IMF optimistic about Hong Kong's fiscal performance
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The International Monetary Fund (IMF) projects that sustained economic growth and concerted efforts at government expenditure restraint in the Hong Kong Special Administrative Region would result in the achievement of budget balance ahead of schedule. The IMF, however, believes that the Hong Kong Special Administrative Region Government should take advantage of the current favourable macroeconomic environment to address the long-standing problem of structural deficit.

The above assessment was contained in the Staff Report of the Article IV Consultation for Hong Kong released today. The IMF projects the consolidated fiscal deficit (before bond issuance) for financial year 2004-05 to shrink to 1.7 percent of GDP and envisions a balanced budget in financial year 2006-07, two years ahead of the government's target. Notwithstanding this development, the IMF urged the authorities to continue with the expenditure restraint to ensure a credible and lasting fiscal consolidation, while at the same time broaden the tax base through the adoption of a goods and services tax. The IMF also encourages the authorities to develop a longer-term focus for fiscal policy that takes into account an aging population trend.

In light of the rebound in economic activity in the first three quarters of 2004, the IMF revises higher its growth forecast for Hong Kong for 2004, to 8 1/4 percent, and projects growth of 4 percent for 2005. Consumer prices, having edged lower in 2004, are forecast to rise by 1 percent in 2005. The IMF believes that Hong Kong will benefit from the Mainland's ongoing integration with the global economy.

The Financial Secretary, Mr Henry Tang, welcomed IMF's positive assessment of Hong Kong. Noting the many challenges the Hong Kong economy will be facing, Mr Tang said: "By restoring fiscal balance, maintaining flexibility in the goods and labour markets and actively addressing our structural challenges, Hong Kong should be able to achieve a sustainable economic growth in the medium term."

The IMF continues its support of the linked exchange rate system. It agrees that the Hong Kong Monetary Authority's response to appreciation pressures of the Hong Kong dollar has enhanced the resilience of the linked exchange rate system.

The IMF commends the authorities for making considerable progress in implementing the Financial Sector Assessment Programme of 2003, including efforts to strengthen financial sector regulation and supervision.

Actions were taken to improve corporate governance including amending the Companies Ordinance to make it easier for the court to award damages to the shareholders of a company where it is found that their interests have been unfairly prejudiced. It welcomes the introduction of a deposit protection scheme in 2006, preparations taken for adoption of the New Capital Accord and progress made in cross-industry supervisory coordination. As integration with the Mainland intensifies, coordination of supervisory activities between the two economies will become increasingly important.

The Chief Executive of the Hong Kong Monetary Authority, Mr Joseph Yam, welcomed the IMF's continued support for the linked exchange rate system and the positive assessment on the initiatives introduced to enhance Hong Kong's market infrastructure as well as the regulatory and supervisory framework. "Continued development of the financial intermediary channels and the strengthening of the regulatory and supervisory regimes are crucial to enhance Hong Kong's competitiveness as an international financial centre", Mr Yam said.

The IMF mission visited Hong Kong during 26 October to 2 November 2004 to conduct the Article IV Consultation. The Staff Report on the Consultation is the fifth report published by the government, following its agreement to participate in the IMF's exercise to increase transparency in its assessment of world economies.

The IMF's Public Information Notice is enclosed as annex. The Staff Report can be obtained from the website of the Financial Services and the Treasury Bureau [www.info.gov.hk/fstb] or the IMF website [www.imf.org].