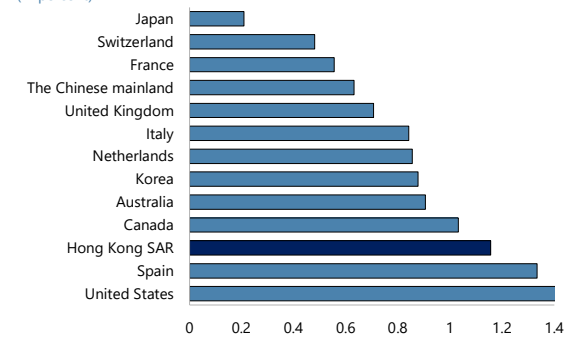


Sources: Hong Kong SAR authorities; and IMF staff calculations.

Profitability remains high compared to peer economies...

Return on Assets in Selected Economies, 2025Q4 or Latest

(In percent)

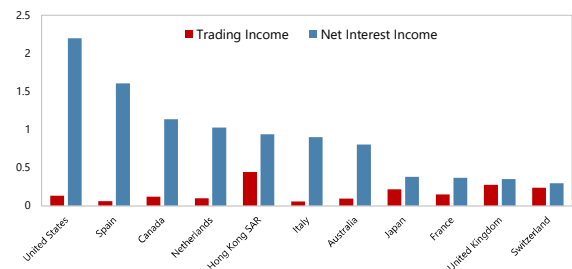


Source: IMF FSI Database.

partly driven by strong trading income and resilient net interest income...

Trading Income and Net Interest Income

(Percent of total assets; latest in 2025)

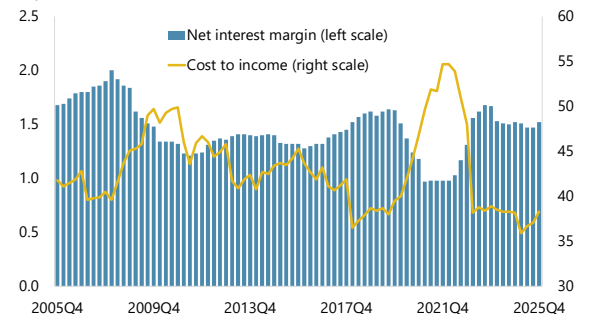


Sources: Haver; IMF Financial Soundness Indicators; and IMF staff calculations.

...although net interest margins have stabilized.

Retail Banks: Earnings

(In percent)



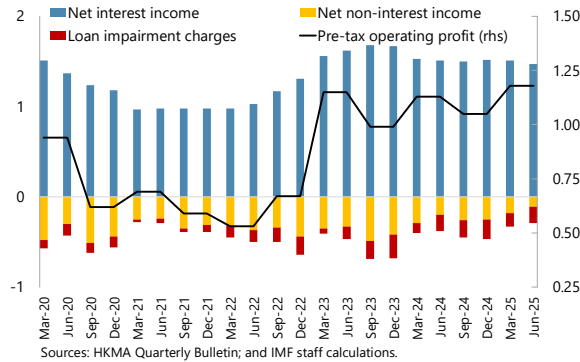
Note: Retail banks refer to banks that offers deposits to retail clients. Sources: CEIC; and IMF staff calculations.

Figure 4. Hong Kong SAR: Banking Sector Performance

Banks' profitability remained favorable...

Profitability of Retail Banks

(In percent of Total Assets)

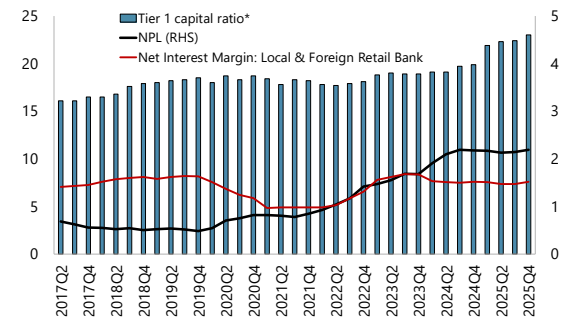


Sources: HKMA Quarterly Bulletin; and IMF staff calculations.

...resulting in improved capital buffers.

Financial Soundness Indicators

(In percent)

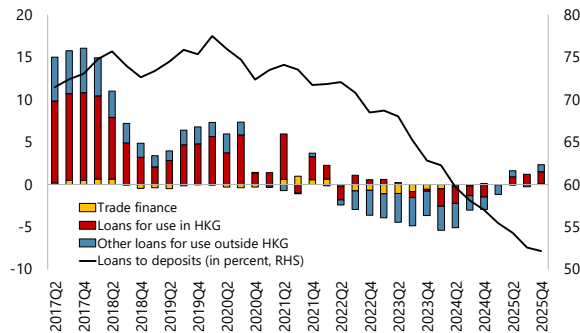


Note: Under Basel III, the minimum required tier 1 capital ratio is 6 percent. Sources: CEIC Data; IMF FSI Database; and IMF staff calculations.

Credit growth was recently driven by lending for use in Hong Kong SAR...

Contribution to Credit Growth and Loan-to-Deposit Ratio

(In percent)

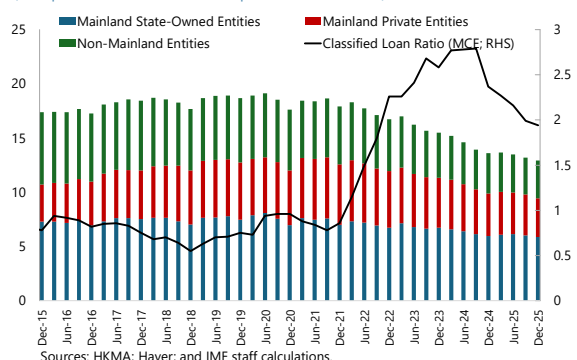


Sources: Haver Analytics; IMF FSI database; and IMF staff calculations.

...while banks' exposure to the Mainland fell, and the credit quality improved in recent months.

Banks' Mainland-Related Lending

(LHS: percent of total assets; RHS: percent of total loans)

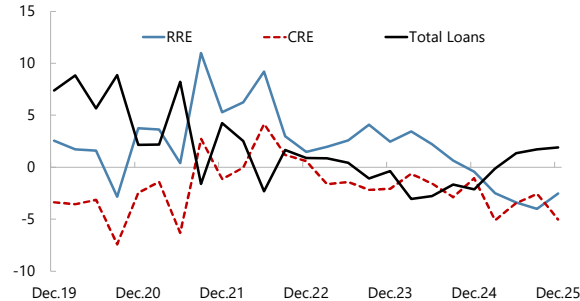


Sources: HKMA; Haver; and IMF staff calculations.

Property-related lending continues to weigh on overall credit growth, with both CRE and RRE credit contracting.

Changes in Commercial Real Estate (CRE) Residential Real Estate (RRE) Exposures

(In percent, y-o-y)

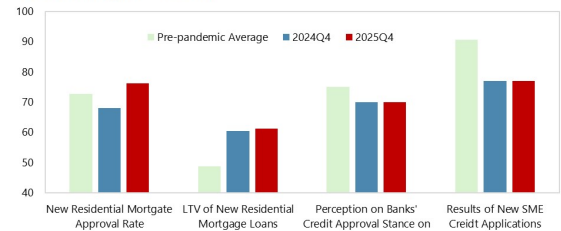


Sources: HKMA; and IMF staff calculations.

Banks' lending standards eased for residential mortgage loans but remained tight for SME loans.

Banks' Lending Standards on New Credit

(Percent; higher = looser)



Sources: HKMA; Haver; and IMF staff calculations.

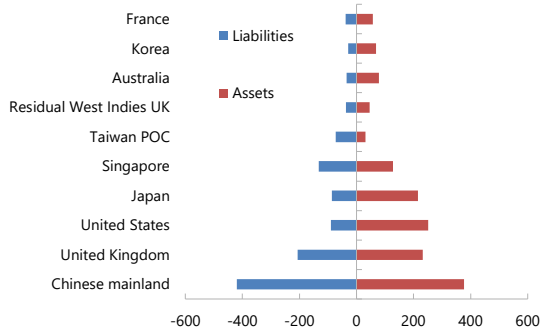
Note: perception on banks' credit approval stance on new SME loans is measured as percent of applications that perceived bank credit approval stance is unchanged or easier. Results of new SME credit applications on new SME credit is measured as percent of applications that is successful or partially successful.

Figure 5. Hong Kong SAR: International Banking Flows

The Chinese mainland, US, UK and Japan are major counterparties both on asset and liability sides.

Cross-border Position by Counterparty Economy

(In billions of USD)

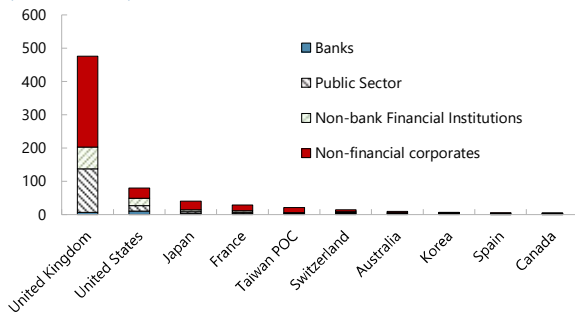


Sources: BIS Locational Banking Data; and IMF staff calculations.

Excluding the Chinese mainland, consolidated foreign claims are concentrated, with the UK the main counterparty...

Foreign Claims on Hong Kong SAR, by Reporting Economy and Sector

(In billions of USD)

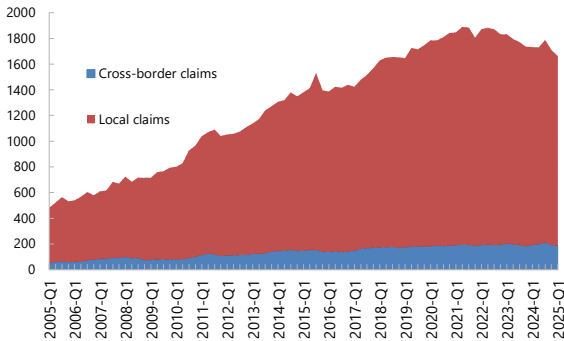


Sources: BIS Consolidated Banking Data; and IMF staff calculations.

Consolidated banking foreign claims on Hong Kong SAR are mainly local claims...

Foreign Claims on Hong Kong SAR by Counterparty Sector

(In billions of USD)

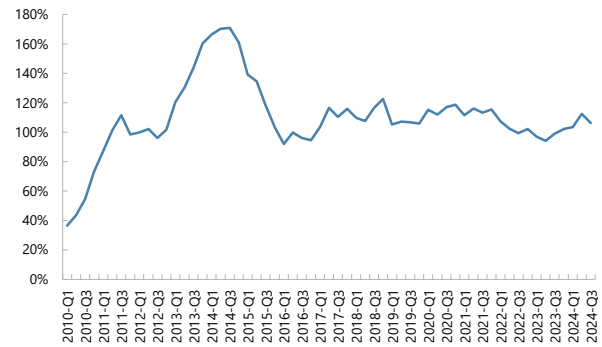


Sources: BIS Consolidated Banking Data; and IMF staff calculations.

The Chinese mainland remains sizeable for Hong Kong SAR's banking sector, accounting for about 1/5 of external banking claims.

Banks' Exposure to Chinese Mainland

(Claims as a percentage of Hong Kong SAR GDP)

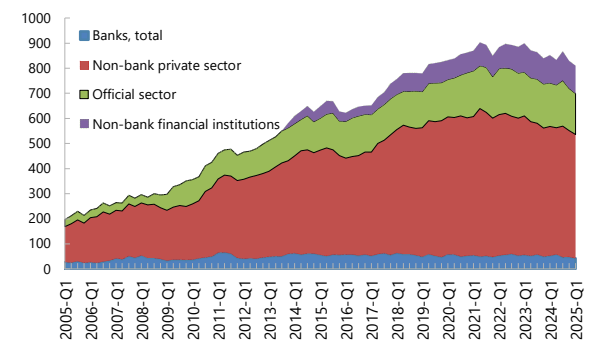


Sources: BIS Locational Banking Data; and IMF staff calculations.

...with non-bank private sector accounting for the majority of foreign claims, which tripled over the past two decades.

Foreign Claims on Hong Kong SAR by Counterparty Sector

(In billions of USD)

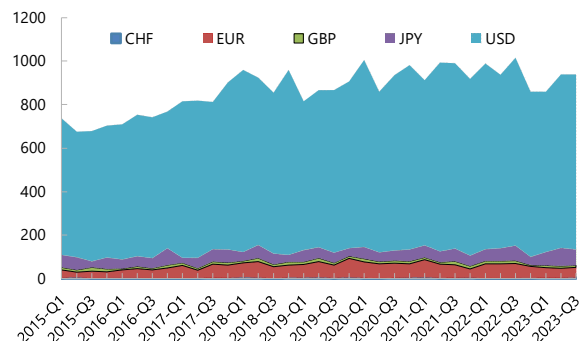


Sources: BIS Consolidated Banking Data; and IMF staff calculations.

...while cross-border liabilities are overwhelmingly denominated in USD.

Cross-border Position by Counterparty Currency

(In billions of USD)



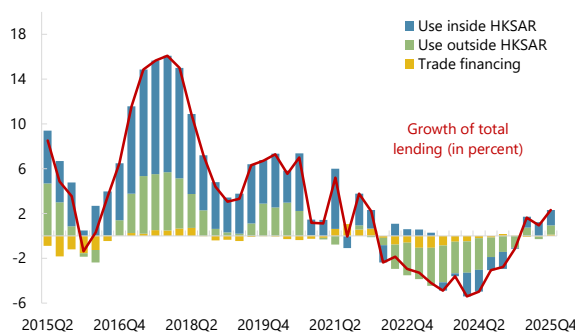
Sources: BIS Locational Banking Data; and IMF staff calculations.

Figure 6. Hong Kong SAR: Private Sector Balance Sheets

Banking lending growth turned positive from 2025Q2, driven by increased domestic loans for use within Hong Kong SAR.

Contribution to Total Bank Lending

(In percentage points; year-on-year)

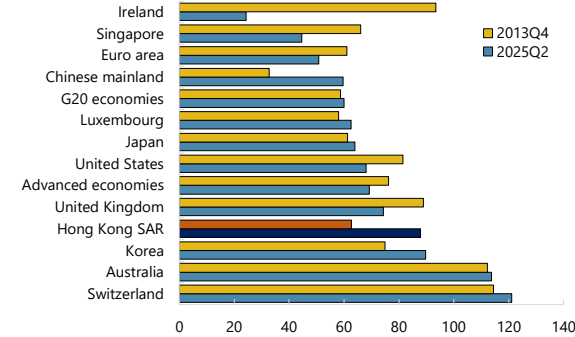


Sources: CEIC; and IMF staff calculations.

Hong Kong SAR households remain among the most indebted in the world.

Household Debt in Selected Economies

(In percent of GDP)

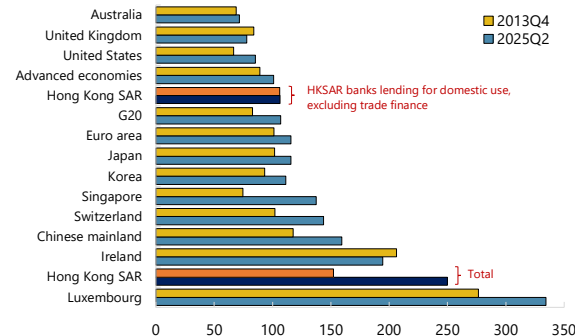


Sources: Haver; and IMF staff calculations.

...it is still higher than in many advanced economies.

Nonfinancial Corporate Debt in Selected Economies

(In percent of GDP)

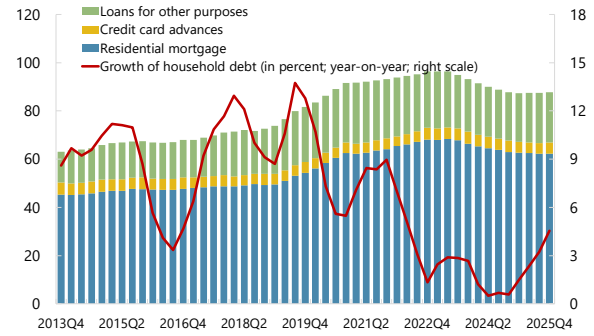


Sources: CEIC; Haver; and IMF staff calculations.

Growth of household debt rose modestly in 2025, but residential mortgage to GDP ratio remains broadly stable.

Household Debt

(In percent of GDP)

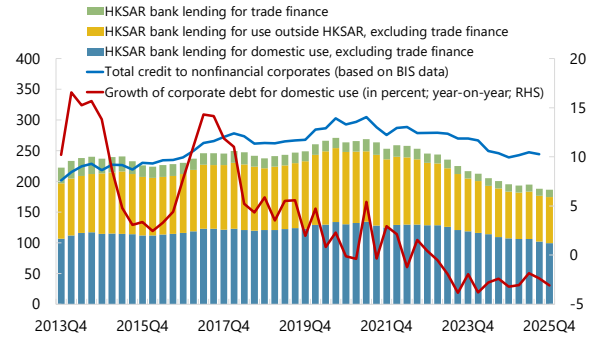


Sources: CEIC; and IMF staff calculations.

While corporate debt for domestic use continues to shrink...

Nonfinancial Corporate Debt

(In percent of GDP; based on lending unrelated to trade finance)

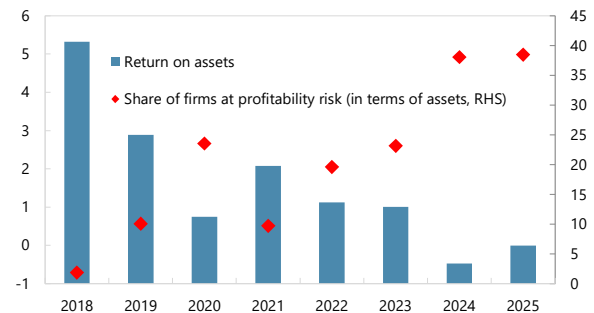


Sources: CEIC; Haver; and IMF staff calculations.

Hong Kong SAR's listed Real Estate (RE) firms have seen declining profitability in recent years.

Local RE Firms: Profitability

(In percent)



Note: Firms are at profitability risk if their profits are negative.

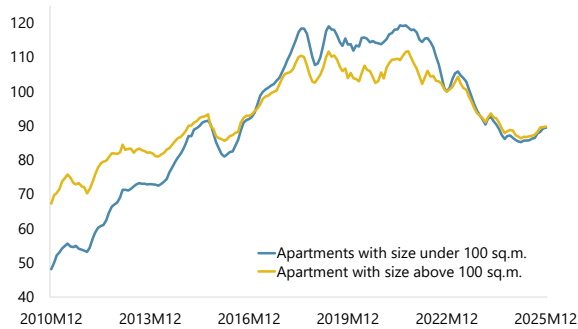
Sources: Capital IQ; WIND; and IMF staff calculations.

Figure 7. Hong Kong SAR: Property Market Developments

House prices rebounded slightly in 2025 after prolonged period of decline.

House Prices

(December 2022 = 100)

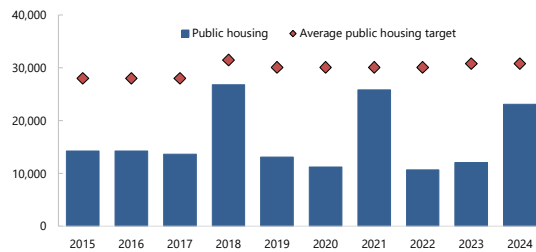


Sources: CEIC; and IMF staff calculations.

Housing production delivery has consistently fallen short of planned targets.

Public Housing Production

(Units)



Sources: Housing Department, Hong Kong SAR; and Rating and Valuation Department, Hong Kong SAR; and IMF staff calculations.
 Note: 1) Public Housing includes both rental and subsidized sale flats. Rental flats include those completed under Hong Kong Housing Authority (HKHA) and Hong Kong Housing Society. Subsidized sale flats include those completed under HKHA and Hong Kong Housing Society; due to the outbreak of COVID-19, about public rental housing flats originally scheduled for completion in end of 2022/23 was delayed with completion deferred to 2023/24.
 2) The average public housing target is calculated as the annual average of the rolling 10-year public housing supply target set by the Housing Bureau of Hong Kong SAR.

The RRE sector consists of a sizeable public sector alongside private housing.

Housing Market Structure, 2024

(In percent of total)

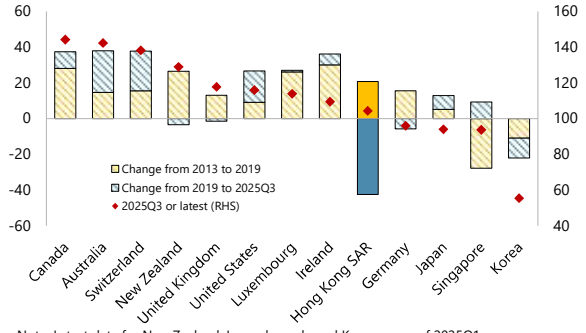


Sources: Hong Kong SAR Housing Authorities; and IMF staff calculations.

Hong Kong SAR has experienced one of the sharpest improvements in housing affordability after the pandemic.

House Price to Income in Selected Economies

(LHS - in percent change; RHS - in percent, average of 1990-2022 = 100)

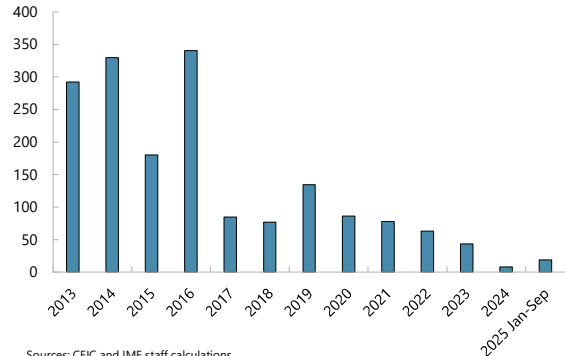


Note: Latest data for New Zealand, Luxembourg, and Korea are as of 2025Q1.
 Sources: OECD; CEIC; and IMF staff calculations.

Land sales fell to the lowest level in the past decade.

Land Area of Private Housing Sites Disposed by Government Land Sales

(In thousand square meters)

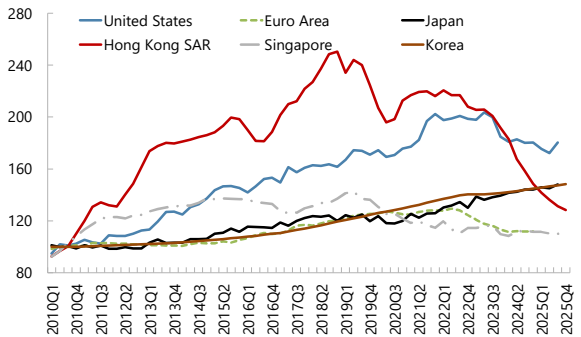


Sources: CEIC and IMF staff calculations.

The CRE downturn is ongoing.

Commercial Property Prices in Selected Economies

(2010 = 100)



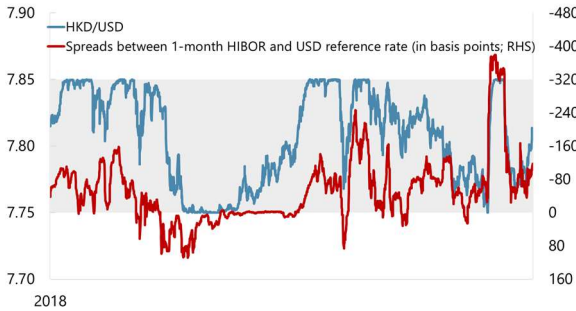
Sources: Bank for International Settlements; and IMF staff calculations.

Figure 8. Hong Kong SAR: External Flows, the Peg and Domestic Liquidity and Interest Rates

The HKD has remained within the convertibility zone.

Hong Kong Dollar and Convertibility Zone

(Hong Kong dollar per U.S. dollar)

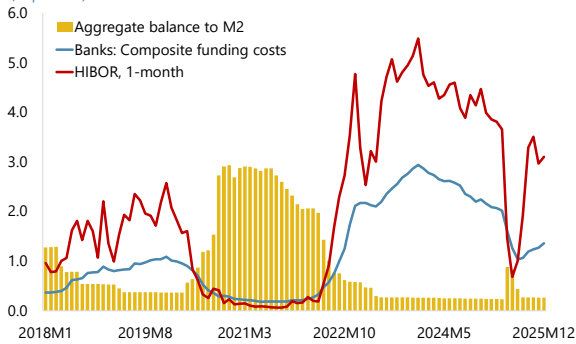


Sources: Bloomberg; and IMF staff calculations.
 Note: Before July 1 2023, USD reference rate referred to the LIBOR fixing. Since July 1, USD rate has referred to 1-month CME Term SOFR.

Liquidity surge in May 2025 resulted in volatile local interest rates.

Liquidity Conditions, Interest Rates, and Bank Funding Costs

(In percent)

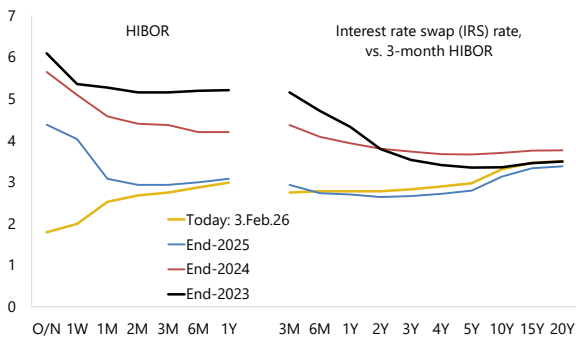


Sources: CEIC; and IMF staff calculations.

