



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN)  
FOR IMMEDIATE RELEASE  
December 8, 2011

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

**IMF Executive Board Concludes 2011 Article IV Consultation  
Discussions with People's Republic of China—Hong Kong Special  
Administrative Region**

On November 30, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions with Hong Kong Special Administrative Region (SAR).<sup>1</sup>

**Background**

Hong Kong SAR has rebounded from the global financial crisis and growth should be 5¾ percent this year. Unemployment has fallen to very low levels and real incomes have grown, supporting consumption. However, external demand is weakening and the sequential growth momentum is slowing. Inflation has risen during the course of this year. Going forward, the slowing economy and waning food prices on the Mainland should take some of the impetus out of inflation.

The fiscal surplus is likely to exceed this year's -0.5 percent of GDP budget target by a wide margin, mostly due to high collections of profit taxes and asset-related revenues (such as the

---

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

land premium). Nevertheless, fiscal policy is still likely to exert a modest expansionary effect on the economy due to higher public infrastructure investment, the continuation of various temporary stimulus measures, and a one-time transfer of HK\$6,000 to every adult permanent resident.

Lending by Hong Kong banks has risen rapidly in the past year, particularly foreign currency lending to Mainland entities. At the same time, banks' net interest margins continue to fall due to the highly competitive banking environment and rising funding costs. With loan growth outpacing deposit growth, loan-to-deposit ratios have risen but remain well below international levels.

The housing market has slowed. Mortgage rates are rising, land supply has been increasing, and expectations of future price growth appear to have softened. Credit to property has also grown at a slower rate than overall credit and average loan-to-value ratio on new mortgage loans have fallen.

Progress on increasing trade settlement and issuing financial instruments denominated in renminbi has accelerated. Issuance of so-called "dim sum" bonds (traded in Hong Kong SAR and denominated in renminbi) has reached RMB 200 billion; around 10 percent of Mainland trade is now being settled in renminbi; and the renminbi now makes up 10 percent of Hong Kong deposits.

### **Executive Board Assessment**

Executive Directors noted that growth has rebounded thanks to the authorities' policy response, highly flexible labor and product markets, and favorable spillovers from Mainland China. However, Directors considered that, with external demand weakening, the forward economic momentum would moderate in the coming year as would underlying inflation, although headline inflation would likely remain elevated from the delayed pass-through of higher housing costs.

Directors agreed that, while the housing market appears to be cooling off, it is difficult to assess whether this trend will continue. They commended the authorities' measures to protect the financial system from a property market reversal. Directors also welcomed efforts to lessen the social burden of higher housing costs through wider availability of public rental housing and targeted programs to increase home ownership within lower income groups.

Directors noted that bank lending has been growing fast over the past year. They were reassured, however, by the regulatory authorities' continued efforts to be forward-looking and proactive in ensuring prudent risk management at financial institutions. Directors agreed that the macroprudential policy framework had supported high underwriting standards. Furthermore, they noted the appropriateness of recent initiatives to boost regulatory buffers and to ensure that bank lending remains in tune with funding availability, given the potential for funding strains if global risk aversion intensifies.

Directors shared the view that the principal risk to economic prospects is from a significant shock to the external environment. In light of the potentially large cost of such an event, they stressed the need for adequate contingency plans. More broadly, Directors agreed that, if the

global outlook worsens significantly, fiscal stimulus, extraordinary support to the financial system, and a roll back of recent macropudential measures linked to the property market could be considered.

Directors agreed that Hong Kong SAR's Linked Exchange Rate System remains appropriate. In their view, the high degree of flexibility of the Hong Kong economy underpins the currency regime and can facilitate a real exchange rate adjustment to changing economic circumstances.