Short-term HKD interest rates have declined from 2023 peaks, while the IRS curve has gradually flattened.

Yield Curve of Hong Kong Dollar Funding Markets

(In percent)

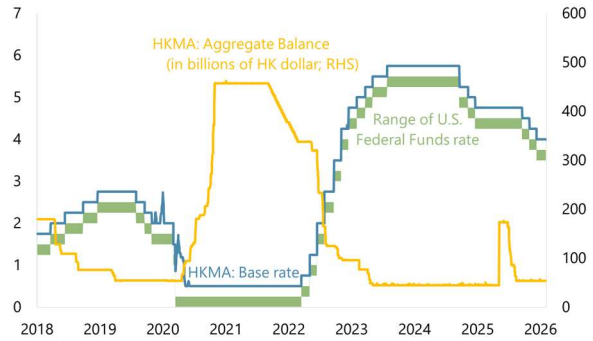


Sources: Bloomberg; and IMF staff calculations.

HKMA Base Rate has followed the US Federal Funds Rate under the LERS.

HKMA: Base Rate and Aggregate Balance

(In percent)

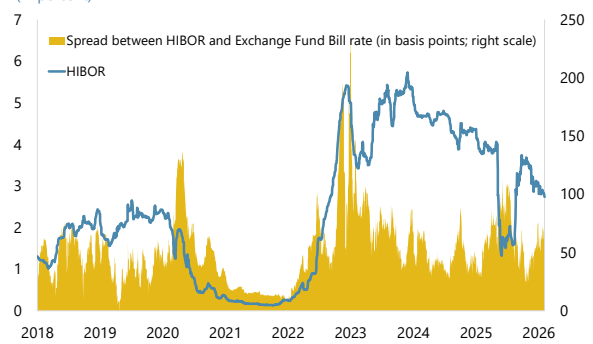


Sources: Bloomberg; and IMF staff calculations.

Spreads between bank funding costs and risk-free rates have been ticking up over the past couple of months.

Money Market Rates, 3-month

(In percent)

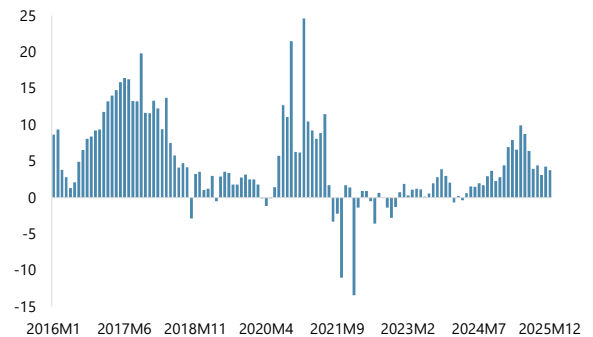


Sources: Bloomberg; and IMF staff calculations.

Growth of HKD deposits was supported by improved capital market and economic activity.

Growth of Hong Kong Dollar Deposits

(In percent; year-on-year)



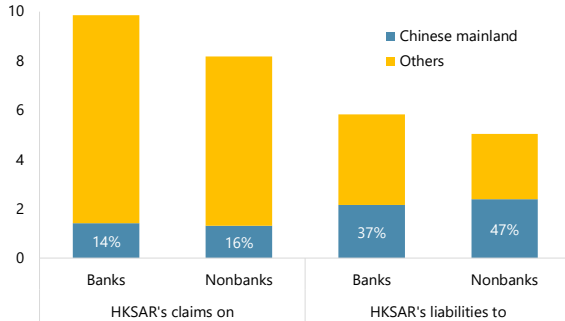
Sources: CEIC; and IMF staff calculations.

Figure 9. Hong Kong SAR: Integration with the Mainland

The Chinese mainland is a key counterpart for Hong Kong SAR's external financial positions.

External Claims and Liabilities, December 2025

(In trillions of Hong Kong Dollars)

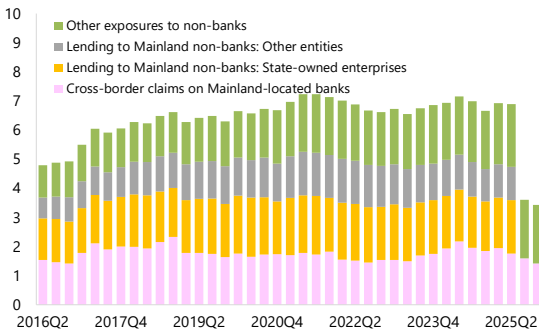


Sources: CEIC; and IMF staff calculations.

Exposures to the Mainland stabilized with a gradual shift from cross-border bank claims to non-bank lending.

Banking Sector Exposure Related to Chinese Mainland

(In trillions of HKD)

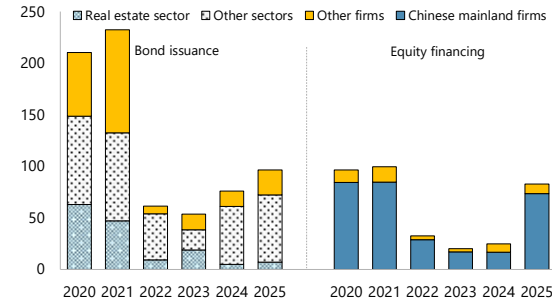


Sources: CEIC; and IMF staff calculations.

Fund raising activity has been gradually recovering but is still lower than the 2021 levels.

Bond and Equity Fund Raising

(In billions of USD)

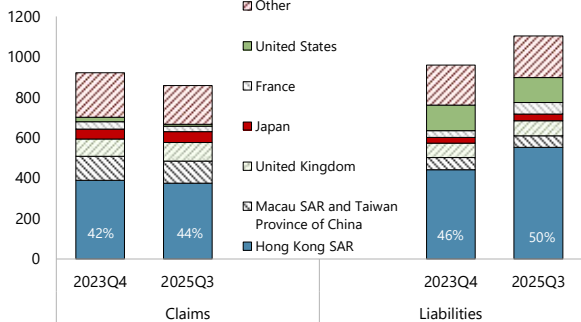


Sources: Bloomberg LP; Hong Kong SAR authorities; IMF WEO database; and IMF staff calculations.

Hong Kong SAR banks also play a leading role in intermediating cross-border financing for the Mainland.

International Banks' Cross-border Position vis-à-vis Chinese Mainland Residents, September 2025

(In billions of US dollars)

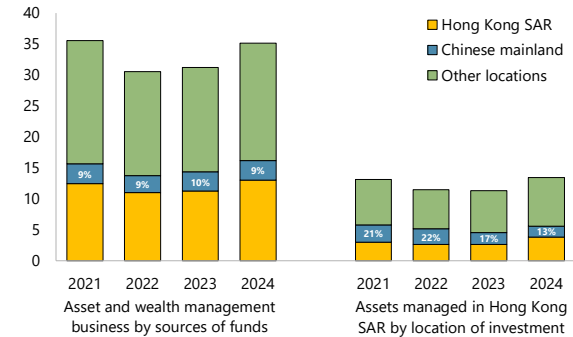


Sources: BIS; and IMF staff calculations.

The Chinese mainland is an important funding source and destination for Hong Kong SAR's asset management services.

Asset and Wealth Management Business

(In trillions of Hong Kong Dollars)

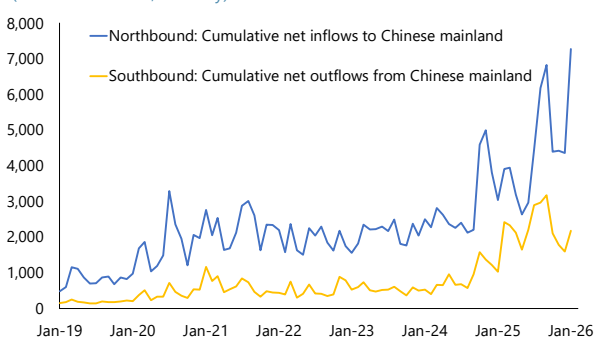


Sources: Hong Kong SAR Securities and Futures Commission; and IMF staff calculations.

Northbound Stock Connect flows have surged over the last two years, as investors increasingly channel funds into Mainland equities through Hong Kong SAR.

Stock Connect Flows

(In billions of RMB, monthly)



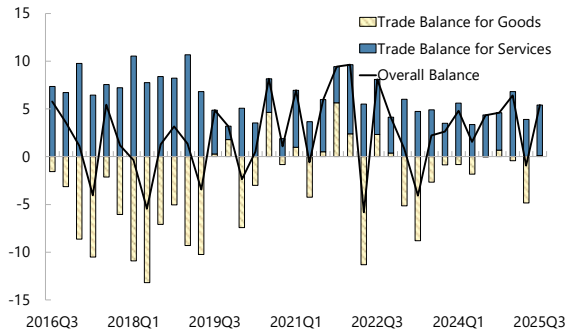
Sources: Haver; HKEX; and IMF staff calculations.

Figure 10. Hong Kong SAR: External Sector Developments

Hong Kong SAR's trade balance has remained in surplus, driven largely by the services sector.

Goods and Services Trade Balance

(In percent of GDP)

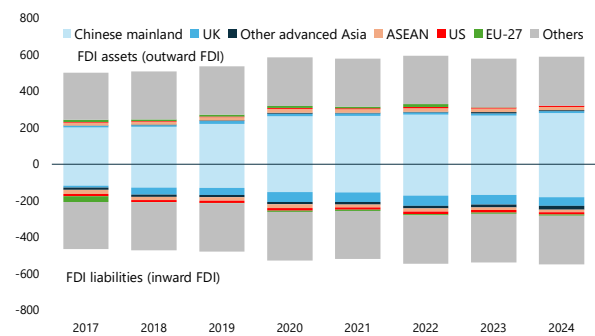


Sources: Hong Kong SAR CSD; and IMF staff calculations.

Hong Kong SAR has a net asset position for direct investment, with the Chinese mainland accounting for the largest share.

FDI Outstanding

(percent of GDP, net)

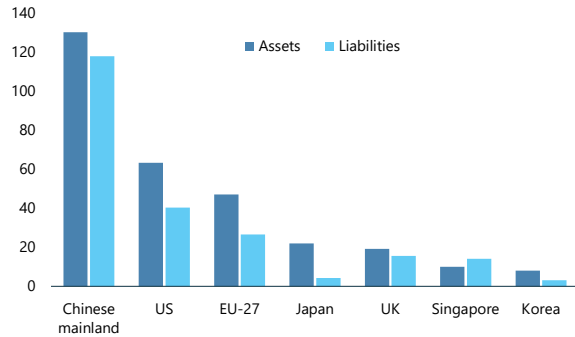


Source: Direct Investment Positions by Counterpart Economy database (formerly CDIS).

Portfolio investment positions are highly concentrated, with the Chinese mainland again the largest counterparty.

Portfolio Investment Position by Counterpart, 2021

(In percent of GDP)

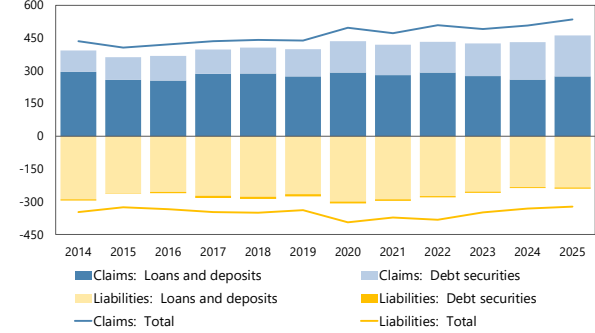


Source: Portfolio Investment by Counterpart Economy database (formerly CPIS).

Cross-border claims of banks have risen significantly, especially holdings of debt securities.

Cross-Border Claims and Liabilities of Banks, by Instrument

(percent of GDP)

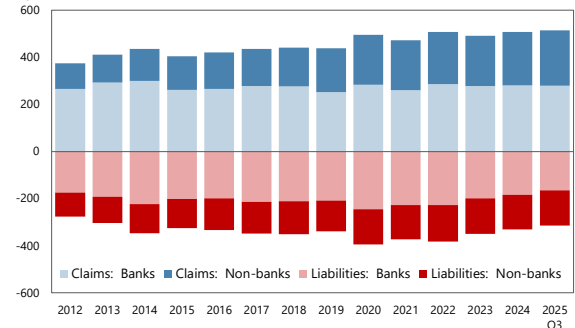


Source: Bank for International Settlements.

Claims on the non-bank sector have increased since 2012...

Cross-Border Claims and Liabilities of Banks, by Sector

(percent of GDP)

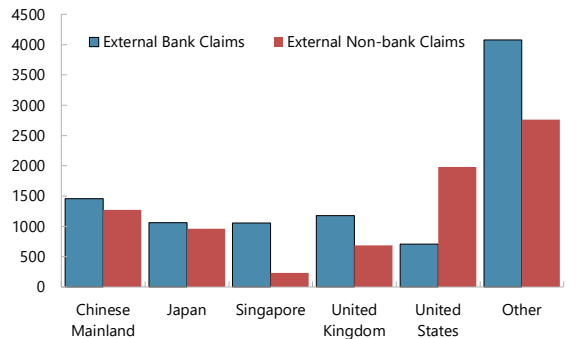


Source: Bank for International Settlements.

...with the Chinese mainland and the US as the largest destinations of Hong Kong SAR's cross-border lending.

Cross-Border Lending Trends, November 2025

(In billions of HKD)



Sources: HKMA; and IMF staff calculations.

Table 1. Hong Kong SAR: Selected Economic and Financial Indicators, 2021-31

	2021	2022	2023	2024	Prel.		Projections				
					2025	2026	2027	2028	2029	2030	2031
NATIONAL ACCOUNTS											
Real GDP (percent change)	6.5	-3.7	3.2	2.6	3.5	2.4	2.4	2.3	2.3	2.2	2.2
Private consumption	5.6	-2.2	6.8	-0.2	1.7	1.7	1.7	2.1	2.1	2.1	2.1
Government consumption	5.9	8.0	-3.9	0.7	1.6	1.1	0.6	0.1	-0.1	-0.3	-0.4
Gross fixed capital formation	8.3	-7.4	11.4	1.9	4.3	7.2	1.3	0.7	0.5	1.4	1.3
Inventories (contribution to growth)	-1.9	-0.7	0.1	0.2	1.9	-1.2	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	2.7	-1.2	-2.7	2.1	-0.4	1.1	0.9	0.8	0.8	0.6	0.6
Output gap (in percent of potential GDP)	-2.3	-4.1	-3.9	-4.0	-2.6	-2.2	-1.6	-1.2	-0.7	-0.3	0.0
LABOR MARKET											
Employment (percent change)	-0.6	-1.6	2.7	-0.4	-0.6	0.0	-0.1	0.0	0.2	0.2	0.4
Unemployment rate (percent, period average)	5.2	4.3	2.9	3.0	3.7	3.3	3.2	3.0	2.8	2.7	2.7
Real wages (percent change)	-0.5	-1.4	1.4	1.5	1.7	1.1	0.8	1.1	1.2	1.3	1.3
PRICES											
Inflation (percent change)											
Consumer prices	1.6	1.9	2.1	1.7	1.4	2.1	1.8	2.1	2.2	2.4	2.5
GDP deflator	0.7	1.7	2.9	4.2	1.0	2.7	1.9	2.1	2.3	2.4	2.5
GENERAL GOVERNMENT											
Consolidated budget balance (percent of GDP) 1/	0.0	-6.7	-5.8	-5.9	-4.9	-5.3	-3.3	-1.4	-0.8	-0.8	-0.8
Revenue	24.2	22.1	18.4	17.7	18.8	18.1	20.0	20.5	20.9	20.9	20.9
Expenditure	24.2	28.9	24.2	23.6	23.7	23.4	23.3	21.9	21.7	21.7	21.7
Fiscal reserves (as of end-March, percent of GDP)	33.4	29.7	24.6	20.5	19.7	20.0	20.1	20.4	20.4	20.4	20.3
FINANCIAL 2/											
Interest rates (percent, period average)											
Best lending rate	5.0	5.1	5.8	5.8	5.2	...	...	...	...	...	...
Three-month HIBOR	0.2	2.1	4.6	4.5	3.1	...	...	...	...	...	...
10-year Treasury bond yield	1.2	2.8	3.6	3.4	3.2	...	...	...	...	...	...
MACRO-FINANCIAL 2/											
Loans for use in Hong Kong SAR (excl. trade financing) 3/	4.3	0.9	-0.4	-2.1	1.9	...	...	...	...	...	...
House prices (year-on-year percent change at end-year)	3.7	-15.0	-7.0	-7.1	3.6	...	...	...	...	...	...
EXTERNAL SECTOR											
Merchandise trade (percent change)											
Export value	26.3	-8.6	-7.8	8.7	15.3	12.6	4.7	3.4	3.8	3.6	3.6
Import value	24.3	-7.2	-5.7	6.0	15.5	12.4	4.4	3.2	3.5	3.5	3.5
Current account balance (= S-I balance, percent of GDP)	11.8	10.2	8.4	13.1	12.2	12.6	12.3	12.1	11.9	11.5	11.4
Gross capital formation (percent of GDP)	16.8	15.2	16.2	16.1	18.3	18.8	19.2	19.7	20.4	20.9	21.1
Gross national savings (percent of GDP)	28.6	25.4	24.6	29.2	30.6	31.4	31.5	31.8	32.3	32.4	32.5
Foreign exchange reserves											
In billions of U.S. dollars (end-of-period)	497	424	426	422	428	468	499	527	558	592	649
In percent of GDP	135	118	112	103	100	104	106	107	109	110	115
Net international investment position (percent of GDP)	574	492	461	490	586	569	558	546	534	522	510
EXCHANGE RATE											
Market rate (HK\$/US\$, period average, computed from monthly averages)	7.773	7.831	7.830	7.804	7.797	...	...	...	...	...	...
Real effective rate (period average, 2010=100)	111.5	115.6	119.4	122.4	122.0	...	...	...	...	...	...

Sources: Haver Analytics; BIS,CEIC; HKSAR Census and Statistics Department; IMF Informational Notice System and IMF staff estimates and projections.

1/ Staff's baseline projections for FY2026/27 onwards. Before issuance and repayment of government bonds and notes. Transfers from the Exchange Fund (around 4 percent of GDP, split evenly between FY2026/27 and FY2027/28), Bond Fund (1.1 percent of GDP in FY2026/27), and funds outside the government accounts (0.5 percent of GDP in FY2026/27) are treated as below-the-line items.

2/ Using latest data available.

3/ Based on loans for use in Hong Kong SAR, excluding trade financing.

Table 2. Hong Kong SAR: Balance of Payments, 2021-31

	2021	2022	2023	2024	Prel.	Projections					
					2025	2026	2027	2028	2029	2030	2031
(In billions of U.S. dollars)											
Current account	43.7	36.5	32.0	53.6	52.1	56.9	57.8	59.4	61.3	61.9	64.2
Goods balance	3.2	-5.2	-16.1	-1.8	-9.4	-8.9	-7.5	-6.2	-3.7	-3.4	-2.3
Services balance	17.4	19.8	18.1	17.6	21.7	23.0	24.6	26.1	30.3	32.9	35.6
Income balance	23.1	21.9	30.1	37.9	39.9	42.9	40.7	39.5	34.7	32.3	30.9
Capital and financial account	45.4	35.5	31.5	59.0	71.0	56.8	57.8	59.4	61.2	61.8	64.2
Capital account	-1.3	0.2	0.7	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	46.7	35.3	30.8	59.1	71.1	56.9	57.8	59.4	61.3	61.8	64.2
Net direct investment	-43.8	-3.5	-25.8	-45.3	-21.1	-27.4	-42.0	-45.1	-48.6	-56.2	-66.9
Portfolio investment	79.8	40.5	57.8	158.7	62.6	56.2	77.7	77.3	82.2	90.3	131.0
Financial derivatives	-5.8	-17.9	-13.1	-11.0	-5.9	-10.8	-9.9	-10.5	-11.1	-14.7	-16.2
Other investment	17.6	63.1	22.1	-31.8	44.6	-0.8	1.1	9.1	8.4	8.2	-41.1
Reserve assets (net change)	-1.2	-46.9	-10.2	-11.5	-9.0	39.7	31.0	28.6	30.4	34.3	57.5
Net errors and omissions	4.4	-1.3	-2.0	5.6	19.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Nominal GDP	369.0	358.7	380.8	408.5	427.4	450.1	469.5	358.7	380.8	408.5	427.4
(In percent of GDP)											
Current account	11.8	10.2	8.4	13.1	12.2	12.6	12.3	12.1	11.9	11.5	11.4
Goods balance	0.9	-1.4	-4.2	-0.5	-2.2	-2.0	-1.6	-1.3	-0.7	-0.6	-0.4
Services balance	4.7	5.5	4.8	4.3	5.1	5.1	5.2	5.3	5.9	6.1	6.3
Income balance	6.3	6.1	7.9	9.3	9.3	9.5	8.7	8.0	6.8	6.0	5.5
Capital and financial account	12.3	9.9	8.3	14.5	16.6	12.6	12.3	12.1	11.9	11.5	11.4
Capital account	-0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	12.7	9.9	8.1	14.5	16.6	12.6	12.3	12.1	11.9	11.5	11.4
Net direct investment	-11.9	-1.0	-6.8	-11.1	-4.9	-6.1	-9.0	-9.2	-9.5	-10.5	-11.9
Portfolio investment	21.6	11.3	15.2	38.9	14.6	12.5	16.6	15.8	16.0	16.8	23.3
Financial derivatives	-1.6	-5.0	-3.4	-2.7	-1.4	-2.4	-2.1	-2.1	-2.2	-2.7	-2.9
Other investment	4.8	17.6	5.8	-7.8	10.4	-0.2	0.2	1.9	1.6	1.5	-7.3
Reserve assets (net change)	-0.3	-13.1	-2.7	-2.8	-2.1	8.8	6.6	5.8	5.9	6.4	10.2
Net errors and omissions	1.2	-0.4	-0.5	1.4	4.4	0.0	0.0	0.0	0.0	0.0	0.0

Sources: CEIC and HKSAR Census and Statistics Department; and IMF staff estimates and projections.

Table 3. Hong Kong SAR: Consolidated Government Account, 2021-31 1/

	2021	2022	2023	2024	Projections						
					2025	2026	2027	2028	2029	2030	2031
	(In percent of GDP, unless stated otherwise)										
Consolidated revenue	24.2	22.1	18.4	17.7	18.8	18.1	20.0	20.5	20.9	20.9	20.9
Operating revenue	18.4	18.3	17.0	16.7	17.8	17.0	18.5	18.5	18.5	18.5	18.5
Capital revenue	5.8	3.9	1.4	1.0	1.1	1.1	1.5	2.0	2.4	2.4	2.4
Taxes	14.9	14.4	13.4	13.5	15.1	15.2	15.2	15.2	15.2	15.2	15.2
Nontax	9.3	7.7	5.1	4.2	3.7	2.9	4.8	5.4	5.7	5.7	5.7
<i>Of which:</i>											
Land premium	5.0	2.5	0.7	0.4	0.5	0.5	0.9	1.5	1.8	2.0	2.0
Investment income	2.8	3.3	2.5	1.4	1.1	1.1	1.0	0.8	0.8	0.8	0.8
Consolidated expenditure	24.2	28.9	24.2	23.6	23.7	23.4	23.3	21.9	21.7	21.7	21.7
Operating expenditure	20.6	24.6	20.2	18.7	18.1	18.3	18.4	18.6	18.8	18.8	18.8
<i>Of which</i> : Personnel related (including pensions)	5.0	5.3	5.2	5.2	5.1	5.0	5.0	5.1	5.1	5.1	5.1
Capital expenditure	3.6	4.3	4.0	4.9	5.6	5.1	4.9	3.3	2.9	2.9	2.9
<i>Of which:</i>											
Interest expenditure	0.0	0.0	0.1	0.2	0.3	0.4	0.6	0.7	0.7	0.8	0.8
Overall balance	0.0	-6.7	-5.8	-5.9	-4.9	-5.3	-3.3	-1.4	-0.8	-0.8	-0.8
Overall balance, authorities' definition 2/	1.0	-4.4	-3.4	-2.5	0.1	1.2	0.9	1.2	0.9	0.9	0.8
<i>Memorandum items:</i>											
Operating balance 3/	-2.1	-6.3	-3.1	-2.0	-0.3	-1.3	0.1	-0.1	-0.2	-0.2	-0.2
Primary balance 4/	-2.8	-10.0	-8.2	-7.1	-5.6	-6.0	-3.7	-1.5	-0.9	-0.8	-0.8
Cyclically adjusted primary balance (in percent of potent	-1.2	-7.2	-6.0	-5.0	-4.2	-4.8	-2.8	-0.9	-0.5	-0.6	-0.8
Fiscal impulse 5/	-5.1	6.0	-1.2	-1.0	-0.8	0.6	-2.0	-1.9	-0.4	0.1	0.2
Fiscal reserves	33.4	29.7	24.6	20.5	19.7	20.0	20.1	20.4	20.4	20.4	20.3
(Months of spending)	16.6	12.4	12.2	10.4	10.0	10.3	10.4	11.2	11.3	11.3	11.2
Gross general government debt	2.0	4.4	6.5	9.4	12.1	14.4	16.0	17.8	18.7	19.5	20.2
(Including issuance under the Government Bond Progr	8.0	11.7	14.7	14.9	19.1	21.4	23.0	24.8	25.8	26.6	27.2
Assets of the Government Bond Fund 6/	7.3	8.9	9.8	7.0	4.6	7.3	7.3	7.3	7.3	7.3	7.3
Net general government debt 7/	-32.7	-27.0	-19.7	-12.6	-5.2	-5.9	-4.4	-2.9	-2.0	-1.2	-0.4

Sources: Annual Report of the Director of Accounting Services; The Treasury, CEIC; and IMF staff estimates.

1/ Fiscal year begins April 1.

2/ Staff's baseline projections for FY2026/27 onwards. Before issuance and repayment of government bonds and notes. Transfers from the Exchange Fund (around 4 percent of GDP, split evenly between FY2026/27 and FY2027/28), Bond Fund (1.1 percent of GDP in FY2026/27), and funds outside the government accounts (0.5 percent of GDP in FY2026/27) are treated as below-the-line items.

3/ Operating balance, as defined by the authorities, is akin to the current balance.

4/ Overall balance excluding investment income and interest expenditure.

5/ Negative change in cyclically adjusted primary balance. A positive value corresponds to an expansionary fiscal stance.

6/ The Bond Fund was established in connection with the implementation of the Government Bond Program. The Fund does not form part of the fiscal reserves or government debt and is managed separately from the other Government accounts.

7/ Gross general government debt including issuance under the Government Bond Program minus fiscal reserves and assets of the Government Bond Fund. A negative sign indicates net assets.

Table 4. Hong Kong SAR: Monetary Survey, 2018-25

	2018	2019	2020	2021	2022	2023	2024	2025
	(In billions of Hong Kong dollars)							
Net foreign assets	7855	8147	8459	8597	8784	9369	10536	12078
Monetary authorities	3326	3439	3814	3875	3288	3302	3254	3280
Banks	4529	4708	4645	4723	5497	6067	7282	8798
Domestic credit 1/	6320	6787	6932	7227	7291	7263	7109	7245
Other items (net)	174	-188	215	448	462	563	814	1279
M2	14348	14746	15607	16273	16537	17195	18458	20602
<i>Of which:</i>								
Deposits in HKD 2/	6796	6941	7381	7469	7516	7675	7889	8208
Deposits in foreign currencies 2/	7086	7307	7685	8229	8440	8945	9984	11771
Notes and coins in circulation	467	497	541	575	581	575	585	623
	(Annual percentage change)							
Domestic credit 1/	5.0	7.4	2.1	4.3	0.9	-0.4	-2.1	1.9
M2	4.3	2.8	5.8	4.3	1.6	4.0	7.3	11.6
	(Contribution to M2 growth, in percent)							
Net foreign assets	2.8	2.0	2.1	0.9	1.1	3.5	6.8	8.4
Domestic credit 1/	2.2	3.3	1.0	1.9	0.4	-0.2	-0.9	0.7
Other items (net)	-0.6	-2.5	2.7	1.5	0.1	0.6	1.5	2.5
	(In percent of GDP)							
Net foreign assets	277.0	286.4	316.1	299.8	312.7	314.3	330.6	362.5
Domestic credit 1/	222.9	238.5	259.1	252.0	259.6	243.6	223.1	217.4
Other items (net)	6.1	-6.6	8.0	15.6	16.4	18.9	25.5	38.4
M2	506.0	518.3	583.3	567.4	588.7	576.8	579.2	618.4

Sources: IMF, International Financial Statistics; Haver Analytics, and IMF staff calculations.

1/ Domestic credit measures loans for use in Hong Kong SAR (excluding trade financing).

2/ Includes savings, time, demand deposits, and negotiable certificates of deposits issued by licensed banks.

Table 5. Hong Kong SAR: Financial Soundness Indicators, 2017-25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	percent, as at end period								
Banking sector									
Capital adequacy and leverage									
Total capital to risk-weighted assets	19.1	20.3	20.7	20.7	20.2	20.1	21.1	21.8	25.1
Tier-1 capital to risk-weighted assets	16.5	17.9	18.5	18.7	18.2	18.1	18.9	19.9	23.0
Common equity tier-1 capital to risk-weighted assets	15.3	16.0	16.5	16.7	16.2	16.2	17.2	17.9	20.7
Leverage ratio (per Basel III)	...	8.0	8.2	8.2	7.9	7.9	7.9	8.0	8.0
Asset quality									
Nonperforming loans to total loans	0.7	0.5	0.6	0.9	0.9	1.0	1.2	1.6	1.6
Profitability and earnings									
Return on assets	1.0	1.0	1.0	0.7	0.6	0.9	1.0	1.2	1.2
Return on equity	12.6	13.1	11.7	8.1	6.5	8.1	9.3	11.4	11.3
Net interest income to gross income	51.1	56.2	57.1	50.6	48.4	52.4	58.2	52.6	52.2
Trading income to gross income	6.2	8.1	9.2	9.1	9.2	9.1	26.3	28.0	33.1
Non-interest expense to gross income	45.7	44.7	44.8	49.4	54.7	54.7	43.2	42.7	42.4
Liquidity and funding									
Liquid assets to total assets	19.6	20.4	21.3	23.4	23.1	17.8	17.9	19.1	19.8
Liquid assets to short-term liabilities	182.2	187.5	176.1	179.9	165.3	163.5	179.5	179.5	159.4
Liquidity coverage ratio (per Basel III)	154.8	167.1	159.1	153.6	151.0	161.8	178.5	178.4	165.6
Net stable funding ratio (per Basel III)	...	135.6	131.5	138.0	135.0	137.5	144.4	143.4	141.0
Loans to deposits	73.0	72.6	75.3	72.3	71.8	68.4	65.1	61.8	58.5
Foreign-currency liabilities to total liabilities	59.6	59.5	58.2	59.4	60.5	48.8	49.7	50.1	52.0
Selected exposures									
Net open position in foreign exchange to capital	0.5	0.0	-0.2	3.3	0.9	4.6	4.8	5.4	4.6
Residential real estate loans to total loans	13.0	13.5	13.8	15.1	15.9	18.7	18.9	18.9	18.8
Commercial real estate loans to total loans	6.1	6.1	6.0	6.2	6.1	...	...	...	...
Mainland-related exposures to total assets ^{1/}	33.1	33.2	31.7	31.4	32.4	29.3	29.3	20.6	19.5
Insurance sector: General business									
Profitability									
Net claims to net premiums ^{2/}	54.1	57.5	57.0	50.3	52.1	48.8	51.8	51.8	n.a.
Expenses to net premiums ^{2/}	37.4	35.4	34.3	33.2	31.6	33.0	33.4	29.9	n.a.
Reinsurance									
Net premiums to gross premiums ^{2/}	68.5	65.4	68.0	67.6	67.3	65.3	64.3	70.0	n.a.
Securities intermediaries sector									
Leverage									
Equity to assets	27.8	32.3	31.4	25.7	31.8	33.3	36.1	33.1	28.2
Profitability and earnings									
Return on equity	10.0	10.0	6.2	10.8	13.1	4.5	5.9	4.9	7.6
Liquidity and funding									
Liquid assets to short-term liabilities	110.6	125.5	114.7	105.8	126.9	129.9	136.5	127.4	122.3
Selected exposures									
Proprietary positions to total assets	10.4	7.3	10.1	11.7	9.0	4.9	5.2	4.5	4.4
Nonfinancial sector									
Indebtedness									
Household debt to GDP	70.5	72.4	81.4	91.3	93.0	96.2	93.0	87.6	87.6
Corporate debt to GDP									
Total credit	226.9	221.8	233.2	248.0	236.3	230.5	204.8	183.5	174.8
Credit for domestic use	121.6	117.9	123.0	130.6	125.4	128.6	118.8	107.6	99.8
1/ Mainland-related exposures are the exposures of authorized institutions' (AIs) Hong Kong SAR offices and Mainland branches of Hong Kong SAR banks while total assets are provided only for AIs' Hong Kong SAR offices, omitting Mainland branches of these institutions.									
2/ For 2024, figures are as at June. This data has since been discontinued.									
Sources: CEIC; HKMA; IMF, Financial Soundness Indicators database; SFC; and IMF staff calculations.									

Appendix I. External Sector Assessment¹

<p>Overall Assessment: <i>The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.</i> The CA surplus (in percent of GDP) stood at 12.2 percent (2024: 13.1 percent), as strong growth in exports of goods and services was offset by a surge in imports in Q4 2025. The CA surplus is expected to rise somewhat in 2026 as a surge in imports in 2025Q4 unwinds and then decline moderately thereafter over the medium term with the recovery in investment, particularly private investment, which is projected to strengthen. Under the Linked Exchange Rate System (LERS), short-term movements in the REER largely reflect US dollar developments. The credibility of the currency board arrangement has been ensured by a transparent set of rules governing the arrangement, large fiscal and FX reserves, strong financial regulation and supervision, the flexible economy, and a prudent fiscal framework.</p> <p>Potential Policy Responses: A gradual pace of fiscal consolidation over the medium term will help ensure that the external position remains broadly in line with fundamentals by raising public savings to offset stronger private demand and rising aging-related expenditures, while also addressing gaps in the social safety net. Maintaining policies that support wage and price flexibility is crucial to ensuring flexible adjustment of the real exchange rate, thereby preserving competitiveness under the currency board arrangement and ensuring the stability of the external position. Robust and proactive financial supervision and regulation, prudent fiscal management, and flexible markets have underpinned the credibility of the LERS. Maintaining these policies will allow the LERS to continue to play a stabilizing role in the economy and financial system, thereby helping keep the external position in line with medium-term fundamentals and desirable policies.</p>						
Foreign Asset and Liability Position and Trajectory	<p>Background. The net international investment position (NIIP) stood at 586 percent of GDP at end-2025, a significant increase from its end-2024 position of 490 percent, driven largely by a large increase in gross assets (+171 percentage points of GDP). Gross assets and liabilities are high, reflecting Hong Kong SAR's status as an international financial center. Valuation effects in 2025 were sizable as the change in the NIIP (+95 percentage points of annual GDP) exceeded the financial account balance (17 percent of GDP).</p> <p>Assessment. Vulnerabilities are low given the positive and sizable NIIP and its favorable composition. FX reserves remain large (100 percent of GDP at the end of 2025) and direct investments account for a large share of gross assets and liabilities (35 and 55 percent, respectively at end-2025) while only 13 percent of gross liabilities are portfolio investments.</p>					
	2025 (% GDP)	NIIP: 586	Gross Assets: 1,805	Debt Assets ² : 436	Gross Liab.: 1,219	Debt Liab. ² : 224
Current Account	<p>Background. The CA surplus remained substantial at 12.2 percent of GDP in 2025 (2024: 13.1 percent) as both gross national savings (+1.4 pp) and investment (+2.3 pp) rose. The wider goods deficit (2.2 percent of GDP) reflected the strong growth in goods imports (17.4 percent y/y), which outpaced the growth in exports (16.3 percent y/y). The services surplus widened to 5.1 of GDP in 2025 (2024: 4.3 percent), with visitor numbers rising by 12.1 percent y/y during the year. The income balance remained significant at 9.3 percent of GDP, similar to the level recorded in 2024. The CA balance is projected to gradually decline over the medium term due to higher investment (+2.8 pp of GDP by 2031 compared to 2025) while the GNS rate is expected to converge to around 32.5 percent of GDP (2025: 30.6 percent of GDP). Specifically, the ongoing recovery in private investment (+4.9 pp by 2031) is expected to be the main driver of the higher investment rate.</p> <p>Assessment. After adjusting for cyclical factors,³ the CA surplus is estimated to be 11.8 percent of GDP in 2025, which is within the IMF staff-assessed CA norm range of 11.2 to 12.7 percent of GDP (midpoint of 12.2 percent). The IMF staff-assessed CA gap range is hence between -0.9 to 0.7 percent of GDP, with a midpoint of -0.1 percent. Since Hong Kong SAR is not in the EBA sample, the CA norm was estimated by applying EBA-estimated coefficients to Hong Kong SAR and was adjusted for the composition of the NIIP, which impacts net income inflows in the CA due to large share of low-yielding debt assets, and measurement issues related to the increased physical settlement of gold futures contracts resulting from the opening of a Precious Metals Depository.⁴</p>					
	2025 (% GDP)	CA: 12.2	Cycl. Adj. CA: 11.8	EBA Norm: --	EBA Gap: --	Staff Adj.: --	Staff Gap: -0.1
Real Exchange	<p>Background. Under the currency board arrangement, REER dynamics are largely determined by US dollar developments and inflation differentials between the US and Hong Kong SAR. The REER depreciated</p>					

Rate	<p>modestly in 2025 (-0.2 percent), largely reflecting a 0.7 depreciation of the NEER due to the weaker US dollar. The average REER for the first two months of 2026 depreciated by 1.9 percent relative to the average for 2025, largely reflecting a 2.2 percent depreciation of the NEER.</p> <p>Assessment. IMF staff assesses the REER gap, based on the staff-assessed CA gap range, to be in the range of -2.1 to 2.8 percent, with a midpoint of 0.4 percent (based on a CA-REER elasticity⁵ of -0.321).</p>
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. As an international financial center, Hong Kong SAR has an open capital account. The net outflow in non-reserve financial flows (before accounting for net errors and omissions) amounted to 18.7 percent of GDP in 2025, somewhat higher than the 17.3 percent recorded in 2024, driven by lower net portfolio outflows. The financial account is typically very volatile, reflecting financial conditions in Hong Kong SAR and the Chinese mainland (transmitted through growing cross-border financial linkages),⁶ shifting expectations of US monetary policy, and related arbitraging in the FX and rates markets.</p> <p>Assessment. Large financial resources, proactive financial supervision and regulation, and deep and liquid markets should help limit the risks from potentially volatile capital flows. The greater financial exposure to the Chinese mainland could also pose risks to the financial sector through real sector linkages, particularly trade and tourism, credit exposures of the banking sector, and fundraising by Chinese firms in local financial markets. However, Hong Kong SAR's banking system, with its high capital buffers and profitability, is assessed to be broadly resilient to macro-financial shocks.</p>
FX Intervention and Reserves Level	<p>Background. The HKD continued to trade in a smooth and orderly manner within the Convertibility Zone in 2025. The HKMA conducts FX operations as part of the currency board operations ("Convertibility Undertaking"). In 2025, the HKMA recorded a net injection amounting to US\$1.4 billion in support of the Undertaking, purchasing US\$16.7 billion in May in response to large financial inflows. These were partially unwound over the following three months as conditions normalized. Total reserve assets amounted to US\$428 billion at the end of 2025 (1.6 times the monetary base at end-November), decreasing modestly to 100 percent of GDP from 103 percent of GDP at the end of 2024.</p> <p>Assessment. FX reserves are currently adequate for precautionary purposes and should continue to evolve in line with the automatic adjustment inherent in the currency board system. Despite a large fiscal deficit in 2025, Hong Kong SAR still holds significant fiscal reserves (estimated at about 18 percent of GDP at the end of 2025) accumulated through strong fiscal discipline in previous years.</p>
<p>¹ Preliminary assessment based on available data for 2025. The final assessment for 2025 will be provided in the 2026 External Sector Report.</p> <p>² Includes debt securities, loans, trade credits and other advances.</p> <p>³ The assessment incorporates the cyclical adjustment generated by the EBA model (0.4 pp of GDP).</p> <p>⁴ Hong Kong SAR is not included in the EBA sample, as it is an outlier along several dimensions of the EBA analysis. While EBA-estimated coefficients can be mechanically applied to Hong Kong SAR without adjustments, this approach has obvious limitations. Under such an application without adjustment, the 2025 CA norm is estimated at about 20.9 percent of GDP, implying a CA gap of -9.1 percent. The EBA CA gap is overstated, as it does not properly reflect Hong Kong SAR-specific measurement issues. Accordingly, two adjustments are applied, reducing the CA norm by 9 percentage points of GDP. First, a downward adjustment of 5.1 ppt of GDP (midpoint of an estimated 4.4-5.8 ppt range) is made to the EBA model's implied contribution of the NIIP position. This reflect the fact that, for Hong Kong SAR, the income balance relative to the NIIP is systematically lower than in peer economies due to a persistently higher share of debt instruments on the asset side than on the liability side. Second, a downward adjustment of 3.8 ppt of GDP is made to account for a decline in the gold trade balance from an average annual surplus of around 1½ percent of GDP in the decade to 2009 to a deficit of 2.2 percent in 2024. This change does not reflect changes in wealth but rather the increased physical settlement of gold futures contracts following the opening of a Precious Metals Depository in 2009, causing trade in gold, particularly with the Chinese mainland, to surge. These adjustments have been consistently applied in previous staff reports, including in 2024, and the External Sector Report, including in 2025. See "People's Republic of China—Hong Kong Special Administrative Region: Selected Issues" (Country Report No. 17/12) for more details.</p> <p>⁵ Based on the average for all countries in the EBA sample in March 2026.</p> <p>⁶ The financial linkages with the Chinese mainland are deepening with the increase in cross-border bank lending, capital market financing, and the internationalization of the RMB.</p>	

Appendix II. Risk Assessment Matrix

<i>Source of Risk</i>	<i>Likelihood</i>	<i>Expected Impact and Policy Advice</i>
<i>Conjunctural</i>		
<p>Geopolitical Tensions. Intensification of conflicts, including in the Middle East, raise oil prices damage key infrastructure, disrupt major shipping routes and supply chains, increase migration pressures, reignite inflation, and weigh on growth.</p>	High	<p>High. An intensification and widening of conflicts, including the war in the Middle East, and sanctions and conflict-related economic disruptions could create negative spillovers to Hong Kong SAR's highly open and interconnected economy. Macroeconomic policy should step in the event of a strong drag on domestic growth. Hong Kong SAR has fiscal space to allow for automatic stabilizers to operate and accordingly delay the fiscal consolidation path. Should additional fiscal support be needed, it should be targeted at the most vulnerable and low-income households and accommodated within the planned spending envelope by adjusting the profile of spending.</p>
<p>Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains and inflict an outsized impact on economic activity and prices. Trade diversion spurs protectionist measures by more countries amplifying inflation from profit margin decompression or strategic complementarities.</p>	High	<p>High. While Hong Kong SAR continues to maintain significant fiscal space, a sharp rise in global risk premia due to fiscal concerns in major economies, financial sector volatility, large capital outflows, potentially combined with resulting large housing market corrections, and a potential shift in market confidence could impact the territory through its role as a major international financial center and threaten financial stability and growth. Hong Kong SAR has fiscal space to allow for automatic stabilizers to operate and accordingly delay the fiscal consolidation path, with additional fiscal support targeted at the most vulnerable and low-income households. Financial stability should be ensured through easing of macro-prudential measures and liquidity provision.</p>
<p>Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels in major economies put further upward pressure on long-term interest rates, sharply tightening global financial conditions and increasing the risk of sovereign bond market stress in the event of a shock. Disruptions are amplified by increased role of price-sensitive and leveraged NBFIs in sovereign debt markets, limited market absorption capacity, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, foreign aid cuts add to fiscal challenges in low-income countries.</p>	High	<p>High. Policy-induced shocks emanating from key partners, resulting in growth and financial market volatility, would adversely impact the economy and financial system. Hong Kong SAR has fiscal space to allow for automatic stabilizers to operate and accordingly delay the fiscal consolidation path. Should additional fiscal support be needed, it should be targeted at the most vulnerable and low-income households and accommodated within the planned spending envelope by adjusting the profile of spending.</p>
<p>Policy Uncertainty. Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes.</p>	Medium	<p>High. Reversal of the AI-driven tech cycle will adversely impact trade and growth, and FDI</p>
<p>AI-related Risks</p>		<p>High. Reversal of the AI-driven tech cycle will adversely impact trade and growth, and FDI</p>

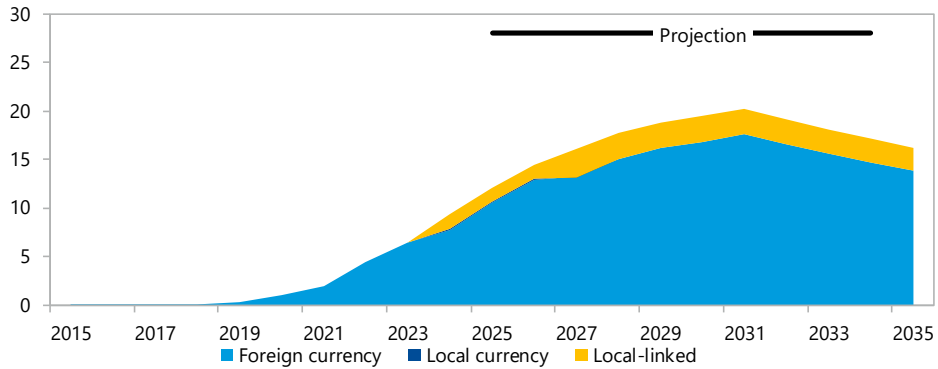
<i>Source of Risk</i>	<i>Likelihood</i>	<i>Expected Impact and Policy Advice</i>
<ul style="list-style-type: none"> • Disorderly AI Correction. Expectations of strong AI-led productivity gains are revised abruptly, prompting a sharp decline in investment, steep market corrections, and negative wealth effects suppressing demand further, tightening financial conditions globally. Rapidly growing, less regulated crypto activities may augment these vulnerabilities. 	High	flows intermediated via Hong Kong SAR. Macroeconomic policy should step in the event of a strong drag on domestic growth, targeting the most vulnerable and low-income households.
<ul style="list-style-type: none"> • AI Acceleration. AI-related productivity gains, adoption, and upside earnings surprises accelerate growth, renew dynamism, and boost financial valuations, while posing new challenges for energy and other critical inputs, as well as for labor market transitions. 	Medium	Medium. The improved productivity growth will raise potential growth and support economic activity. Revenue mobilization efforts should be accelerated to rebuild fiscal buffers, prepare for the costs of population aging, and finance stronger social safety nets and needed capital investment.
<i>Domestic</i>		
<p>Further downturn in residential and commercial real estate in Hong Kong SAR and the Mainland. A disorderly real estate price correction could trigger an adverse feedback loop between real estate prices, debt service ability of households, equity prices of CRE developers, first-round effect on banks' balance sheets and lower consumption, with weakening growth leading to a second-round effects on banks' health.</p>	Medium	High. Relax further macroprudential measures while maintaining prudent underwriting and conservative collateral valuation. Ensure adequate capital buffers for banks with high RRE and CRE exposures.
<p>Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.</p>	High	Medium. Continue to assess the adequacy of IT risk management practices and pair market development initiatives with efforts to enhance resilience against digital and cyber threats. Coordinate with global financial regulators.

Appendix III. Sovereign Risk and Debt Sustainability Assessment

Appendix III. Figure 1. Hong Kong SAR: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting low vulnerability across the near-, medium, and long-term horizons. Hong Kong SAR's debt is negative in net terms, as shown in Table 3.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low, as the low signal from the GFN module outweighs the risks signalled by the fan chart, which reflect the historical volatility of GDP due to COVID-19.
Fanchart	Low	...	
GFN	Low	...	
Stress test		...	
Long term	...	Low	While long-term risks are low, aging-related expenditures on health and social security and capital expenditure on major infrastructure projects will lead to growing financing needs for the HKSAR government.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
<p>Commentary: Hong Kong SAR is assessed to be at a low overall risk of sovereign stress and debt is sustainable. Net debt is negative and is expected to remain so during the projection period. While debt to GDP is expected to rise during the forecast period, the projected return to fiscal surpluses in the medium term will help reduce debts. Given the steady rise in fiscal costs from population aging, authorities should undertake revenue-boosting tax reforms to support the attainment of the balanced budget rule over the longer term.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

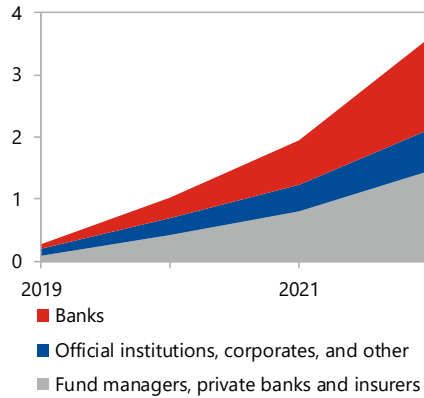
Appendix III. Figure 3. Hong Kong SAR: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



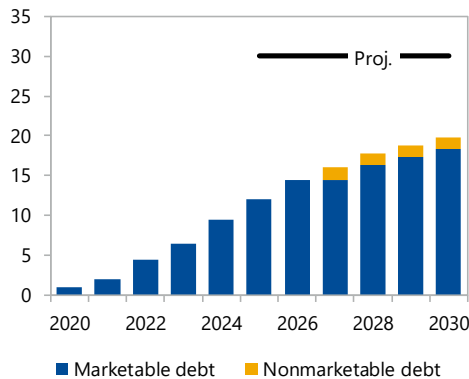
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



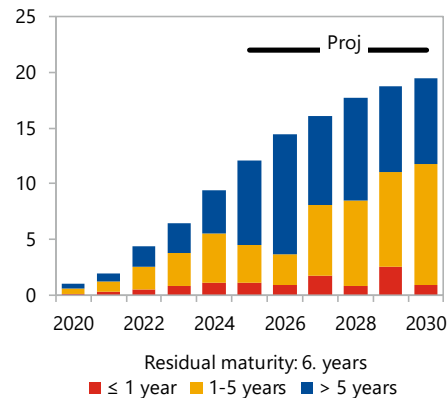
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

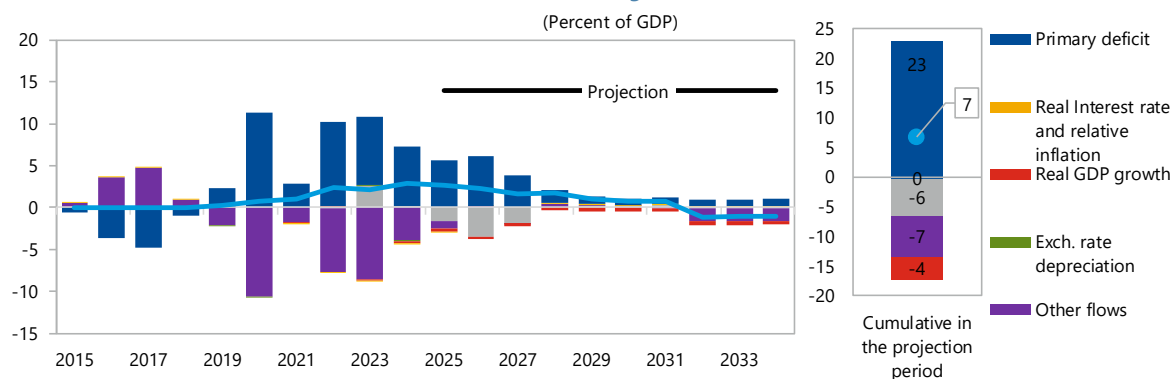
Commentary: The "Public debt by holder" chart represents primary issuance in categories shown in the absence of more detailed information. "Other" category includes central banks, sovereign wealth funds, supranationals, international organisations, official institutions, and corporates.