Directors viewed the expansion of the offshore renminbi business in Hong Kong SAR as a positive development that could, however, increase the channels for financial spillovers between the Mainland and Hong Kong SAR. They agreed that the deepening of the offshore market would need to be supported by a progressive opening of the Mainland capital account to renminbi flows and by improved provision of information.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

**Table 1. Hong Kong SAR: Selected Economic and Financial Indicators, 2006–12 1/**

	2006	2007	2008	2009	2010	Staff projections	
						2011	2012
Real GDP (percent change)	7.0	6.4	2.3	-2.7	7.0	5.7	4.0
Contribution							
Domestic demand	5.3	7.0	1.5	0.7	6.6	5.4	3.9
Private consumption	3.5	5.0	1.4	0.4	3.9	4.1	2.9
Government consumption	0.0	0.3	0.2	0.2	0.2	0.2	0.2
Gross fixed capital formation	1.5	0.7	0.2	-0.8	1.6	1.1	0.8
Inventories	0.3	1.0	-0.4	0.9	0.9	0.0	0.0
Net exports	1.6	-0.6	0.8	-3.4	0.3	0.4	0.1
Inflation (percent change)							
Consumer prices	2.0	2.0	4.3	0.5	2.4	5.5	4.0
GDP deflator	-0.3	2.9	1.5	-0.6	0.5	4.0	3.7
Employment (percent change)	1.9	2.4	1.0	-1.1	0.4	1.5	1.0
Unemployment rate (percent, period average)	4.8	4.0	3.6	5.4	4.4	3.5	3.7
Real wages	-0.1	0.7	0.7	-1.5	-0.4	...	...
Government budget (percent of GDP)							
Revenue	19.5	22.2	18.9	19.6	21.6	22.3	22.1
Expenditure	15.5	14.5	18.8	18.0	17.3	19.8	18.1
Consolidated budget balance	4.0	7.7	0.1	1.6	4.3	2.5	4.0
Fiscal reserves as of March 31	25.0	30.5	29.5	32.1	34.1	33.5	35.1
Money and credit (percent change, end-period)							
Narrow money (M1)	13.1	25.4	4.7	39.6	12.8	...	...
Broad money (M3)	15.5	20.6	2.6	5.2	8.0	...	...
Loans for use in Hong Kong SAR (not including trade financing)	2.3	15.2	11.0	-2.1	21.7	...	...
Interest rates (percent, end-period)							
Best lending rate	7.8	6.8	5.0	5.0	5.0	...	...
Three-month HIBOR	3.8	3.3	0.9	0.1	0.3	...	...
Asset prices							
Hang Seng stock index (end of period, 1964=100)	19,965	27,813	14,387	21,873	23,035	...	...
Hang Seng stock index (percent change)	34.2	39.3	-48.3	52.0	5.3	...	...
Residential property prices (end of period, percent change)	4.1	25.7	-11.1	28.5	21.0	...	...
Merchandise trade (percent change)							
Export volume	9.3	7.0	1.9	-12.7	17.3	6.7	6.8
Import volume	9.2	8.8	1.8	-9.5	18.1	7.3	7.0
External balances (percent of GDP)							
Merchandise trade balance	-7.4	-9.5	-10.7	-12.8	-19.1	-21.9	-21.8
Domestic exports	9.4	7.3	6.1	4.7	4.7	4.5	4.2
Re-exports	157.8	159.8	163.5	149.1	170.8	177.6	177.8
Imports	174.6	176.6	180.3	166.6	194.7	204.1	203.8
Current account	12.1	12.3	13.7	8.6	6.2	5.4	5.6
Foreign exchange reserves 2/							
In billions of U.S. dollars, end-of-period	133.2	152.7	182.5	255.8	268.7	269.9	271.3
In months of retained imports	18.6	19.5	22.0	34.6	28.7	24.5	23.0
In percent of broad money (M3)	20.3	19.4	22.5	29.9	29.2	...	...
Exchange rate							
Linked rate (fixed)							
Market rate (HK\$/US\$1, period average)	7.768	7.801	7.787	7.752	7.769	...	...
Real effective rate (period average, 2000=100) 3/	78.1	74.1	70.2	71.9	70.0	...	...

Sources: CEIC Database; and staff estimates.

1/ Unless otherwise stated, all growth rates are for year-on-year.

2/ Includes Land Fund assets.

3/ IMF staff estimates.