Appendix III. Figure 4. Hong Kong SAR: Baseline Scenario

(Percent of GDP unless indicated otherwise)

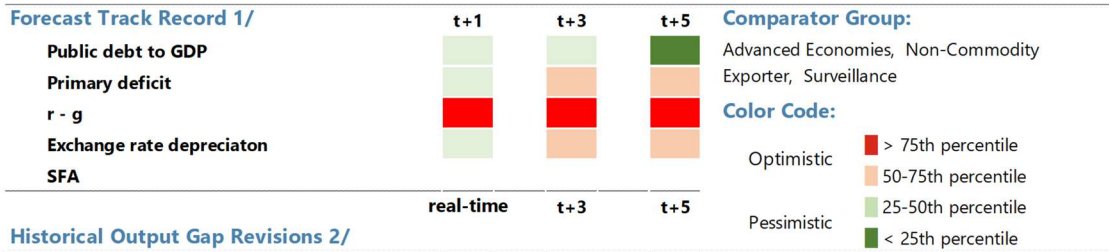
	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	9.4	12.1	14.4	16.0	17.8	18.7	19.5	20.2	19.1	18.1	17.1
Change in public debt	2.9	2.7	2.3	1.6	1.7	1.0	0.7	0.8	-1.1	-1.0	-1.0
Contribution of identified flows	2.8	4.3	5.8	3.5	1.6	0.8	0.6	0.5	-1.1	-1.0	-0.9
Primary deficit	7.1	5.6	6.0	3.7	1.5	0.9	0.8	0.8	0.8	0.8	0.9
Noninterest revenues	16.3	17.8	17.0	19.0	19.7	20.1	20.1	20.1	20.1	20.1	20.1
Noninterest expenditures	23.4	23.4	22.9	22.8	21.2	21.0	20.9	20.9	20.9	20.9	21.0
Automatic debt dynamics	-0.4	-0.4	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Real interest rate and relative inflation	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Real interest rate	-0.2	0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Relative inflation	0.1	-0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Real exchange rate	-0.1	...	...	...	...	...	...	...	...	...	...
Other identified flows	-3.9	-1.0	0.1	0.0	0.3	0.1	0.0	0.0	-1.6	-1.6	-1.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.4	-1.1	-1.1	-1.0	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Other transactions	-2.5	0.1	1.2	0.9	1.2	0.9	0.9	0.8	-0.8	-0.8	-0.8
Contribution of residual	0.1	-1.5	-3.5	-1.8	0.1	0.2	0.1	0.3	0.0	0.0	0.0
Gross financing needs	5.7	4.7	6.2	3.7	2.7	1.1	3.1	1.9	3.6	5.1	3.1
of which: debt service	0.0	0.2	1.3	0.9	2.0	1.0	3.1	1.9	3.6	5.1	3.1
Local currency	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Foreign currency	0.0	0.2	1.3	0.8	1.9	0.9	1.7	1.9	3.5	3.7	3.0
Memo:											
Real GDP growth (percent)	2.6	3.5	2.4	2.4	2.3	2.3	2.2	2.2	2.2	2.2	2.2
Inflation (GDP deflator; percent)	4.2	1.0	2.7	1.9	2.1	2.3	2.4	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	6.9	4.5	5.2	4.3	4.5	4.6	4.6	4.7	4.7	4.7	4.7
Effective interest rate (percent)	0.0	1.8	2.1	2.4	2.6	2.7	2.8	2.8	2.8	2.8	2.8

Contribution to Change in Public Debt

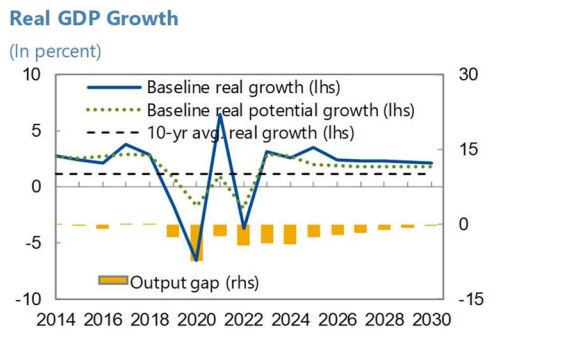
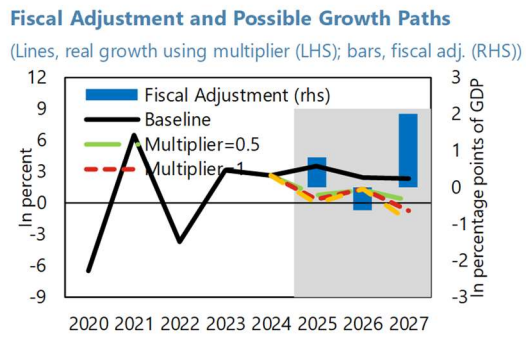
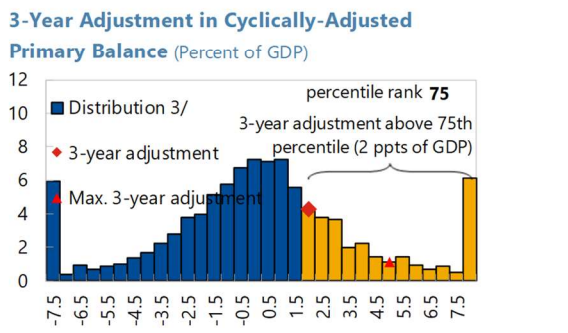
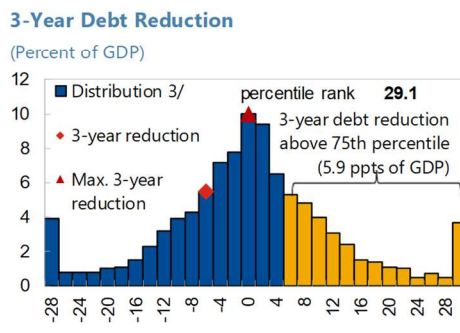
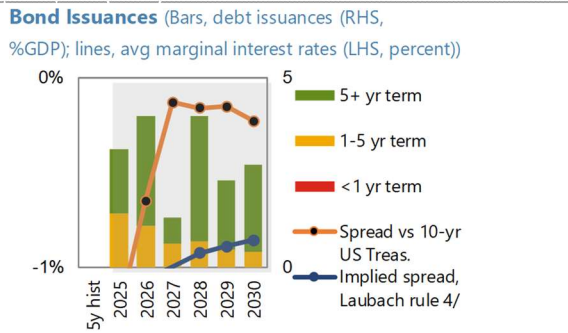
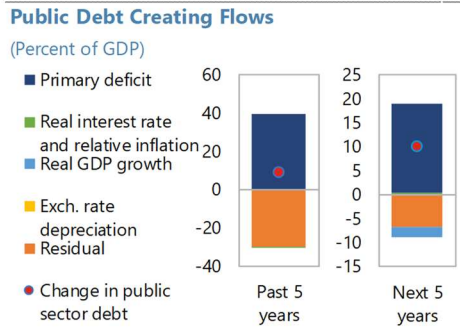


Commentary: Public debt rises due to infrastructure and bond issuance but remains low over the forecast horizon. "Other transactions" includes changes to fiscal reserve asset buffers and investment income. The year 2024 above corresponds with Fiscal Year 2024/2025, as in Table 3.

Appendix III. Figure 5. Hong Kong SAR: Realism of Baseline Assumptions



Historical Output Gap Revisions 2/

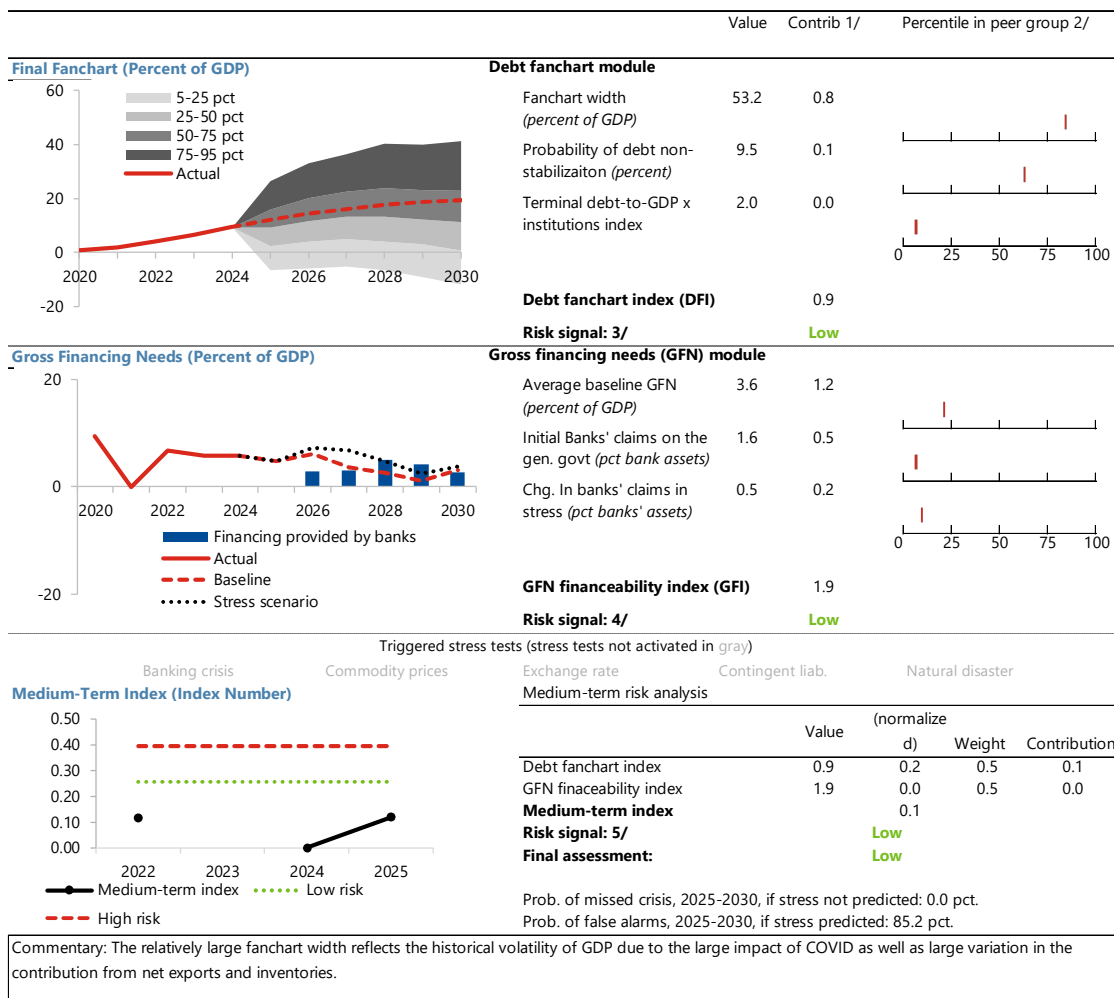


Commentary: The baseline path through 2030 incorporates rising costs of aging. Relatively low tax revenues to GDP imply space to raise revenues, offsetting downside risks to the fiscal consolidation path.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.
 2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates
 3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
 4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Appendix III. Figure 6. Hong Kong SAR: Medium-Term Risk Assessment



Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Appendix III. Figure 7. Hong Kong SAR: Triggered Modules

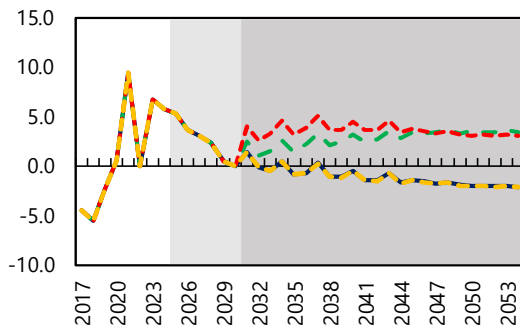
Large amortizations Pensions Climate change: Adaptation Natural Resources
 Health Climate change: Mitigation

Hong Kong SAR: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

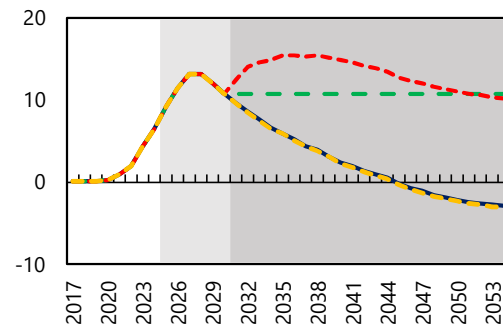
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Historical average assumptions	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Overall Risk Indication		■

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	2.2%	2.2%	2.2%
Primary Balance-to-GDP ratio	-0.8%	-0.9%	-0.8%
Real depreciation	-2.3%	-2.5%	-2.4%
Inflation (GDP deflator)	2.4%	2.5%	2.5%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Long run projection
 Projection
— Baseline with t+5
- - - Baseline with t+5 and DSPB
- - - Historical 10-year average

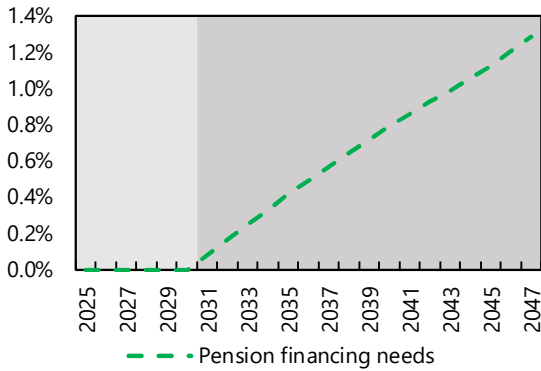
Long run projection
 Projection
— Baseline with t+5
- - - Baseline with t+5 and DSPB
- - - Historical 10-year average

Commentary: Higher risk indications in part reflect low historical average values for amortizations, both relative to GDP and in HKD equivalent. Drivers of the 10-year average scenario are affected by the COVID period, reducing the growth rate and raising the primary deficit.

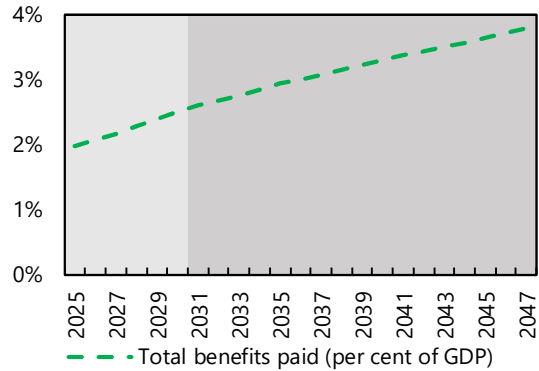
Appendix III. Figure 8. Hong Kong SAR: Demographics: Pensions

Permanent adjustment needed to provide funding for the old-age financial assistance schemes:	30 years	50 years	Until 2100
(pp of GDP per year)	1.3%	2.4%	2.7%

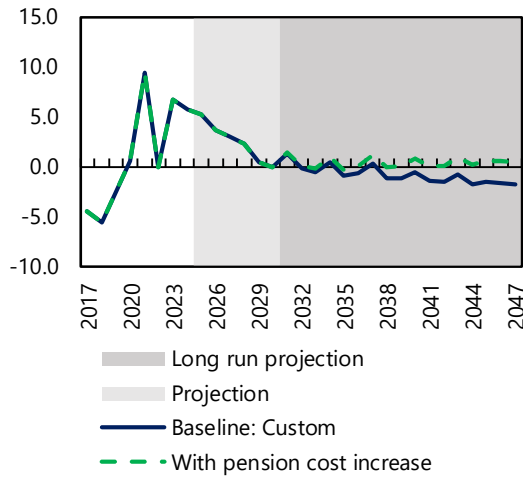
Pension Financing Needs



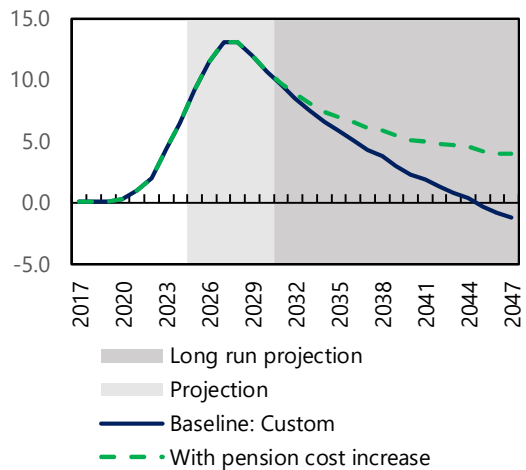
Total Benefits Paid



GFN-to-GDP Ratio

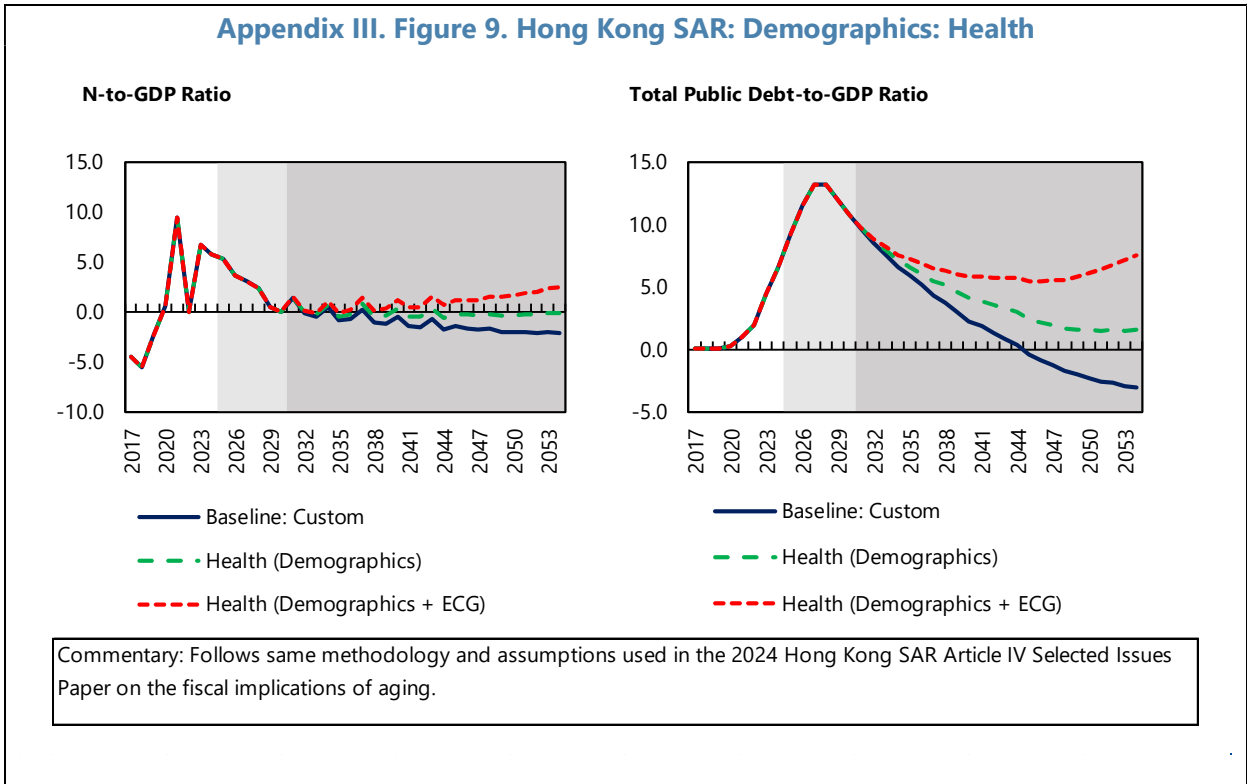


Total Public Debt-to-GDP Ratio



Commentary: Includes only estimated expenditure on the 65+ population under the Social Security Allowance and Comprehensive Social Security Allowance schemes. Financing needs are captured in the baseline through 2030, hence are shown as zero.

Appendix III. Figure 9. Hong Kong SAR: Demographics: Health



Appendix IV. Fiscal Revenue and Expenditure Consolidation Reforms Introduced Since FY2024/25¹

Category	Measure	Details	Expected Additional Revenue /Savings (Budget or authorities' calculations)
2024-2025 budget			
Revenue measure	Two-tiered standard rates regime for salaries tax / tax under personal assessment	Standard rates ¹ : First HKD 5 million of net income at 15%; remainder at 16% (from Year of Assessment 2024/25). Progressive rates: Remain unchanged	HKD 905 million per year
Revenue measure	Increase in business registration fees	Increase business registration fees by 10% with effect from 1 April 2024	HKD 295 million per year
Revenue measure	Progressive rating system for domestic tenements	Rateable value for domestic tenements: (i) First HKD 550,000: 5% (ii) Next HKD 250,000: 8% (iii) Remainder: 12%	HKD 820 million per year
Revenue measure	Resume the collection of Hotel Accommodation Tax (HAT)	Resume the collection of HAT at a rate of 3 per cent with effect from 1 January 2025	HKD 1.1 billion per year
Expenditure control	Productivity Enhancement Program	Implementing the Productivity Enhancement Program under which recurrent government expenditure cut by 1% for 2024-25, 2025-26 and 2026-27	HKD 11.7 billion annually, starting from 2026-27
Expenditure control	Civil service establishment freeze	Maintain zero growth in civil service establishment	N/A
2025-2026 budget			
Expenditure control	Stepping Up Productivity Enhancement Program	Rate of reduction of recurrent government expenditure will be increased from the original 1% to 2% in 2025-26, extended for two more years to 2027-28. Taking into account the 1% cut in 2024-25, the cumulative rate of reduction will be 7% in total.	Using 2023-24 recurrent expenditure as the basis, the cumulative savings in recurrent government expenditure are summarized as follow: 2024-25: HKD 3.9 billion (1%) 2025-26: HKD 11.7 billion (3%) 2026-27: HKD 19.5 billion (5%) 2027-28: HKD 27.3 billion (7%)
Expenditure control	Pay freeze for public sector	Pay freeze for personnel of executive authorities, legislature, judiciary and District Councils	The fiscal impact of every 1% pay rise is around HKD 2.9 billion.
Expenditure control	Civil service establishment reduction	Reduce the establishment by 2% each in 2026/27 and 2027/28 (~10,000 posts by Apr 2027)	The financial impact is already reflected in the above item ("Stepping

¹ Salaries tax or tax under personal assessment is charged at progressive rates on net chargeable income (total income – deductions – allowances) or at standard rates on net income (total income – deductions), whichever is lower.

Category	Measure	Details	Expected Additional Revenue /Savings (Budget or authorities' calculations)
			up Productivity Enhancement Program").
Expenditure control	Transport subsidy scheme adjustments	Adjust the arrangements of \$2 Scheme and Public Transport Fare Subsidy Scheme	HKD 6.2 billion over the next five years (2025-26 to 2029-30)
Expenditure control	Assist bureau and departments in reducing expenditure	Strengthen the exercise of fiscal prudence and optimal use of public funds. Relevant bureau to review expenditure on social welfare, healthcare, and education	N/A
Expenditure control	Capital works cost control and procurement reforms	Review the policies on direct/central procurement; and review district cooling systems	At least HKD 40 billion in works
Revenue measure	Air passenger departure tax increase	Increase from HKD 120 to HKD 200 per passenger	HKD 0.9 billion per year after taking into account the new exemptions
Tax reform (international tax)	Implement OECD's Global Minimum Tax / Hong Kong minimum top-up tax per Pillar 2 of BEPS 2.0 package	Introduce 15% minimum tax on a jurisdictional basis for in-scope MNE groups with annual consolidated revenue of EUR 750m or above	HKD 15 billion per year (from 2027/28)
Revenue measure	Increase fees for talent and capital investor admission schemes	Charge an application fee of \$600; and raise visa fee to \$600 or \$1,300 based on the duration of limit of stay	To increase by HKD 620 million per year
Revenue measure	Review toll charges for using public facilities	Review tolls of government tunnels and trunk roads, license fees for electric private cars, parking meter charges and fixed penalties for traffic offences.	To increase by about HKD 2 billion per year
Consolidating and Optimizing the Use of Government Financial Resources	Bring back the unspent balance of six seed capital funds to the Government's accounts	Bring back the unspent balance of six seed capital funds to the Government's accounts, after setting aside resources to meet the necessary expenditure of these funds for the next five years so that their sustainable operation will not be affected.	Transfer of HKD 61.5 billion to the General Revenue Account in 2025-26
2026-2027 budget			
Revenue measure	Higher stamp duty rates on high-value residential property transactions.	The rates of stamp duty on residential property transactions valued above HKD100 million will be raised from 4.25 per cent to 6.5 per cent.	To increase by HKD 1 billion per year

Category	Measure	Details	Expected Additional Revenue /Savings (Budget or authorities' calculations)
Expenditure control	Take forward the Productivity Enhancement Program	Take forward the Productivity Enhancement Program as planned, reduce 2% of the recurrent government expenditure annually for two years in 2026-27 and 2027-28	Further savings of HKD7.8 billion and HKD15.6 billion respectively as compared to 2025-26
Expenditure control	Civil service establishment reduction	Reduce the establishment by 2% each in 2026/27 and 2027/28 as planned (~10,000 posts by Apr 2027)	The financial impact is already reflected in the above item ("Take forward the Productivity Enhancement Program").
Consolidating and Optimizing the Use of Government's Financial Resources	Transfer Investment Income of the Exchange Fund	Transfer the investment income of the Exchange Fund to Capital Works Reserve Fund on the premise that the Exchange Fund's function to maintain the stability and integrity of Hong Kong's monetary and financial system will not be compromised	HKD 75 billion in each of the coming two financial years (i.e. 2026-27 and 2027-28), totaling HKD 150 billion
Consolidating and Optimizing the Use of Government's Financial Resources	Transfer the Accumulated Surplus of the Bond Fund	Transfer the accumulated surplus in the Bond Fund to the Government's consolidated account	HKD 37 billion in 2026-27
Consolidating and Optimizing the Use of Government's Financial Resources	Consolidate Funds Established Outside the Government's Accounts	Bring back the unspent balances of seven funds to the Government's accounts following a review of the remaining 36 funds established outside the Government's accounts.	Transfer of HKD 15.8 billion to the General Revenue Account in 2026-27

Appendix V. Implementation of Past IMF Recommendations

Fund Recommendations	Policy Actions
Fiscal policy:	
<ul style="list-style-type: none"> The medium-term fiscal consolidation path is appropriate, but revenue mobilization efforts need to be stepped up to meet aging related and investment spending needs. Options for enhancing revenue mobilization that should be considered include increasing the progressivity of personal income tax, raising excise taxes, and introducing VAT and taxes on capital gains and dividends. Expanding social safety nets would help enhance the automatic stabilizer role of fiscal policy. 	<ul style="list-style-type: none"> The target of returning to a balanced budget (before bond issuance and repayment) is still expected in the FY2026/27 Budget to achieve after FY2029/2030, which is in light of continued medium-term spending pressures, particularly on capital expenditure. The consolidation strategy involves a gradual increase in land sale revenue, as well as expenditure restraint, including lowering civil service positions and social expenditures introduced during the pandemic. Fiscal revenues rose significantly in FY2025/26 on the back of a rebound in capital market activity and the recovery in housing. As a result, the fiscal deficit narrowed more rapidly than originally budgeted, which is expected to be sustained in FY2026/27. Prior to this, revenues rose modestly since FY2024/25 as part of a planned fiscal consolidation, with a new personal income tax tier for high income earners, introduction of a new progressive rating system for rates charged on domestic properties, an increase in the Air Passenger Departure Tax, an introduction or increase in toll charges for using public infrastructure facilities (e.g., tunnels, parking meters, etc.) and fees for electric private cars, introduction of the OECD Global Minimum Tax, and re-introduction of the hotel accommodation tax. The government has enhanced the various cash assistance schemes that are of non-contributory nature, with a notable increase in their recurrent expenditures. Some COVID-related measures have been clawed back with the reopening and normalization of conditions.
Financial sector and housing market policy:	
<ul style="list-style-type: none"> Supervisors should ensure that banks apply prudent risk management, including in expected loss recognition and provisioning. Policy support to SMEs should be well calibrated to strike a proper balance between providing necessary support and facilitating an orderly exit of non-viable firms. The countercyclical capital buffer (CCyB) should be maintained against the backdrop of weak credit growth. Proactive management of risks arising from the stress in the Chinese mainland's real estate sector. 	<ul style="list-style-type: none"> An orderly exit from the banking sector's principal payment holiday scheme commenced in July 2023 to facilitate SMEs' gradual return to normal repayment. The application period of the SME Guarantee schemes has been extended with the 80% Guarantee Product currently running to end-March 2028 and principal moratorium arrangements extended to end-March 2026. In 2024Q2, the HKMA announced that the prevailing 1 percent CCyB rate—in place since 2020—would thereafter be considered as the neutral level. In 2024Q3, the CCyB was reduced to 0.5 percent.

Fund Recommendations	Policy Actions
<ul style="list-style-type: none"> • The removal of demand-cooling measures in the property sector were justified by the easing of speculative demand and property price risks. Further policy easing should be carefully designed to maintain prudent underwriting standards and avoid excessive risk taking. • Continue to prioritize systemic risk assessments for nonbank financial institutions (NBFIs) and market wide assessments for high risk activities such as derivatives, repo and securities lending, augmented with enhanced data collection and NBFIs stress testing, both at the system wide and sector specific levels. Directly integrate the monitoring and stress testing of investment funds' liquidity into the supervisory framework, as recommended by the 2021 FSAP. • Continue to strengthen the AML/CFT framework by improving coverage of regulations, improving enforcement, enhancing international cooperation and strengthening oversight over the virtual asset (VA)/virtual service provider (VSP) sector. • Continue boosting public housing supply to mitigate affordability pressures. Frequent reviews of eligibility for social housing and its strict enforcement could also alleviate social pressures. • A comprehensive regulatory strategy for virtual assets should encompass introducing a risk-based approach for stablecoin issuers, close cross sectoral monitoring, and continued supervisory efforts to ensure financial institutions appropriately manage risks. • Continued improvements in transparency regarding climate related risks will strengthen the climate information infrastructure and help position Hong Kong SAR as a global green and sustainable finance hub. 	<ul style="list-style-type: none"> • Under intensified prudential supervision, impairments and credit loss recognition rose for Mainland-related lending, while Mainland-related lending continued to fall as percentage of total assets. • In February 2024, the authorities abolished demand-side management measures for residential properties. Macroprudential measures on property-related lending were relaxed. • The authorities and regulators are looking at measures to enhance the monitoring of financial systemic risks, which is already in place, with a judgment on the need to strengthen the microprudential and the macroprudential oversight of NBFIs governed by the identification of systemic risks. Investment funds are required to perform ongoing liquidity risk assessment to assess the liquidity profile of their funds' liabilities and assets on a regular basis and perform liquidity stress tests on their funds on an ongoing basis. • Trust and company service providers, real estate agents, and accountants are now subject to the full range of risk-based AML/CFT supervision, with work to bring the legal professionals sector fully into the framework. All centralized VA trading platforms carrying on business in Hong Kong SAR or actively marketing their services to Hong Kong SAR investors are now subject to licensing requirements, including AML/CFT regulation and supervision. The 2025 Stablecoins Ordinance expands this to issuers of fiat referenced stablecoins. The authorities are continuing to enhance their cooperation with international partners to increase the provision of mutual legal assistance and target cross border ML syndicates. • The government continues to emphasize significant investment in public housing, with 294,000 units targeted for completion in the coming decade. In 2025, about 9,500 Light Public Housing units were completed, part of the 30,000 units targeted for completion by FY2027/28. To combat tenancy abuse, the Cherish

Fund Recommendations	Policy Actions
	<p>Public Housing Resources Award Scheme was introduced in 2025.</p> <ul style="list-style-type: none"> The authorities established a mandatory licensing system and regulatory requirements for crypto asset services providers in June 2023 to enhance investor protection and increased criminal penalties for operating unlicensed platforms. The 2025 Stablecoins Ordinance expands the coverage to issuers of fiat-referenced stablecoins. In May 2024, HKMA published the Hong Kong Taxonomy for Sustainable Finance, which provides a standardized framework for classifying and labelling financial products and investments. In 2022, the HKMA set up the Commercial Data Interchange (CDI) that among others, better connects data sources to lenders through a block-chain based platform. Future enhancements announced in 2025 to the CDI envisaged include expanding its Project Cargo^x to improve access to trade financing and utilizing the data on the CDI to streamline credit assessments.
Structural policies	
<ul style="list-style-type: none"> Mobilizing private sector-led Research and Development (R&D) and investment is the key to unlocking the Greater Bay Area initiative's potential to unlock growth prospects while mitigating adjustment costs such as the displacement of activities. Efforts to attract skilled labor should be continuously monitored to ensure the talent attraction programs meet their objectives, while steps are needed to encourage older adults and women to remain engaged in the labor force. Policies to improve the labor force participation rate among groups prone to dropping out of the labor force (women, older workers) such expanded programs to reskill and upskill workers, adoption of flexible work arrangements, and provision of affordable childcare, would help offset demographic pressures. To meet climate targets, the authorities should prioritize regional collaboration with the Chinese mainland to develop zero carbon energy and improve energy efficiency in aging and poorly maintained buildings, incentivize energy saving and green transportation, and bolster 	<ul style="list-style-type: none"> The government has introduced funding support for AI development and life and health technology, among other sectors. The FY2026/27 budget expands availability of early stage financing for targeted sectors to support the establishment of innovative activities in Hong Kong SAR. The government has introduced or expanded several schemes to attract and retain talents, e.g. the Top Talent Pass Scheme, which have contributed to reversing the population decline experienced during the pandemic. The authorities plan to expand childcare centers and extend After School Care Programs to support higher female labor force participation. To boost LFPR of older workers, the government accepted many of the recommendations made by the Working Group on Promoting Silver Economy to step up training, strengthen career counseling and consultation, increase the number of opportunities for older workers to interact with potential employers, review a pilot program to provide incentives for older workers to rejoin the workforce, and look at the promotion of elderly-friendly employment practices. Hong Kong SAR is making progress toward net zero electricity by reducing coal to 20 percent of total supply in 2025, from 48 percent in 2015, and investing in energy conservation through stronger efficiency standards for buildings and electrical appliances.

Fund Recommendations	Policy Actions
infrastructure and enhance resilience against climate related risks.	<ul style="list-style-type: none"><li data-bbox="787 254 1409 352">• To prepare for more frequent extreme weather events, the authorities are investing in AI to develop better meteorological models.<li data-bbox="787 363 1409 525">• Progress on the Northern Metropolis continues to be focused on developing the infrastructure, with the opening of the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone, which straddles both Hong Kong SAR and Shenzhen, in 2025.

Appendix VI. Updates on Implementation of FSAP Recommendations¹

Recommendations	Status
Strengthening Systemic Risk Monitoring	
<p>Continue to monitor Authorized Institutions' concentrated exposures to non-bank Chinese mainland entities, particularly of banking groups with foreign bank branches and subsidiaries. [HKMA]</p>	<p>The HKMA has devoted substantial supervisory resources to banks' non-bank Chinese mainland exposures, by putting in place rigorous surveillance and analysis framework and conducting regular onsite reviews of banks' systems and practices in the Mainland-related lending business. In light of the heightened credit risk from the property sector in the Chinese mainland in the last few years, the HKMA had stepped up the monitoring of the relevant exposures and conducted deep-dive reviews of some banks' portfolios. So far, the HKMA assesses the risk to be manageable with no particular concentration.</p> <p>Regarding banking groups with foreign bank branches and subsidiaries in Hong Kong SAR, the HKMA has conducted a round of thematic examinations in 2022 on the relevant banking groups' operation in Hong Kong SAR to assess their control with respect to large exposures and credit concentration, as well as any potential signs of regulatory arbitrage. No major deficiencies were identified. The HKMA will continue to carry out supervisory activities on the banking groups concerned in a risk-based manner.</p>
<p>Reassess the need for amending the regulatory perimeter to monitor non-deposit-taking finance companies and leakages to macroprudential policy. [HKSAR Authorities]</p>	<p>The Registrar of Money Lenders conducts annual surveys to monitor the landscape of the licensed money lenders sector. One of the indicators under close watch is the amount of personal loans secured by residential properties for financing the purchase of the properties concerned, which amounted to about HK\$11 billion as at end-2024, 15.4 percent lower than as at end-2023. Furthermore, compared to the amount of loans made by banks for the same purpose in 2024 (\$2,007 billion), the portion of loans made by money lenders was not significant (around 0.5 percent). Besides, customer loans of licensed money lenders in 2024 (HK\$148 billion) was 1.98 percent of the customer loans of the banking sector (HK\$7,490 billion) in 2024. The rate was lower than the rate of 2.2 percent in 2023. Based on this, the authorities assessed the systemic risk posed by the licensed money lending sector to the financial system as generally low.</p> <p>Meanwhile, the Government has enhanced regulation of money lenders in recent years. New and revised licensing conditions have been imposed on licensed money lenders since 16 March 2021 requiring them to assess borrower's repayment ability prior to granting unsecured personal loans,</p>

¹ Prepared by the IMF Staff with information provided by Hong Kong SAR authorities.

Recommendations	Status
	<p>and strengthening the regulation over money-lending advertisements and enhancing protection of the information of loan referees. Further, interest rate cap and extortionate rate threshold under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) were respectively lowered from 60 percent per annum to 48 percent per annum, and from 48 percent per annum to 36 percent per annum since 30 December 2022. To address the issue of excessive borrowing and better protect the public interest, the Government is enhancing the regulation of unsecured personal loans, optimizing and improving the affordability assessment on borrowers in respect of unsecured personal loans. etc. The Government will continue to closely monitor the money lending market and introduce enhancement measures as necessary.</p> <p>In co-ordination with the FSTB and other regulatory authorities where necessary, the SFC has been responding proactively to changing markets and new regulatory challenges with a view to (a) identifying, assessing and managing risks in a timely manner; (b) continuing reviewing the effectiveness and relevance of its past regulatory decisions, and (c) determining whether additional measures at the sectoral level are needed, or even to bring in previously unregulated activity into the perimeter of regulation.</p>
<p>Ensure sufficiently forward-looking internal risk models for capital charge for Chinese mainland real estate borrowers with low credit ratings. [HKMA]</p>	<p>In light of the IMF's recommendation, the HKMA has taken further steps to ensure that banks' internal risk models used in determining the capital charge are sufficiently forward looking, including but not limited to that for Mainland real estate borrowers with low credit ratings. In particular, the HKMA conducted a thematic review in 2022 to assess the forward-looking capability of IRB banks' internal risk models. The review focused on examining the extent and effectiveness of the adoption of various model components with forward-looking elements in the internal risk models. The results of the review indicated that the IRB banks' internal risk models were in general sufficiently forward-looking. The HKMA observed that a wide range of forward-looking risk factors, including both quantitative and qualitative ones, were considered in their internal models. In addition, the IRB banks would conduct ad hoc reviews to ensure abrupt changes in borrowers' creditworthiness could be timely reflected in the internal ratings assigned to the borrowers. They also put in place effective model override mechanisms to appraise aspects that might affect borrowers' creditworthiness but were not sufficiently captured by the models' risk factors from a forward-looking perspective.</p> <p>The HKMA has also put in place a framework for ongoing monitoring the performance of internal models adopted by the IRB banks to detect, amongst others, any potential</p>

Recommendations	Status
	insufficiency in the capital charge that may warrant supervisory follow-up actions with the banks.
Integrate all bank liquidity stress tests, streamline reporting, and enhance monitoring of liquidity position of foreign branches that appear more vulnerable. [HKMA]	<p><i>Integrate all bank liquidity stress tests and streamline reporting.</i></p> <p>To streamline reporting, the HKMA has revised the relevant return and with the first reporting position at end-June 2026. Meanwhile the HKMA is in the process of integrating the liquidity stress tests riding upon implementation of the revised return.</p> <p><i>Enhance monitoring of liquidity position of foreign branches that appear more vulnerable.</i></p> <p>A 3-month supervisory liquidity stress testing (SLST) scenario has been implemented starting from the position of Dec 2021. During the initial period of implementation, the results were largely in line with those of FSAP stress tests with a few foreign bank branches being identified as more vulnerable. The HKMA has discussed the stress test results with these banks and requested them to improve their liquidity position as appropriate. No bank failed the 3-month SLST based on the position as of end-March 2024. The HKMA has continued to use the 3-month SLST to monitor banks' liquidity position and plans to take appropriate supervisory actions regarding the stress test results.</p>
Integrate monitoring and stress testing of investment funds' liquidity in the supervisory framework and increase granularity of data collation. [SFC]	The SFC has been requiring fund managers to implement adequate liquidity risk management policies and procedures. In particular, managers of SFC-authorized funds are required to perform ongoing liquidity risk assessment to assess the liquidity profile of their funds' liabilities and assets on a regular basis and perform liquidity stress tests on their funds on an ongoing basis. The SFC reviews compliance during inspections and conducts liquidity stress tests on local-domiciled SFC-authorized funds. The SFC also continues to monitor fund managers' implementation and conducts ad hoc enquiries with specific fund managers for more granular data in response to latest market development. In view of the international regulatory development, starting from 2022, the SFC has expanded the data collection framework to collect more granular data (e.g. detailed breakdown of liquidity profile, credit ratings, currency exposure, etc.) from fund managers for supervisory and monitoring purpose.
Monitor non-mortgage household debt; ensure consistency of risk guidelines among regulators on investment credit to high-net-worth individuals. [HKMA/SFC]	The HKMA has been closely monitoring the trend of household indebtedness regularly, including gathering data and analyzing different components of household debts. To step up monitoring of loans to wealth management customers, the HKMA has introduced a new survey on collateralized lending secured by financial assets in 2022. The HKMA intends to continue to conduct onsite examinations on banks' retail lending business and lending to private banking and wealth management customers.

Recommendations	Status
	<p>The HKMA has maintained regular and close communications with the SFC in relation to supervisory standards on investment loans to private banking customers with a view to comparing approaches and ensuring consistency. For example, in reviewing the credit risk management of share margin financing, the HKMA had worked closely with SFC to ensure consistency before the revised HKMA guideline on credit risk management of share margin financing was promulgated in October 2021.</p> <p>The SFC has issued guidelines to provide guidance on risk management standards expected of brokers conducting securities margin financing activities. The guidelines, which took effect on 4 October 2019, set out qualitative requirements and quantitative benchmarks for margin lending policies and key risk controls.</p>
<p>Monitor the household debt repayment capacity at a disaggregated level. [HKMA]</p>	<p>The HKMA leverages technology and data analytics for financial analysis and macroprudential surveillance of banking exposure to residential mortgage loans. In particular, the HKMA deployed Granular Data Reporting initiative to help detect signs of asset quality deterioration pressures using transaction-level data collected from banks.</p>
<p>Consider incorporating non-financial corporates in the stress testing framework and communicate the key findings in HKMA's Monetary and Financial Stability Reports. [HKMA]</p>	<p>Shocks to the non-financial corporate sector in Hong Kong have been incorporated into the HKMA's stress testing framework. Please refer to Box 4 of the HKMA's Half-Yearly Monetary and Financial Stability Report (September 2023) for the refined framework.</p> <p>The stress testing results on shocks to the corporate sector, alongside other conventional macroeconomic shocks, have been regularly reported in the HKMA's Half-Yearly Monetary and Financial Stability Report starting from September 2024.</p>
<p>Enhance oversight over banking groups that have both foreign branches and local subsidiaries in HKSAR. [HKMA]</p>	<p>Please refer to the update on the first item (i.e., "Continue to monitor Authorized Institutions' concentrated exposures to non-bank Chinese mainland entities, particularly of banking groups with foreign bank branches and subsidiaries") above.</p> <p>HKMA has strengthened the group-wide supervisions by issuing revised HKMA Supervisory Policy Manual module CS-1 on "Group-wide approach to supervision of locally incorporated AIs" in July 2021 to incorporate the relevant requirements and international standards on the supervision of financial conglomerates, including those with both branches and subsidiaries in Hong Kong.</p>
<p>Heighten monitoring of liquidity risk at the group and entity level for banks that operate with multiple group entities. [HKMA]</p>	<p>The thematic review was completed in October 2022. As noted from the thematic reviews, all reviewed banking groups adhere to supervisory requirements for intragroup liquidity risk management set out in the HKMA's Supervisory Policy Manual module LM-2 on "Sound Systems and Controls for Liquidity Risk Management". Proper monitoring and control mechanisms, such as intragroup liquidity metrics and limits,</p>

Recommendations	Status
	have been established and adhered to for managing and mitigating the risk of contagion from other group entities.
Stress test banks' large exposures separately from their total loan books. [HKMA]	Stress testing enhancement has been implemented under the HKMA's Top-down solvency stress test framework since Q2 2022.
Macroprudential Policy Framework	
Strengthen the systemic risk monitoring and data collection framework; Continue leveraging analytical expertise of the HKMA/other regulators in CFR/FSC. [HKMA/SFC/IA]	<p>The existing high-level and cross-sectoral setup of the CFR and FSC, with direct oversight by the Financial Secretary and the Secretary for Financial Services and the Treasury, already allows the government to monitor and discuss cross-sectoral issues of regulatory concerns or systemic implications with financial regulators and relevant government agencies.</p> <p>The HKMA continues to leverage technology and an enhanced data collection framework to strengthen its macroprudential risk surveillance. Using transaction-level loan data collected under its Granular Data Reporting initiative, the HKMA assessed banks' credit risk exposure in the residential property mortgage loan and corporate loan markets, including (i) evaluating the impact of macroprudential policy relaxation on the residential property mortgage loan market; (ii) assessing banks' credit supply to the commercial real estate sector and (iii) assessing the potential spillover to the broader financial industry arising from the downturn of the commercial real estate market.</p> <p>Besides, the HKMA continues to implement its monitoring framework for Hong Kong SAR's financial and monetary stability with input from different data sources (trade repository data, granular data on bank loans, textual analysis) which will be expanded as and when needed. To help detect signs of asset quality deterioration pressures in Hong Kong banks' exposures to corporates, automated dashboards are developed for monitoring credit quality of loans and borrowers. Discussion with other regulators is also held from time to time to assess possible cross-sectoral matters with financial and monetary stability implications.</p> <p>On the insurance front, the IA has implemented a framework for classification of Domestic Systemically Important Insurers ("D-SII") in October 2025. The IA also continues to enhance the supervisory review process by including "outward risk" as part of the qualitative risk assessment in the annual Company Review Cycle. There is a feedback mechanism established between the case team and Macroprudential Supervision team when any potential systemic risks are being identified.</p> <p>In addition, the IA has been working on enhancing its macroprudential supervisory tools and has rolled out a new risk dashboard to identify and monitor systemic risks across the insurance sector from a macro perspective.</p>

Recommendations	Status
	<p>The SFC has developed a monitoring framework which comprises three reporting regimes to monitor positions in various market segments:</p> <ul style="list-style-type: none"> - the stock market – short position reporting (SPR) regime; - the exchange-traded derivatives market – large open position (LOP) regime; and - the OTC equity derivatives market – OTC derivatives mandatory reporting regime. <p>These regimes provide timely information for assessments of market situations. Under this framework, the SFC monitors the building up of large or concentrated positions (especially short positions) in both the stock and derivatives markets. These include the size and changes in positions, the profile and distribution of positions at stock and holder levels, as well as the positions of non-bank financial institutions, including those named by the HKMA as short sellers in the HKD market, in order to identify signs of cross-market plays. The SFC assesses the latest market situation by benchmarking it against historical patterns, crisis periods and major overseas markets.</p> <p>The SFC has regular data sharing and communication with other regulators. For example, the SFC maintains regular dialogues with the HKMA on the issues relating to market stability. The SFC also shares OTC data with HKEX if there are any issues that may have the potential to affect the exchange-traded market.</p>
<p>Enhance data collection of intersectoral claims with a focus on claims of the nonbank financial institutions to better gauge the importance of intersectoral linkages. [HKMA/SFC/IA]</p>	<p>The authorities note that the non-bank financial sector, including non-bank lending, is already covered in their monitoring. The government and the financial regulators will consider further measures to enhance monitoring of financial systemic risks and the need to expand the macroprudential regulatory regime to cover non-bank financial institutions (“NBFIs”) as necessary having regard to any systemic risks identified.</p> <p>On the insurance front, sector-wide data is being collected from authorized insurers on an annual basis. The data collection template covers, amongst others, the intersectoral linkages (i.e., inter-connectedness) with other financial institutions of an authorized insurer.</p>
<p>Enhance communication through a comprehensive and dedicated financial stability report. [FSTB]</p>	<p>Monthly Reports of the FSC are submitted to the Financial Secretary’s Office to strengthen communication and co-ordination.</p>
Financial Sector Supervision	
<p>Update legislation to reflect HKMA’s de facto operational independence in the law; in the interim, consider specifying circumstances where Chief Executive may give directions to Monetary Authority. [HKMA]</p>	<p>Section 10 of Banking Ordinance (BO) reserves a right to the Chief Executive of the Hong Kong SAR Government (CESAR) to give to the Financial Secretary and the Monetary Authority such directions as the CESAR thinks fit with respect to the exercise of their respective functions under the BO.</p>

Recommendations	Status
	<p>The power vested in the CESAR to issue directions to the Monetary Authority under Section 10 of BO reflects the HKSAR Government's ultimate responsibility to formulate monetary and financial policies and supervise financial markets as enshrined in the Basic Law. Given that the power is included in the BO, it is to be exercised in accordance with the objectives and functions of the BO and in practice would only be used as a tool of last resort to implement specific remedial measures in the most critical and extreme circumstances. The power in fact has never been exercised. There is a deeply embedded constitutional and political convention of restraint that the power would not be exercised lightly. These considerations, together with the institutional arrangements put in place to ensure a high degree of operational autonomy of the HKMA, provide strong backing for the Monetary Authority to exercise supervisory power in an independent and professional manner.</p>
<p>Implement group-wide supervision and risk-based capital requirements as planned. [IA]</p>	<p>The implementation of group-wide supervision framework has commenced on 29 March 2021, with the designation of three insurance holding companies under the framework since 14 May 2021.</p> <p>For the risk-based capital regime, the legislative process on amending the Insurance Ordinance incorporating requirements of the new regime has completed. The new regime has commenced on 1 July 2024, with 3-year transitional measures. Legislative amendments to enhance the regime is underway.</p>
<p>Assess systemic risk of individual insurers (potential FIRO designation), and cross-sector risks. [IA]</p>	<p>In October 2025, the IA has implemented the D-SII framework to classify authorized insurers or designated insurance groups whose failure will cause significant disruption to the local financial system in Hong Kong. The classified D-SIIs will be recommended to the Financial Secretary for FIRO designation.</p>
<p>Enhance surveillance and monitoring of OTC trades. [SFC]</p>	<p>The OTC securities transactions reporting regime (OTCR) for shares listed on the Stock Exchange of Hong Kong was launched in September 2023. OTCR enhances the SFC's market surveillance function by facilitating the identification of investors conducting OTC securities transactions through intermediaries and by collecting data on off-exchange securities transactions in order to uphold market integrity and bolster investor confidence. SFC and HKMA also continue to jointly monitor and perform systematic surveillance of OTC derivatives trades in Hong Kong via the Hong Kong Trade Repository (HKTR) reporting system.</p>
<p>Expand enforcement powers over recognized exchange companies and clearing houses, and Part III Automated Trading System providers. [SFC]</p>	<p>In relation to the recommendation for expansion of enforcement powers (similar to the powers that the SFC has over Part V ATS providers) over recognized exchanges and Part III ATS providers, in particular the ability to impose monetary penalties, the SFC does not at present consider such</p>

Recommendations	Status
	<p>additional enforcement powers would assist in achieving credible deterrence in the Hong Kong SAR market.</p> <p>The SFC has a wide range of regulatory powers that can be exercised in its supervision of recognized exchanges and Part III ATS providers, and the SFC addresses any relevant issues with the recognized exchanges and Part III ATS providers through the regular supervisory activities. For example, the SFC can make a suspension order on the functions of the board of directors of the recognized exchanges. In addition, the SFC has been supervising recognized exchanges and Part III ATS providers to strengthen corporate governance framework to achieve better compliance of relevant rules and procedures. The SFC and other law enforcement agencies also conduct enforcement actions against any employee of recognized exchanges and Part III ATS providers committing criminal offences under the Securities and Futures Ordinance and other relevant ordinances. The authorities are uncertain that the imposition of monetary penalties on recognized exchanges and Part III ATS providers would provide additional benefits in achieving the regulatory objectives in the short run.</p>
<p>Strengthen the current governance of the HKCC by setting up a proper HKCC board, an independent risk management committee, and decentralized key functions. [HKEX]</p>	<p>The HKEX Board engaged an independent consultant to help conduct a comprehensive review of the HKEX group risk governance. The review was completed in 2021.</p> <p>The SFC notes that the key recommendations of the risk review related to the HKCC include bolstering the ability of risk management to influence decision-making, investing in adequate resources and tools for risk management, restructuring and upgrading the compliance function to improve regulatory engagement and internal controls, developing a structured framework to ensure proper subsidiary governance, and enhancing the HKEX Board's oversight by clarifying its roles and responsibilities and improving interaction and information flows with management.</p> <p>In 2023, HKEX completed implementation of the above recommendations relating to the HKCC. The SFC has noted improvement in the quality of risk analysis in respect of HKEX's proposals and daily operations. Both HKEX's risk unit and compliance unit now have more influence in the decision-making process. Improvement is noted in the independence and effectiveness of the HKEX's risk and conflict of interest management thereby addressing the IMF's concerns. The SFC is of the view that it is not necessary to make any changes to the HKCC's governance structure in view of the implementation of the review recommendations.</p>
<p>Adopt a framework to ensure that its prudential mandate is not compromised by development initiatives. [HKMA]</p>	<p>The HKMA's objectives and functions are clearly focused on the effective working and general stability of the banking system (Banking Ordinance s. 7) and the stability and integrity of the monetary and financial systems (Exchange Fund</p>

Recommendations	Status
	<p>Ordinance s. 3(1A)) of the Hong Kong SAR. There is a strong tradition and commitment within the organization, communicated publicly, of recognizing such stability as a prerequisite and cornerstone for the maintenance of the Hong Kong SAR's position as an international financial center. To the extent that action can be taken by the HKMA, using the resources of the Exchange Fund, under the Exchange Fund Ordinance "with a view to maintaining Hong Kong SAR as an international financial center", it must still be for the purpose of maintaining the stability and the integrity of the monetary and financial systems of the Hong Kong SAR. Therefore, the healthy development of the banking system is consistent with the maintenance of stability. For example, whilst technologically advanced financial infrastructure may be developed, or action taken to increase the depth and breadth of the local debt markets, the underlying objective in each case remains the effective working and, by extension, the stability of the local financial system.</p> <p>Within the HKMA, there is clear delineation of responsibilities among departments the work of which contribute to the overall stability and development of the Hong Kong SAR's financial system. The banking departments of the HKMA are primarily responsible for the prudential supervision and conduct supervision of banks, while other departments are undertaking macro-surveillance, liquidity support, and market operations functions to ensure monetary stability. The HKMA notes that in planning for developmental work, an overarching consideration for the HKMA is the implications of the initiatives on monetary and financial stability.</p>
<p>Enhance the risk management framework of the HKCC, including giving HKMA's oversight responsibility over HKCC's liquidity and settlement risks and strengthening HKCC's capacity to manage credit and operational risks. [HKMA/SFC]</p>	<p>See the above response in relation to the item "Strengthen the current governance of the HKCC by setting up a proper HKCC board, an independent risk management committee, and decentralized key functions."</p>
<p>Improve the AML/CFT regime, including enhancing prosecution of the laundering of proceeds from foreign offenses, increasing risk understanding, and strengthening supervision of certain nonfinancial sectors. [HKMA/FSTB]</p>	<p>The Hong Kong SAR Government attaches great importance to the AML/CFT system of Hong Kong and seeks to improve the system continuously.</p> <p>As captured in the Risk Assessment Report, Hong Kong as an international financial center is exposed to ML threats arising from both internal and external predicate offences. The HKSAR Government has stepped up efforts on enhancing prosecution of the laundering of proceeds from foreign offences. Between 2020-2024, about 40 percent of the overall ML-related investigations by the Hong Kong Police Force originated from foreign predicate offences.</p> <p>In investigating and prosecuting such cases, law enforcement agencies make use of various channels (e.g., mutual legal assistance (MLA), Court-to-Court process under the Evidence</p>

Recommendations	Status
	<p>Ordinance (Cap. 8), or other forms of international co-operation such as exchanges between financial intelligence units) to obtain necessary information / evidence. Between 2019 and 2023, Hong Kong made 49 MLA requests to other jurisdictions related to ML investigation and/or prosecution.</p> <p>On understanding of ML/TF risk, the HKSAR Government published the second Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report (HRA) in July 2022. The 2022 HRA covers data spanning from 2016 to 2020 and updates the ML/TF threats and vulnerabilities from both the territory-wide and sectoral perspectives. Drawing on the experience in the 2018 HRA and the recommendations of the FATF in relation to ML/TF risk understanding, the HKSAR Government has expanded the 2022 HRA to include more in-depth assessment, namely (a) risk assessment on proliferation financing in Hong Kong; (b) in-depth analysis on the stored value facility and virtual asset service provider sectors; (c) highlights of the latest developments in various sectors, e.g. virtual banks; (d) inclusion of financial leasing, non-bank credit card businesses and credit unions; (e) detailed and focused assessment on threats with foreign or international elements; and (f) expanded coverage of analysis over legal persons and legal arrangements. The HKSAR Government is following up on the risks identified through a multi-pronged approach. The third HRA is under preparation and is targeted to be published in 2026.</p> <p>On strengthening supervision of non-financial sector, the FATF has approved Hong Kong's regular follow-up report (FUR) through written process in 2023. Hong Kong has made good progress in addressing the technical compliance deficiencies identified in its Mutual Evaluation Report, and the FATF has upgraded Hong Kong's rating on R.28 Regulation and supervision of DNFBPs, in particular for estate agents, accounting professionals, legal professionals, and dealers in precious metals and stones.</p>
Crisis Management and Financial Safety Nets	
<p>Update the deposit protection scheme, including expanding the scope of depositor preference, extending the mandate of the Deposit Protection Board to allow it to contribute to resolution costs, and reviewing the size of the Deposit Protection Scheme fund and flexibility of levies. [HKMA]</p>	<p>Further to the most recent review of the Deposit Protection Scheme (DPS), which was concluded in 2024, the Hong Kong Deposit Protection Board (the Board) had identified and implemented a number of measures to enhance the DPS, which included raising the protection limit from HK\$500,000 to HK\$800,000, and refining the levy system to enable the DPS Fund to reach the target fund size within a reasonable timeframe following an increase of the protection limit. Moreover, in connection with that exercise, a review of the DPS funding model conducted by an external consultant had concluded that the existing formulation of the target size of the DPS Fund (being 0.25 percent of protected deposits) would remain sufficient to cover potential loss at the higher</p>

Recommendations	Status
	<p>protection limit of HK\$800,000 and even under more pessimistic assumptions. As such, there does not appear to be a need to adjust the formulation at this juncture. This will be kept in view as part of the Board's regular reviews of the DPS in the future. Meanwhile, the Board's standby credit facility with the Exchange Fund, which would be the primary source of liquidity to fund a payout, had been increased from HK\$120 billion to HK\$220 billion.</p> <p>The increased protection limit of HK\$800,000 per depositor per Scheme member came into effect on 1 October 2024. The second phase of the enhancement measures of the DPS, including providing enhanced coverage to affected depositors upon a bank merger or acquisition, and requiring Scheme members to display the DPS membership sign on electronic banking platforms, also came into effect on 1 January 2025.</p> <p>Concerning the Board's involvement in managing a banking crisis (including the resolution decision-making process), there are now arrangements in place for the HKMA to provide early warning in the case of a potential payout and to involve CEO of the Board (who is also an executive director of the HKMA) as necessary (and thus the Board has a "paybox plus" mandate).</p> <p>As for resolution funding, the FSB Key Attributes of Effective Resolution Regimes for Financial institutions (and more specifically paragraph 6.3) provides that "jurisdictions should have in place privately-financed deposit insurance or resolution funds, or a funding mechanism with ex post recovery from the industry of the costs of providing temporary financing to facilitate the resolution of the firm". In the case of Hong Kong, there is already a mechanism under section 180 of the Financial Institutions (Resolution) Ordinance to impose a resolution levy on relevant within scope financial institutions to recoup any losses incurred in the resolution process. Hence, it is considered that there is no need to extend the mandate of the DPS Fund to allow it to contribute to resolution costs.</p> <p>In relation to the scope of depositor preference, the HKMA will continue to keep it in view having regard to the relevant frameworks in other jurisdictions.</p>
<p>Enhance the implementation of the resolution framework, including resolution planning for non-systemically important banks, close monitoring of Loss-Absorbing Capacity, ex-post resolution levies, resources of nonbank resolution authorities (particularly, for CCPs), and cross-border cooperation. [HKMA/SFC/IA]</p>	<p>Regarding legislative framework, a public consultation and an industry consultation were conducted on proposed amendments to the conditions for initiating resolution under the Financial Institutions (Resolution) Ordinance ("FIRO") in 2024/25. The amendments include an express reference to public interest in the conditions for initiating resolution to enhance the flexibility of resolution authorities in handling various crisis scenarios.</p> <p>On resolution policy standards, the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules ("Stay Rules") came</p>

Recommendations	Status
	<p>into operation in August 2021. A Code of Practice (“CoP”) providing guidance on the operations of the Stay Rules was published in December 2021. In addition, three other CoP chapters setting out the expectations in relation to operational continuity, liquidity and funding needs, and continuity of access to critical financial market infrastructure (“FMI”) services were published in November 2021, July 2022 and February 2024 respectively. The HKMA further launched an industry consultation on two new CoP chapters regarding valuation in resolution in December 2025, covering the approach to valuation in resolution and the capabilities required of banks.</p> <p>On resolution planning, the HKMA continues to engage with banks to devise preferred resolution strategies for additional banks and drive banks to implement the changes needed to enhance their resolvability. Resolution planning programs cover all D-SIBs in Hong Kong, as well as other large banks that could be systemic or critical upon failure (with priority given to those with total assets above HK\$300bn). All D-SIBs have built up a new layer of loss-absorbing capacity (“LAC”) resources and have met their applicable LAC requirements from January 2023. The HKMA conducted a review of LAC implementation, the observations from which were set out in a report published in February 2024. As the LAC implementation gradually extends to non-D-SIBs, some of these banks have also met their applicable LAC requirements, while some are in the process of establishing their resources.</p> <p>On liquidity and funding in resolution, the related policy standards implementation was further advanced, with testing conducted to assess banks’ capabilities in modelling resolution scenarios driven by liquidity stress, projecting liquidity needs, as well as identifying collaterals for meeting liquidity gaps; and stocktake to review banks’ capabilities and readiness to access central bank facilities. Regarding resolution continuity, the HKMA published a Resolution Stay Implementation Review Report in April 2025, which provides an overview of the related requirements, outlines key observations on banks’ financial contracts, compliance approaches, implementation challenges and good practices, and also highlights future priorities for banks in managing early termination risk in resolution.</p> <p>Implementation of resolution policy on operational continuity in resolution, and continuity of access to critical FMIs services, has been ongoing, with service mapping, contractual remediation, contingency plans, and operational and financial resilience enhancements made. As the build-up of financial resources and development of new systems and capabilities mature, the HKMA also requires banks to conduct testing and assurance to enhance crisis preparedness.</p> <p>In relation to resolution execution capability, the HKMA established a Resolution Advisory Framework (“RAF”) in 2021 to support efficient engagement of external advisors as</p>

Recommendations	Status
	<p>needed. The HKMA advanced the work on operationalization of resolution stabilization options, including engaging an external legal advisor under the RAF to facilitate the analysis of the legal and practical issues involved in preparing for a resolution transfer. In 2025, the HKMA finalized key design elements for bridge institutions, including shareholding structure and directorship arrangements, and incorporated shell companies in advance that can be used as bridge institutions to mitigate the challenges and uncertainties associated with their establishment during a crisis. To strengthen and support effective cooperation and coordination among the HK resolution authorities in relation to within scope financial institutions under the FIRO, a memorandum of understanding between the MA, the IA and the SFC, was signed in December 2023. The HKMA also coordinated high-intensity crisis simulation exercises that tested and strengthened contingency responses and inter-agency coordination.</p> <p>As for international and cross-border cooperation, the HKMA has been leading the regional resolution planning for the Asia resolution group of a global systemically important bank (G-SIB) and participated in cross-border resolution planning of 14 G-SIBs through Crisis Management Groups and Crisis Management Colleges. In addition, the HKMA is actively contributing to international policy development and monitoring through its membership at Financial Stability Board (“FSB”)’s resolution steering and working groups. The HKMA also chaired the 2023 FSB Country Peer Review of Switzerland to examine Switzerland’s implementation of too-big-to-fail reforms, the report of which was published in February 2024, providing recommendations to further strengthen the supervisory and resolution frameworks. Regionally, the HKMA continues to chair and serve as the secretariat of the Executives’ Meeting of East Asia-Pacific Central Banks Study Group on Resolution, which aims to facilitate knowledge sharing and discussion among central banks, supervisors, resolution authorities, and deposit insurers in region. In addition, the HKMA took part in the design and execution of a cross-border crisis simulation exercise in 2022 organized by the BIS’s Financial Stability Institute involving 10 authorities in the Asia-Pacific region.</p> <p>In relation to central counterparties (CCPs), the SFC has completed a preliminary assessment of the adequacy of the powers and tools available to it in the event of a CCP resolution. The SFC is in discussion with various stakeholders on the outcome of the preliminary assessment and may need to conduct further assessment on the introduction of any additional powers and tools following those discussions and in light of the latest global developments. The SFC continues to</p>

Recommendations	Status
	<p>participate in the FSB's work on Cross Border Crisis Management for FMIs.</p> <p>In 2025, the HKMA and SFC finalized a playbook that was developed to set out the coordination mechanism to facilitate the collaboration between the resolution authorities in group wide resolution of cross-sectoral G-SIB groups.</p> <p>Within the insurance sector, the IA is developing a resolution framework for relevant insurers which outlines an overarching approach and principles governing the use of resolution powers and addresses proportionality as well as scope of application. The designated D-SIIs, which will be the in-scope insurers under FIRO, would be subject to a wider suite of tools for resolution planning and resolvability assessment.</p> <p>Regarding resolution planning, insurance groups are at different stages. One insurance group has a resolution plan in place at the group level. The IA will lead in developing group resolution plans for the remaining 2 IAIGs under the IA's group supervision, with the support from the respective CMGs, according to agreed workplans and timelines. For non-systemic important insurers but with high supervisory concerns, a simplified resolution plan is also required.</p>
<p>Provide greater clarification on governance and risk management of emergency liquidity assistance. [HKMA]</p>	<p>The HKMA has communicated and restated the framework for the provision of liquidity, incorporating certain refinements to prior arrangements so as to foster a better understanding of the liquidity facilities framework and to also introduce the Resolution Facility. The HKMA continuously works with banks to develop and enhance their readiness for accessing emergency liquidity assistance through putting in place the necessary capabilities for liquidity reporting and projection, as well as collateral identification and mobilization, and also testing and assurance of operational preparedness activities.</p>
Fintech and Financial Innovation	
<p>Promote consistency and facilitate information sharing across financial sectors with respect to cyber risk supervision; review and compare incident reporting frameworks across sectors and apply best practices to other sectors. [HKMA/SFC/IA]</p>	<p>The HKMA, the SFC and the IA have regular meetings on matters related to cyber risk supervision, emerging cyber risks and lessons learnt from cyber incidents.</p> <p>To further enhance the industry's collective preparedness against systemic cyber incidents, the HKMA, SFC and IA participated in a cross-sectoral crisis simulation exercise featuring cyber supply chain attacks in November 2023. During the simulation, communication and information sharing protocols between authorities were tested.</p> <p>The HKMA continues to promote the cross-sectoral link-up of cyber threat intelligence platforms within the Hong Kong banking and financial service sector. As of December 2024, the insurance sector's, capital market sector's and banking sector's cyber threat intelligence platforms were linked up, enabling financial institutions within these sectors to exchange cyber threat intelligence in a secure and controlled manner.</p>

Recommendations	Status
	<p>To strengthen cross-sectoral consistency of cyber risk supervision, the IA issued a revised Guideline on Cybersecurity (GL20) in December 2024, effective from 1 January 2025. This update introduces the Cyber Resilience Assessment Framework (CRAF) in the insurance sector, assisting authorized insurers to evaluate their cyber risk exposure and addressing identified vulnerabilities. The underlying supervisory principles of the IA are aligned with those of the HKMA, ensuring consistency in regulatory expectations across the financial services industry.</p>
<p>Consider undertaking exercise to map network interdependencies. [HKMA/SFC/IA]</p>	<p>The HKMA has conducted a cyber mapping exercise in collaboration with FSTB, SFC, IA and MPFA and with the assistance of an external consultant.</p> <p>The resulting Cyber Map provides authorities with insights on how the participating financial institutions are connected at both technology and business levels and may rely on similar financial market infrastructures and ICT service providers. The authorities will apply the output of this exercise to further collaboration on addressing systemic cyber risks, supervising financial institutions' third-party risk supervision and enhancing incident response.</p>
<p>Strengthen systematic data collection of entities to enhance monitoring of holdings of virtual assets; monitor virtual assets trading activities continuously; increase investor education. [FSTB/HKMA/SFC/IA]</p>	<p>On data collection, the HKMA has been collecting the relevant statistics from authorized institutions on their digital asset (DA)-related activities through regular surveys since July 2022.</p> <p>Virtual asset trading platforms (VATPs) are licensed by the SFC. The SFC requires the platform operators to submit monthly reports on VA trading activities to the SFC. These requirements have been incorporated into and applied under the licensing regime under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO). The regime took effect on 1 June 2023, under which all centralized VATPs carrying on business in Hong Kong or actively marketing to Hong Kong investors need to be licensed with the SFC.</p> <p>In the SFC periodic statutory returns:</p> <ul style="list-style-type: none"> (i) SFC-licensed corporations are required to report in their periodic statutory returns their proprietary positions in VA, exposures to VATPs and the respective profit or loss (P/L) from VA trading; (ii) Licensed VA fund managers also need to report assets under management in respect of funds adopting VA strategies including exposure to VA related derivatives and spot ETFs; (iii) SFC-licensed VATPs are further required to report their profit and loss from dealing in VA and clients' positions in VA; and (iv) licensed top-level depositaries of SFC-authorized collective investment schemes (relevant CIS) are required to report the relevant CISes' VA under their safe custody and the respective locations.

Recommendations	Status
	<p>The SFC further issued an invitation to tender in October 2025 for the provision of the system implementation of a VA trade surveillance system.</p> <p>Besides, the SFC and HKMA collect data from intermediaries on their selling of non-exchange traded investment products (including (a) funds that have a stated investment objective to invest in VA and/or tokenized securities, or intend to invest or have invested more than 10% of their gross asset value in VA and/or tokenized securities directly or indirectly; and (b) other investment products with VA and/or tokenized securities as underlying) to non-institutional investors via the annual SFC/HKMA joint product surveys.</p> <p>Under the regulatory regime for stablecoin issuers which was implemented in August 2025, licensed stablecoin issuers will be required to disclose and report regularly the total amount of fiat-referenced stablecoins in circulation, the mark-to-market value and the composition of reserve assets underlying the issuance of the stablecoins.</p> <p>The Government and the SFC are now formulating details of the proposed licensing regimes for VA dealing, custodian, advisory and management service providers, with a view to introducing a bill into the Legislative Council within 2026. Under the proposed regimes, relevant reporting requirements will be imposed on these VA service providers.</p> <p>On investor education, since 2018, the HKMA and the SFC have been alerting the public to crypto scams and the need to take heed of the risks relating to investing in VA (such as possible fraud), and risks of trading on unregulated VATPs through multiple platforms including advertisements, social media, press releases media interviews and seminars. They also enhanced investor education on VA-related products through the Investor and Financial Education Council (IFEC), which has issued a series of articles and hosted online programs reminding investors of the risks associated with VA.</p> <p>Separately, the SFC posted alert lists of warnings against suspicious VATPs and VA-related investment products and launched publicity campaigns against investment scams as well as the risks of trading on unregulated VATPs.</p> <p>The SFC and the IFEC will continue to step up publicity and promotional efforts.</p> <p>On insurance front, information on crypto assets is collected and subject to deduction of full value from capital base (if not valued as zero) at the moment. The regulatory returns on relevant information will be further updated in 2026.</p>

Appendix VII. Data Issues

Appendix VII. Table 1. Hong Kong SAR: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics

Coverage	A	A	A	A	B	
Granularity 3/	A		A	A	A	
Consistency			A	B		A
Frequency and Timeliness	A	A	A	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see *IMF Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The economic data is generally comprehensive and of high quality, and data provision is adequate for surveillance.

Hong Kong SAR compiles and disseminates GDP statistics under the production and expenditure approaches. The expenditure measure of GDP, which is more well established, is adopted as the single measure of GDP. The production and expenditure approaches are also compiled in chained volume terms. The statistical discrepancies are explicit under the production approach in current terms. Quarterly GDP is available by expenditure components as well as by industry value added.

The Census and Statistics Department produces and disseminates a monthly CPI index with a lag no longer than 23 days after the end of the reference month. The weights are based on the Household Expenditure Surveys which is conducted once every five years.

Hong Kong SAR compiles and disseminates Government Finance Statistics both on cash and accrual basis according to the Fund's Government Finance Statistics Manual (GFSM 1986 and GFSM 2001, respectively).

The HKMA reports monetary data for the central bank and banking institutions to STA on a regular monthly basis, which are published in the IFS. The breadth of coverage on the non-bank financial institution (NBFI) sector, particularly on non-bank credit, leverage, and crypto-asset activities, is however limited relative to the size and complexity of the financial system.

Hong Kong SAR publishes comprehensive balance of payments data and international investment position statistics, submits quarterly external debt statistics to the Quarterly External Debt Statistics (QEDS) database, and participates in the Coordinated Portfolio Investment Survey (CPIS) and the Coordinated Direct Investment Survey (CDIS). However, net errors and omissions reported in balance of payments data suggest room to improve the consistency in the data.

Changes since the last Article IV consultation. No changes.

Corrective actions and capacity development priorities. The authorities have prioritized data collection from NBFIs to facilitate better monitoring and stress testing. Staff have recommended bringing NBFIs into the statistical reporting framework, which should also improve coverage of financial flows in the external sector statistics.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Commercial micro-level non-financial corporate data has been used to assess corporate vulnerabilities. Publicly available data on property prices has been used to assess value-at-risk in the residential and commercial property sectors.

Other data gaps. Micro-data on the labor market, including skill and education levels and employers' AI readiness, would be useful to monitor changes arising from the increased use of automation and rollout of AI.

Appendix VI. Table 2. Hong Kong SAR: Data Standards Initiatives

Hong Kong SAR subscribes to the Special Data Dissemination Standard (SDDS) since October 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Appendix VI. Table 3. Hong Kong SAR: Table of Common Indicators Required for Surveillance

(As of April 1, 2026)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ^a	Frequency of Reporting ^b	Expected Frequency ^{a,9}	Hong Kong SAR ¹⁰	Expected Timeliness ^{4,9}	Hong Kong SAR ¹⁰
Exchange Rates	1-Apr-26	2-Apr-26	D	D	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jan-26	6-Mar-26	M	M	M	M	1W	NLT 1M
Reserve/Base Money	Feb-26	4-Mar-26	M	M	M	M	2W	2W
Broad Money	Jan-26	9-Mar-26	M	M	M	M	1M	2M
Central Bank Balance Sheet	Feb-26	4-Mar-26	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Jan-26	9-Mar-26	M	M	M	M	1M	2M
Banks' Financial Soundness Indicators	Dec-25	9-Mar-26	Q	Q	Q	...	1Q	2M
Residential Real Estate Prices ²	Feb-26	Mar-26	M	M	Q	...	1Q	2W
Total Assets of Other Depository Corporations ³	Jan-26	9-Mar-26	M	M	M	M	1M	2M
Total Credit from Other Depository Corporations ³	Jan-26	9-Mar-26	M	M	M	M	1M	2M
Sectoral Breakdown of Credit from Other Depository Corporations ³	Jan-26	9-Mar-26	M	M	M	M	1M	2M
Currency Breakdown (domestic vs. foreign currency) of Other Depository Corporations' Total Assets and Credit Indicators (total and sectoral breakdowns) ³	Jan-26	9-Mar-26	M	M	M	M	1M	2M
Interest Rates ⁴	1-Apr-26	2-Apr-26	D	D	D	D	...	1D
Consumer Price Index	Feb-26	Mar-26	M	M	M	M	1M	NLT 23D
Revenue, Expenditure, Balance and Composition of Financing ⁵ —General Government ⁶	Feb-26	Mar-26	M	M	A	M	2Q	1M
Revenue, Expenditure, Balance and Composition of Financing ⁵ —Central Government	Feb-26	Mar-26	M	M	M	...	1M	...
Stocks of Central Government and Central Government-Guaranteed Debt ⁷	Feb-26	Mar-26	M	M	Q	...	1Q	...
Total Stock of General Government Debt ⁸	Feb-26	Mar-26	M	M	Q	M	4M	1M
External Current Account Balance	Dec-25	Mar-26	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-25	Mar-26	M	M	M	M	8W	4W
GDP/GNP	Dec-25	Feb-26	Q	Q	Q	Q	1Q	8W
Gross External Debt	Dec-25	Mar-26	Q	Q	Q	Q	1Q	1Q
International Investment Position	Dec-25	Mar-26	Q	Q	Q	Q	1Q	1Q

¹ Includes net market value of derivative positions.

² Required only from Members with Systemically Important Financial Sectors.

³ Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

⁴ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁵ Foreign domestic bank, and domestic nonbank financing.

⁶ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁷ Including currency and maturity composition.

⁸ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁹ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

¹⁰ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Appendix VIII. Vulnerability Assessment of Hong Kong SAR's Commercial Real Estate (CRE) Sector¹

Hong Kong SAR's commercial real estate (CRE) sector has undergone a multi-year adjustment following a prolonged expansion, amid structural demand shifts, elevated supply and tighter financing conditions until recently. This annex analyzes the sector's vulnerabilities by examining rent-price dynamics, sensitivity to financing and demand shocks, and downside risks to valuations. Using a vector error-correction model (VECM) and a Price-at-Risk framework, the analysis highlights heterogeneity across Office, Retail, and Industrial segments. Empirical results suggest that CRE markets have operated close to a lower-tail risk regime in recent years, particularly in the Office segment.

Background

1. Hong Kong SAR's CRE sector has been in a protracted downturn since 2019. Vacancy rates, particularly in the Office sector, have risen since 2019 due to structural demand shifts, a large supply pipeline, and materially tighter financing conditions, while rents and capital values have continued to decline.

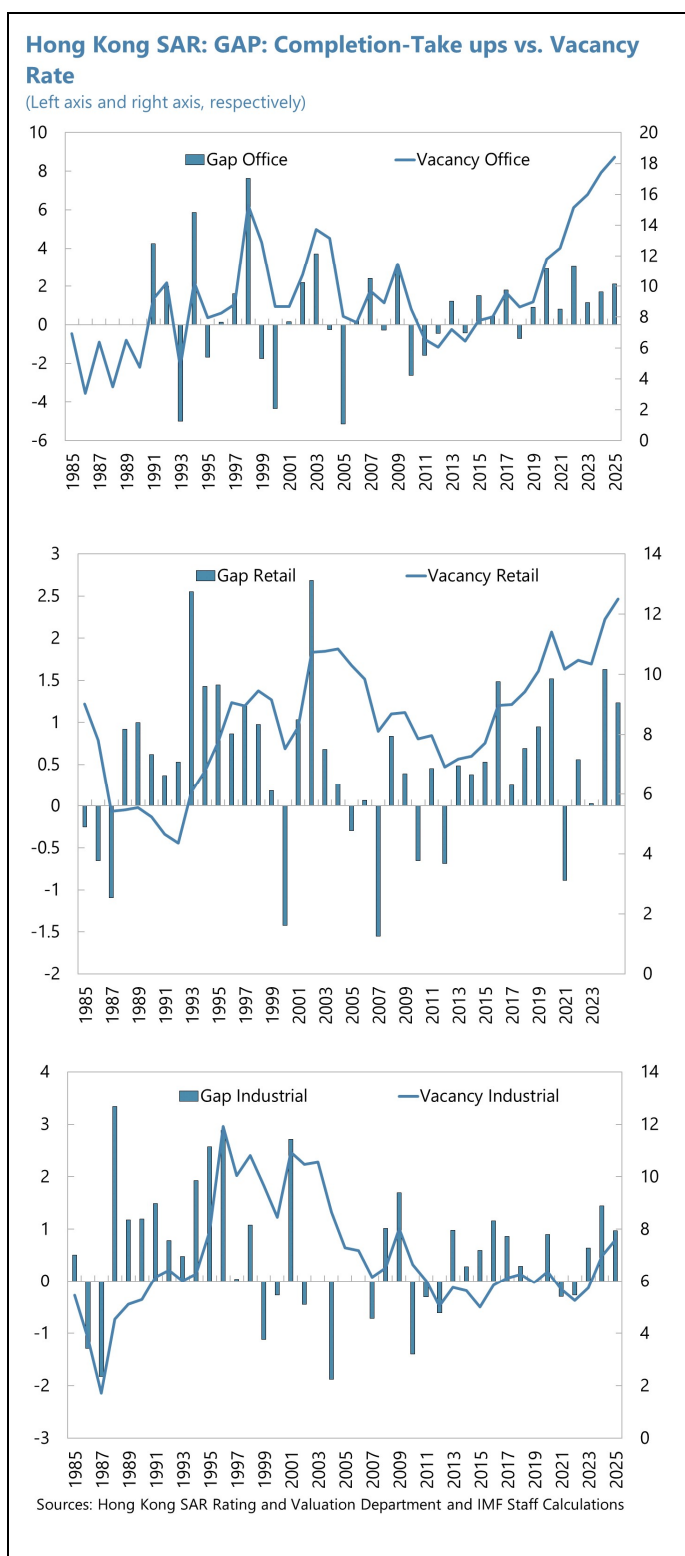
2. This annex assesses vulnerabilities in Hong Kong SAR's CRE sector using complementary empirical approaches². Using the CRE data through end-2025, a VECM is used to examine rent-price dynamics to test for existence of a stable long-run price-rent relationship, and quantify the speed of adjustment to shocks, while a Price-at-Risk (PaR) framework assesses downside risks to CRE prices. The analysis is conducted separately for Office, Retail, and Industrial/Logistics segments to account for heterogeneity in demand drivers, exposure to financing conditions (interest rates, and leverage), and adjustment dynamics.

¹ Prepared by Hamid Reza Tabarraei (APD).

² An assessment of the impact of CRE valuation changes on the banking system is beyond the scope of this annex. Nonetheless, HKMA CRE vulnerability exercise suggests that credit risks stemming from Hong Kong banks' domestic CRE exposures appear contained. Exposures are largely to financially stronger borrowers, while risks related to mid- and smaller-sized developers have been mitigated through early risk management actions and are predominantly collateralized. Exposures are not highly concentrated at the borrower level. Strong capital and liquidity buffers provide resilience against potential losses under a protracted CRE downturn.

Historical Market Developments

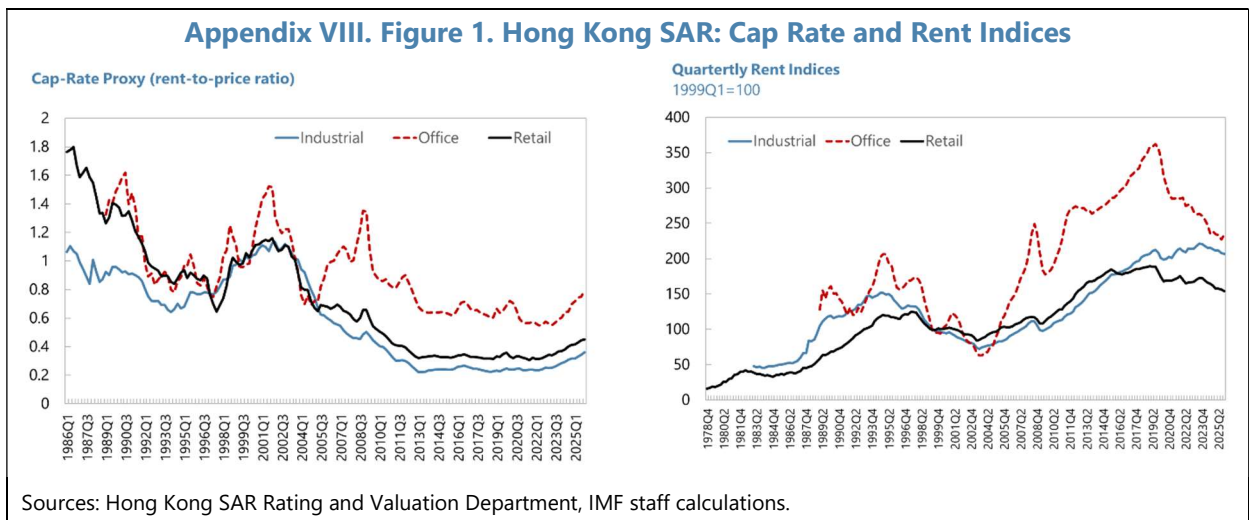
3. Several structural and cyclical forces have weighed on CRE demand in recent years. Hybrid work has reduced structural demand for office space, weaker growth in the Chinese mainland has dampened corporate activity, and tourism softness has affected prime retail segments. These headwinds have coincided with a sizable supply pipeline delivered between 2013 and 2025 (measured by the gap between property completions and take ups), pushing vacancy rates higher and increasing divergence across segments (Text Figure). Office vacancy has risen sharply and remains near historical highs, reflecting a stock buildup, cyclical weakness in corporate demand amid slower growth and tighter financial conditions, compounded by structural reductions in space intensity driven by hybrid work and occupier consolidation.³ Retail vacancy has increased more moderately and remains closely linked to tourism recovery, real income growth, and consumer sentiment, while e-commerce penetration and store format rationalization continue to weigh on



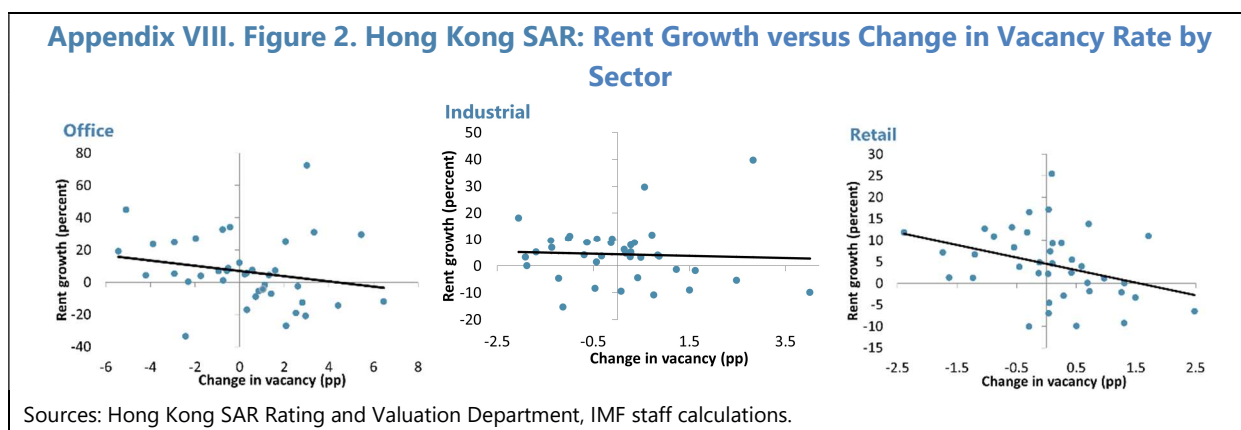
³ NAIOP Research Foundation (2023), *Hybrid Work and the Future of Office Space*

non-prime segments.⁴ By contrast, industrial and logistics vacancy has remained comparatively contained, supported by structural demand from e-commerce fulfillment, warehousing, and supply-chain reconfiguration, which has helped offset cyclical volatility. More recently, some easing in financial conditions and policy measures to support market adjustment, including the suspension of commercial land sales and initiatives facilitating the conversion of commercial buildings, along with stronger retail activity and continued efforts to attract businesses, have contributed to a modest improvement in CRE market conditions during 2025.

4. Financing conditions have tightened significantly since 2022 but have somewhat relaxed by 2025. The sharp increase in HIBOR has raised borrowing costs, contributed to widening of the rent-to-price ratio (cap-rate), and compressed valuations, particularly in interest-rate-sensitive segments. Prices have declined more sharply than rents, reflected by rising cap-rates in recent years, suggesting that the adjustment operated more forcefully through yield repricing than weakening of rental income (Appendix VIII Figure 1). Vacancy and rent growth are strongly inversely related, especially in the Office and Retail segment (Appendix VIII Figure 2), implying greater cyclical sensitivity of Office and Retail rents relative to the more resilient Industrial segment.



⁴ BIS (2023), *Annual Economic Report*



Empirical Frameworks⁵

5. The empirical framework evaluates vulnerabilities in Hong Kong SAR’s CRE sector using a combination of reduced-form sensitivity analysis, a vector error-correction model, and a Price-at-Risk framework. The analysis aims to quantify the transmission of financing and demand shocks to CRE rents, prices, and downside risks, while highlighting heterogeneity across Office, Retail, and Industrial segments. These approaches provide a comprehensive assessment of sector-specific vulnerabilities and help identify the channels through which CRE market stress could transmit to the broader macro-financial system.

Sensitivity Analysis

6. Sensitivity analysis reveals marked sectoral asymmetries, with funding shocks playing a dominant role in the Office segment while demand shocks are more important for Retail.⁶ Sector-specific elasticities are estimated linking changes in yields, rents and prices to movements in HIBOR, and changes in vacancy. This reduced-form approach provides an intuitive assessment of how changes in borrowing costs and vacancy translate into rent, yield, and price adjustments across CRE segments, and serves as a benchmark for the subsequent structural analysis. A funding shock of +100 basis points to HIBOR over two quarters, and a demand shock of a 1 percentage point increase in vacancy show that Office CRE prices are highly sensitive to funding shocks, reflecting higher leverage and refinancing exposure; Retail prices respond more strongly to demand shocks, consistent with sensitivity to

⁵ The empirical analysis draws on data from the Rating and Valuation Department and market sources, covering effective rent indices, capital value indices, vacancy rates, net absorption, and cap-rate proxies for Office, Retail, and Industrial/Logistics segments. Financing conditions are captured using quarterly averages of 12-month HIBOR. Quarterly frequency is employed for core estimation, while annual vacancy series are mapped to quarters for regression and scenario analysis.

⁶ $\Delta P/P \approx \Delta R/R - \Delta Y/Y$ with P, R and Y representing price, rent and yield respectively. Elasticities are estimated for rents and yields, but the ultimate objective is to assess price effects. Financing and demand shocks are first mapped into rent and yield changes, which then translate into valuation adjustments through the price–rent relationship. Sector-specific elasticities are estimated using simple regression relationships linking changes in yields to movements in HIBOR and rent growth to changes in vacancy. In particular, quarterly changes in cap-rate proxies are regressed on changes in HIBOR, while rent growth is regressed on changes in vacancy rates for each sector.

consumption and footfall dynamics; and Industrial prices exhibit the smallest responses, underscoring their relative robustness. Combining both shocks implies price declines of around 0.3 percent in the Office and Retail segments.

Sector	Δ Yield (pp)	Δ Rent (percent)	Δ Price (percent)
Industrial	0.046 (0.058)	-0.07 (0.107)	-0.14 (0.081)
Office	0.105** (0.044)	-0.13 (0.0148)	-0.29** (0.112)
Retail	0.0651*** (0.023)	-0.18*** (0.075)	-0.28 (0.201)

VECM Framework

7. The VECM builds on a Gordon-growth intuition, whereby CRE prices are anchored to rents and yields over the long run, with short-run deviations driven by demand and financing shocks. A VECM⁷ is estimated separately for each CRE segment. The model includes price and rents indices as endogenous variables, while financing costs (HIBOR) and market return are treated as exogenous drivers of short-run dynamics, which should capture the vulnerabilities for financial as well as market conditions. The error-correction term captures the speed and direction of adjustment following deviations from equilibrium, with statistically significant adjustment coefficient on prices indicating valuation-led adjustment, while statistically significant coefficient on rents pointing to cash-flow adjustment.

CRE Segment	β (price-rent relationship)	α price (adjustment speed)	α rent (adjustment speed)
Office	1.14	-0.13*** (0.027)	-0.02 (0.014)
Retail	5.15	-0.05 (0.047)	+0.03***(0.008)
Industrial	5.59	0.026 (0.0257)	+0.0154* (0.003)

⁷ Let P_t and R_t denote the price and rent indices, respectively. Long-run equilibrium is characterized by a cointegrating relationship

$$ECT_{t-1} = P_{t-1} - \beta R_{t-1} - c,$$

where β is the cointegrating coefficient and c a constant. Short-run dynamics are given by

$$\Delta P_t = \alpha_P ECT_{t-1} + \sum_{i=1}^{k-1} \Gamma_{P,i} \Delta X_{t-i} + \Theta_P Z_t + \varepsilon_{P,t},$$

$$\Delta R_t = \alpha_R ECT_{t-1} + \sum_{i=1}^{k-1} \Gamma_{R,i} \Delta X_{t-i} + \Theta_R Z_t + \varepsilon_{R,t},$$

where $X_t = (P_t, R_t)'$, α_P and α_R are adjustment coefficients, and Z_t includes exogenous financial and demand variables (quarterly HIBOR and market return as a robustness check). The model is estimated separately for Office, Retail, and Industrial sectors where Johansen trace tests are used to determine the cointegration rank and estimate long-run coefficients. For the industrial segment, only HIBOR is used.

8. Across all three CRE segments, the analysis suggests that valuations remain anchored to rents over the long run⁸ despite pronounced cyclical volatility. Adjustment dynamics differ markedly by sector. In the Office segment, prices exhibit a strong and statistically significant error-correction response, while rents adjust only weakly. This implies that valuation corrections absorb most of the adjustment burden following shocks. In Retail, both prices and rents adjust at moderate speeds, indicating more balanced dynamics. In Industrial segment, adjustment coefficients are small for both prices and rents, consistent with greater resilience and muted cyclical volatility.

9. Impulse-response functions (IRFs) suggest that the Office segment is more prone to short-run valuation overshooting, with prices adjusting more rapidly than underlying rents. In the Office segment, shocks to prices trigger relatively rapid valuation correction, while shocks to rents dissipate more gradually. Following a one-standard-deviation price shock, Office prices initially increase by around 15 percent, with around one-quarter of the initial response unwinding within three years, indicating active mean reversion in valuations (Appendix VIII Figure 3). By contrast, a rent shock of comparable magnitude leads to a more persistent response: rents rise by about 10 percent initially and decline only slowly thereafter, remaining above baseline for several years before gradually reverting. This asymmetry is consistent with rigidities in leasing markets, where rents adjust more sluggishly than asset prices. In Retail, price and rent responses are more symmetric, with both variables adjusting at moderate speeds, reflecting closer alignment between cash flows and valuations. In Industrial, responses to both price and rent shocks are smaller in magnitude and shorter-lived, consistent with greater resilience and muted cyclical volatility.

Price-at-Risk Analysis

10. Price-at-Risk⁹ results indicate that CRE markets have functioned in a near lower-tail regime in recent years, particularly in the Office segment. PaR estimates (Appendix VIII Figure 4) show that downside risks have deteriorated significantly in recent years across all segments, reflecting the interaction of tighter financing conditions, persistent vacancy pressures, and stretched valuations relative

⁸ Johansen trace tests indicate the presence of one cointegrating relationship between prices and rents. This finding is robust across alternative lag specifications and supports the view that observed valuation declines largely reflect adjustment toward equilibrium rather than a breakdown in fundamental relationships. Over the long run, CRE prices are expected to be anchored to rental fundamentals, consistent with standard asset-pricing relationships in which prices reflect the discounted present value of expected rental income. Cointegration between prices and rents therefore implies that temporary deviations are corrected over time. Absent such an anchor, valuations could drift persistently away from underlying cash flows, becoming increasingly driven by financing conditions, extrapolative expectations, or speculative dynamics. In such circumstances, mispricing may build up, heightening vulnerability to abrupt corrections and amplifying downside risks during periods of monetary tightening or demand shocks.

⁹ PaR focuses on the lower tail of future price-growth distributions and provides a forward-looking measure of downside risk. Let $y_{s,t+4}$ denote the one-year-ahead real price growth for segment s of the CRE. The τ -quantile ($\tau = 0.05$) of the conditional distribution of future price growth is estimated via quantile regression:

$$Q_{\tau}(y_{s,t+4} | X_{s,t}) = \alpha_s(\tau) + X'_{s,t}\beta_s(\tau) + \gamma_s(\tau)Misalign_{s,t},$$

where $X_{s,t}$ includes market yields, vacancy rates, and real GDP growth and $Misalign$ captures the deviation of prices from fundamentals (measured as the gap between observed prices and their long-run equilibrium relationship with rents). The estimated lower conditional quantile $Q_{0.05}$ is interpreted as Price-at-Risk.

to fundamentals. One year ahead office segment PaR remains negative in the range of about –30 to –40 percent, indicating sustained vulnerability. Retail and Industrial segments also exhibit weakened tail dynamics, with Retail PaR hovering around –30 percent and Industrial around –20 percent in recent years.¹⁰ Notably, in several quarters toward the end of the estimation period, realized outcomes have overlapped with or fallen close to the estimated 5th percentile, suggesting that conditions have operated in a near-tail-risk regime¹¹. The decomposition of PaR (Appendix VIII Figure 5) highlights that, although the magnitude of downside risk differs across segments, vacancy and completion rates emerge as persistent common structural drivers. Real-time (recursive) estimates broadly align with the static results, confirming that elevated downside risks reflect persistent structural pressures in the sector.

Conclusions and Policy Implications

11. Hong Kong SAR's CRE sector has been in a downturn cycle following a prolonged expansion, reflecting structural demand shifts, a sizable supply pipeline, and materially tighter financing conditions, with some modest improvement recently. Empirical analysis suggests that, while CRE prices remain anchored to rental fundamentals over the long run, short-run adjustment dynamics differ across segments. Office CRE exhibits the strongest valuation corrections, while Industrial CRE shows comparatively greater resilience. Price-at-Risk estimates are at or near stress levels suggesting that a substantial portion of the adjustment may already have materialized. In the Office segment, one-year-ahead tail risks are comparable to the magnitude of some realized price declines observed in recent years, pointing to persistent vulnerability during the recent adjustment phase. Retail and Industrial segments also display weaker downside profiles relative to earlier periods, suggesting that vulnerabilities have been present across CRE markets. The results should be interpreted as a conditional assessment of downside risks during the recent downturn rather than a projection of current market dynamics.

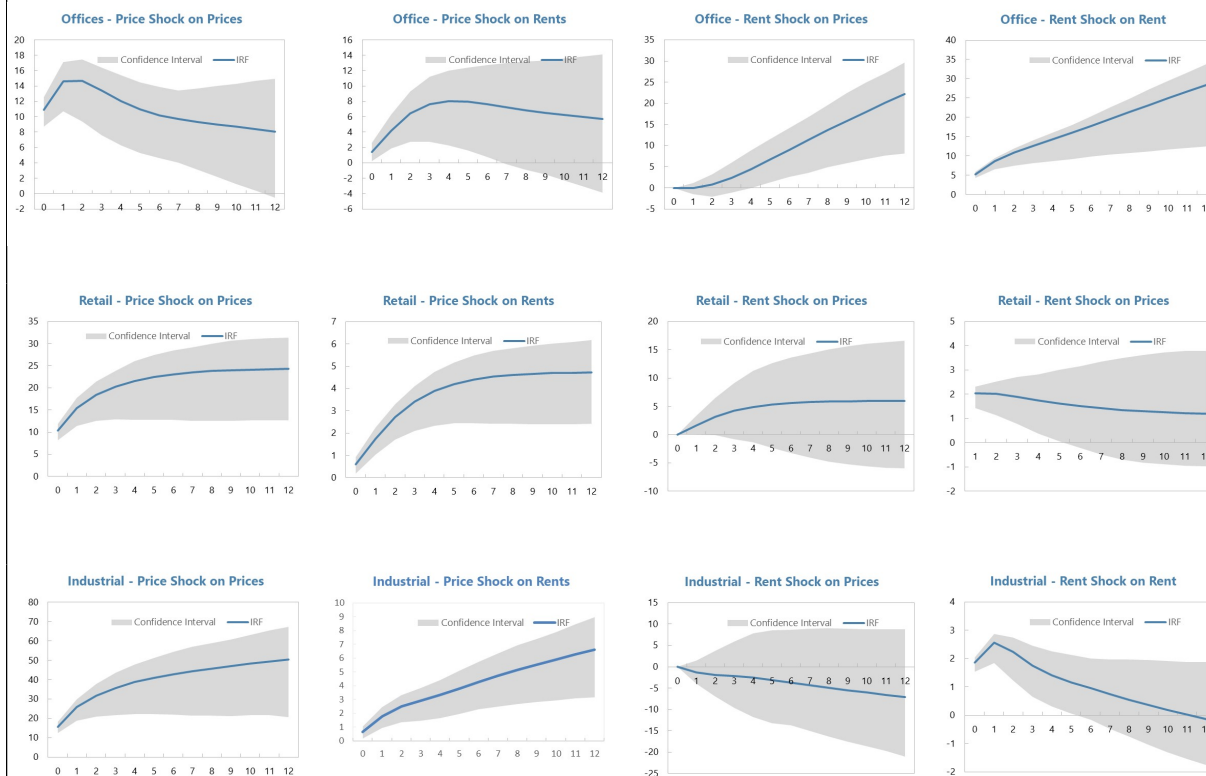
12. The recent deterioration in CRE downside risks warrants continued monitoring given potential macro-financial spillovers through collateral valuation channels, credit losses, and banks' risk-taking capacity. At the same time, the banking system remains well positioned to absorb CRE-related stress, supported by strong capital and liquidity buffers as well as prudent credit risk management practices. The HKMA continues to closely monitor banks' asset quality and assess the adequacy and timeliness of loan classification, provisioning, and broader credit risk management practices. Supervisory stress-testing frameworks, including scenario analysis for CRE exposures and industry-wide solvency stress tests, already incorporate severe scenarios calibrated to reflect historical experience, current market conditions, and potential tail risks. While structural changes in demand in

¹⁰ These estimates are based on data through end-2025 and therefore reflect risk conditions prevailing during the recent CRE downturn. As such, they should be interpreted as conditional risk assessments rather than forecasts of future price paths. Market indicators suggest some recent stabilization in certain prime segments, but this is not fully captured in the estimates, as overall indices are applied to office, industrial, and retail sectors. Moreover, the PaR framework is designed to quantify downside tail risks conditional on current financial and market conditions, rather than to detect cyclical turning points. As a result, its predictive power is strongest for assessing the distribution of potential outcomes given prevailing fundamentals, but more limited for identifying the precise timing of market recoveries.

¹¹ This comparison should be interpreted as a statistical benchmark rather than evidence that the market has entered a distress regime.

segments such as office and retail continue to weigh on CRE market conditions, the existing macroprudential framework and ongoing supervisory oversight provide important safeguards to maintain banking sector resilience as market conditions evolve.

Appendix VIII. Figure 3. Hong Kong SAR: Impulse Response Functions to Price and Rent

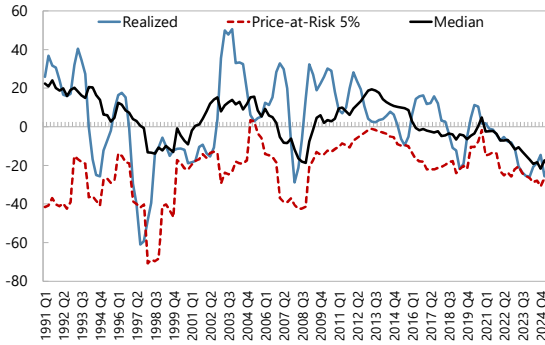


Source: Hong Kong SAR Rating and Valuation Department, IMF staff calculations.

Appendix VIII. Figure 4. Hong Kong SAR: Full-Sample and Real-Time (Recursive) Price-at-Risk Estimation

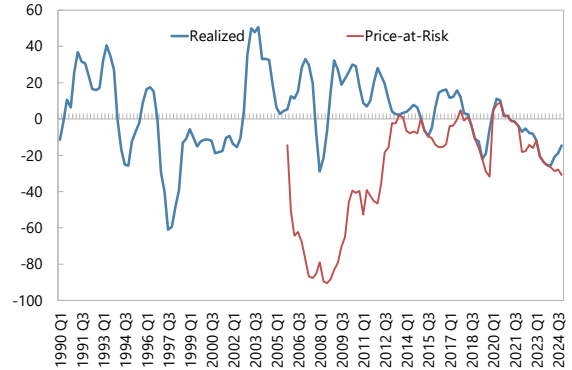
Office - Full-sample estimation

Realized 1-Year Ahead Price Growth vs Price-at-Risk vs Median, Office CRE



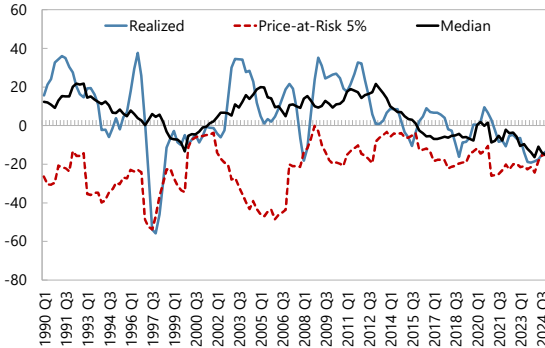
Offices - Real time estimation

Real-time Price-at-Risk at 5% (1-Year Ahead) - Office CRE



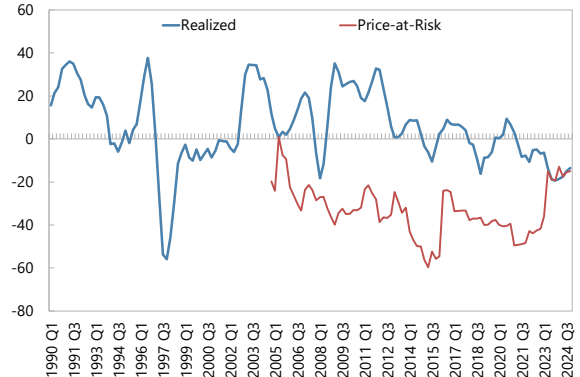
Retail - Full-sample estimation

Realized 1-Year Ahead Price Growth vs Price-at-Risk vs Median, Retail CRE



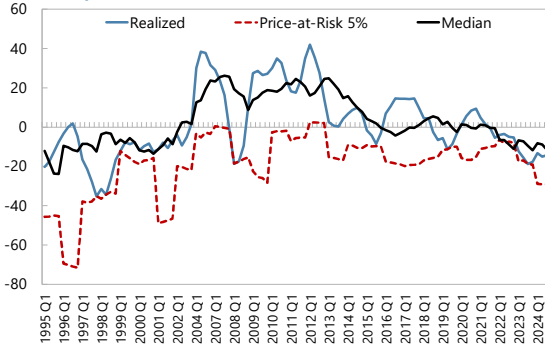
Retail - Real time estimation

Real-time Price-at-Risk at 5% (1-Year Ahead) - Retail CRE



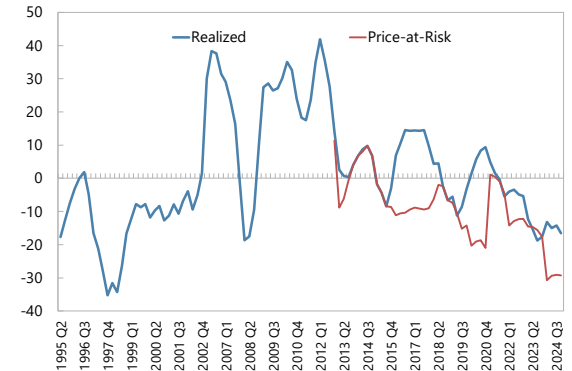
Industrial - Full-sample estimation

Realized 1-Year Ahead Price Growth vs Price-at-Risk vs Median, Industrial CRE



Industrial - Real time estimation

Real-time Price-at-Risk at 5% (1-Year Ahead)-Industrial CRE

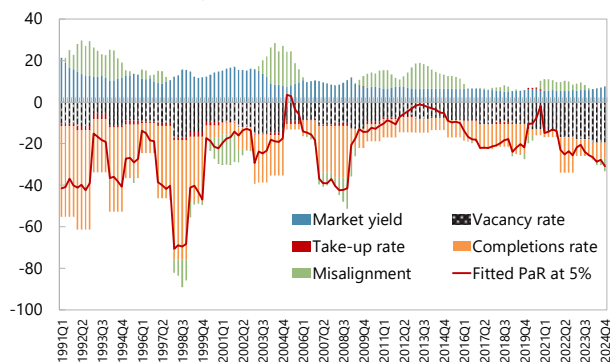


Appendix VIII. Figure 5. Hong Kong SAR: Four-quarter ahead CRE Price-at-Risk at 5th Percentile Decomposition

Although segment-specific factors shape the magnitude of downside risk, vacancy and completion rates constitute shared structural drivers across all CRE segments.

4-Quarter Ahead CRE Price-at-Risk Decomposition-Office

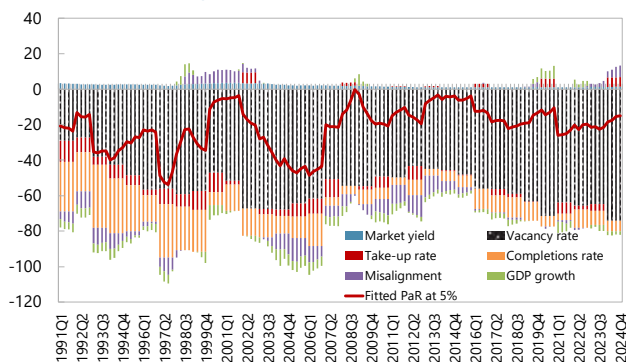
(5th percentile - percentage points)



Sources: Rating and Valuation Department, Hong Kong SAR; and IMF staff calculations.

4-Quarter Ahead CRE Price-at-Risk Decomposition-Retail

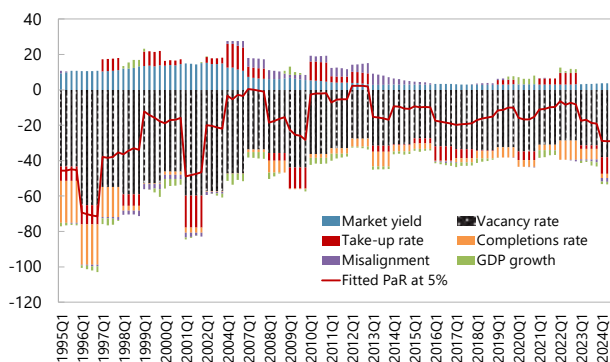
(5th percentile - percentage points)



Sources: Rating and Valuation Department, Hong Kong SAR; and IMF staff calculations.

4-Quarter Ahead CRE Price-at-Risk Decomposition - Industrial

(5th percentile - percentage points)



Sources: Rating and Valuation Department, Hong Kong SAR, and IMF Staff Calculations

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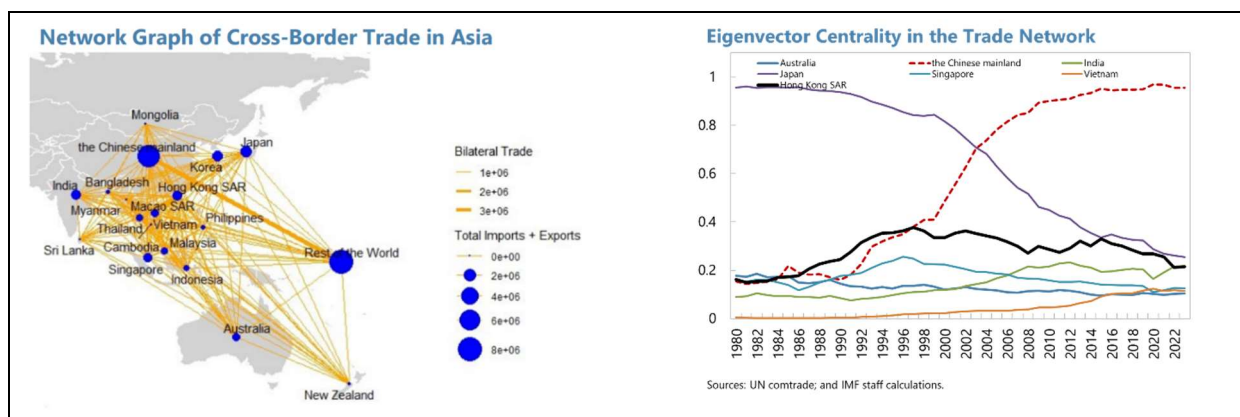
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Appendix IX. Trade and Financial Flow Network Interconnectedness¹

The network analysis highlights how Hong Kong SAR's role in regional trade and financial networks has evolved amid broader shifts in Asia's economic landscape over the past three decades. Hong Kong SAR remains a central and influential node, with particularly strong and persistent systemic importance in cross-border banking, alongside stable prominence in trade and rising relevance in portfolio investment. Despite shifting regional dynamics and growing competition, Hong Kong SAR's deep integration into key regional linkages underscores its continued structural importance to Asia's financial and trade integration.

1. Network analysis provides a useful way to assess the structure and evolution of Hong Kong SAR's financial and trade integration within the Asia-Pacific region and the global economy. By representing economies as interconnected nodes in regional trade and financial networks, this approach goes beyond bilateral comparisons to assess economies' position within the broader system. A key metric used in this analysis is eigenvector centrality, which measures not only the number of an economy's connections, but also the importance of the connected counterpart economies. An economy achieves high eigenvector centrality when it is linked to other highly connected and influential economies, making it a useful indicator of systemic relevance. An economy's importance in the network rises when it becomes deeper embedded in the region's most significant trade or financial relationships. Tracking changes of this measure over time therefore provide insights into how Hong Kong SAR relative importance has evolved across different dimensions of regional integration, including trade, inward direct investment, cross-border banking flows, and portfolio flows.

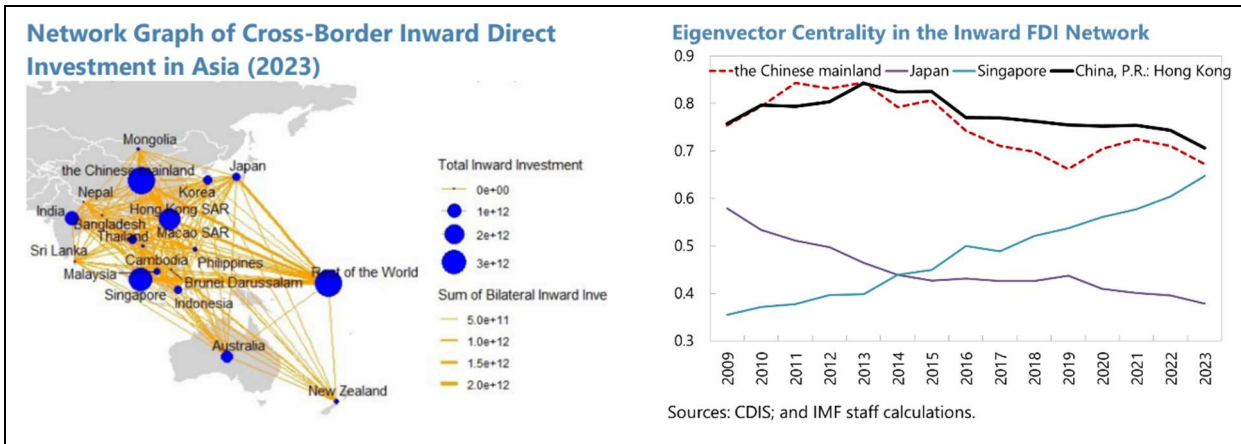
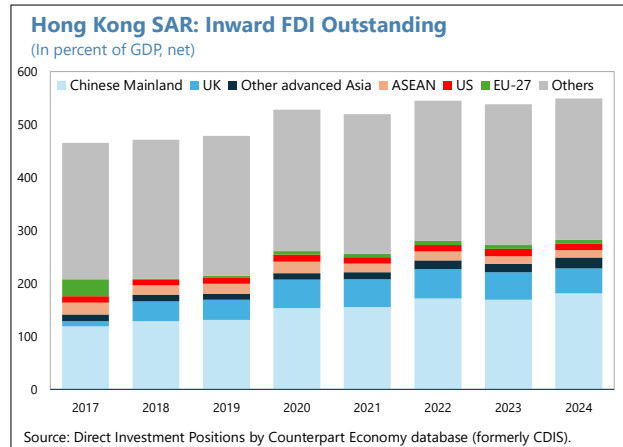
2. Hong Kong SAR has remained a consistently important node in the regional trade network since the 1990s. Its centrality rose substantially alongside the emergence of the Chinese mainland as a major manufacturing and trading hub in the region, a shift that coincided with the relative decline in Japan's role within the trade network. Since the early 2000s, Hong Kong SAR has maintained a prominent and stable position, reflecting its long-standing role as a regional trading and re-export hub.



¹ Prepared by Yizhi Xu. The author appreciates Tristan Hennig and Monica Petrescu for sharing the eigenvector centrality measurements, as well as Swapan-Kumar Padhan for providing valuable comments. For more details, please refer to [Hennig and others \(2025\)](#).

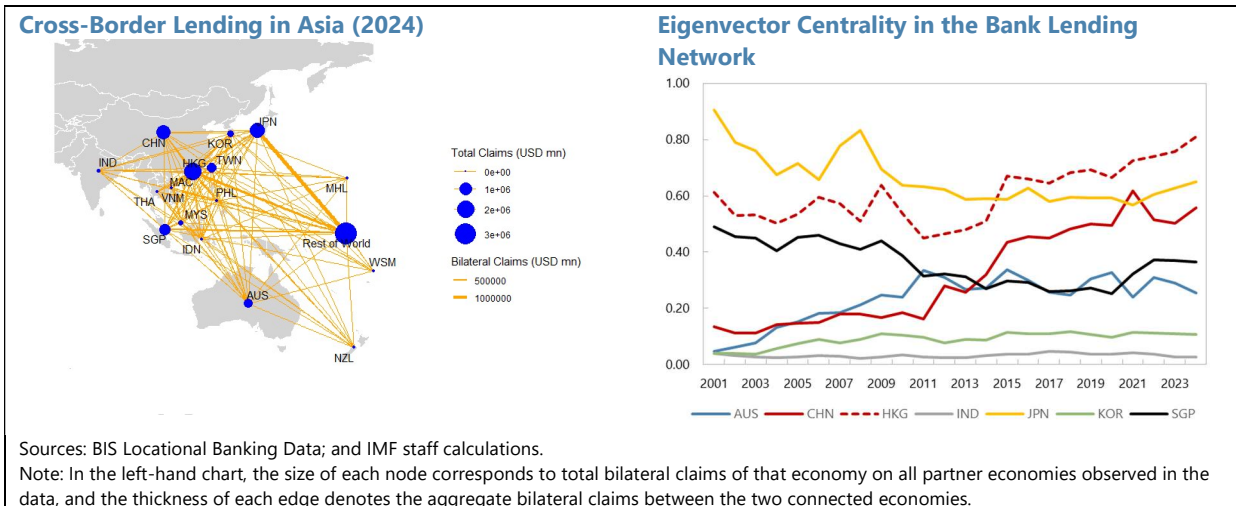
3. The structure of the direct investment network closely resembles that of the trade network.

This is consistent with some studies (e.g., [Gopinath et al., 2025](#), [Catalan et al., 2024](#), etc.) that suggest that financial linkages, such as FDI flows, are closely intertwined with trade relationships. Exposure to the Mainland dominates direct investment, accounting for 33 percent of net inward FDI liabilities and 52.4 percent of net outward FDI assets respectively in 2024. This concentration has increased in recent years, even as the relative importance of investment from traditional partners has declined. The centrality analysis shows that Hong Kong SAR stands out for its ability to attract a substantial FDI, supported by deep capital markets, a strong legal and institutional framework, and its unique role as an international gateway to the rapidly expanding Chinese mainland. At the same time, the importance of regional competitors, notably Singapore, has grown steadily in recent years, reflecting their growing success in attracting FDI.

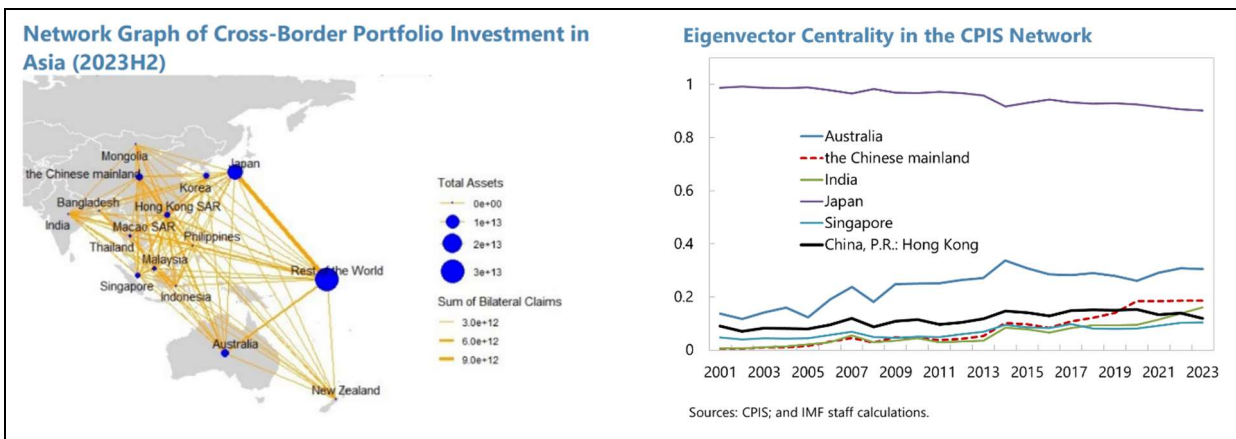


4. Hong Kong SAR plays a central and enduring role in Asia’s cross-border banking network, underscoring its status as one of the region’s leading financial intermediation hubs.

The centrality measures show that the territory surpassed Japan in mid-2010s and has since maintained the highest level of interconnectedness in regional cross-border banking flows. This underscores Hong Kong SAR’s continued function as a major conduit for credit flows within Asia and its deep banking links with the Chinese mainland. Despite the rising geoeconomic fragmentation pressures and shifting regional trade dynamics, Hong Kong SAR’s persistent centrality highlights its structural importance as the region’s key platform for cross-border credit allocation and financial intermediation.



5. In the portfolio investment network, Hong Kong SAR is a notable and steadily rising participant, even though the overall interconnectedness remains more limited than in trade, FDI and banking. The portfolio investment networks are dominated by advanced economies, with Japan retaining the highest centrality despite a gradual decline from its early-2000s peak, followed by Australia. By contrast, Hong Kong SAR’s upward trend in centrality over time reflects its growing role as a key regional platform for asset-management, fund intermediation, and cross-border portfolio flows.





PEOPLE'S REPUBLIC OF CHINA—HONG KONG SPECIAL ADMINISTRATIVE REGION

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION
DISCUSSIONS—INFORMATIONAL ANNEX

April 30, 2026

Prepared By

Asia and Pacific Department (in consultation with other
departments)

CONTENTS

FUND RELATIONS _____ 2

FUND RELATIONS

(As of May 1, 2026)

Membership Status

As a Special Administrative Region of the People's Republic of China, Hong Kong SAR is not a member of the Fund. However, annual consultation discussions have been held with the Hong Kong SAR authorities since October 1990, and the staff also holds discussions with the authorities in connection with the Fund's multilateral surveillance reports. STA has provided Hong Kong SAR with technical assistance in the area of balance of payments statistics and Hong Kong SAR officials have attended IMF Institute courses on statistics, financial programming, and other macro-financial surveillance topics. The mandatory Financial Stability Assessment under the FSAP was concluded by the Executive Board of the IMF on May 21, 2021.

Exchange Rate Arrangement

The Hong Kong dollar has been linked to the US dollar under a currency board arrangement, the Linked Exchange Rate System (LERS), since October 1983 at a rate of HK\$7.8/US\$1. The Hong Kong Monetary Authority (HKMA) refined the operations of the LERS in May 2005—following two rounds of changes since September 1998. For the first time since the introduction of the LERS in 1983, the HKMA explicitly committed to sell Hong Kong dollar at a preannounced price (set at HK\$7.75/US\$), which is referred to as the strong-side Convertibility Undertaking. Previously, the HKMA had only committed to buy Hong Kong dollar at a preannounced rate (the weak-side Convertibility Undertaking introduced in October 1998) and could sell Hong Kong dollar at any price. Along with this two-way Convertibility Undertaking, the HKMA also introduced a symmetric trading band of 0.6 percent around a central parity of HK\$7.8/US\$. There are no restrictions on current or capital account transactions in Hong Kong SAR, and the Hong Kong dollar is freely convertible. The People's Republic of China accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Articles of Agreement on December 1, 1996. The exchange regime is free of restrictions and multiple currency practices.

Resident Representative

The Hong Kong SAR sub-office of the Beijing Resident Representative's office was opened on September 23, 2000. The office's current primary function is to support the IMF's financial market surveillance in the Asia and the Pacific region. Sally Chen is the current Resident Representative.