



PRESS RELEASE

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## IMF Executive Board Concludes 2023 Article IV Consultation Discussions with the People's Republic of China—Hong Kong Special Administrative Region

FOR IMMEDIATE RELEASE

**Washington, DC – May 31, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions<sup>1</sup> with the People's Republic of China—Hong Kong Special Administrative Region (SAR) and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.<sup>2</sup>

The economic recovery in Hong Kong SAR stalled in 2022 following a major COVID outbreak and U.S. monetary policy tightening. But in 2023, real GDP is projected to grow by 3.5 percent. Exports of tourism services and domestic economic activity, in particular private consumption, are expected to normalize as border control and other COVID-related restrictions have been lifted in both Hong Kong SAR and Mainland China. With moderate wage pressure, CPI inflation is expected to gradually rise to about 2¼ percent by the end of 2023.

The financial system remains resilient and continues to serve as an international financial center, supported by strong institutional frameworks and substantial capital and liquidity buffers. The Linked Exchange Rate System continues to function smoothly, providing a solid anchor to the economy and the financial system, allowing the latter to perform its role as an international financial center. Housing prices,

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<sup>1</sup> 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.

<sup>2</sup> 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.

which declined by about 16 percent by end-2022 from the peak in September 2021, have started to recover in early 2023.

Near-term risks to the growth outlook are balanced, with systemic risk in the financial sector manageable given significant buffers. A sharper-than-expected global growth slowdown as well as escalation of regional conflicts and resulting disruptions in trade could derail the recovery. A sharp rise in global risk premia amid renewed stress in the global banking system and further tightening of monetary policy in major advanced economies could have adverse spillovers through financial channels. On the upside, transition to the post-pandemic new normal in both Hong Kong SAR and Mainland China could be smoother and more rapid than anticipated with strong pent-up demand, leading to a faster-than-expected economic recovery including inbound tourism.

### **Executive Board Assessment**

In concluding the 2023 Article IV consultation discussions with Hong Kong Special Administrative Region (SAR), Executive directors endorsed staff appraisal as follows:

The Hong Kong SAR economy is recovering strongly with post-COVID normalization of economic activity. Exports of tourism services and domestic economic activity, in particular private consumption, are expected to normalize as border control and other COVID-related restrictions have been lifted in both Hong Kong SAR and Mainland China. On a preliminary basis and adjusting for remaining transitory pandemic-related factors, the external position in 2022 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

Near-term risks to the growth outlook are balanced, with systemic risk in the financial sector manageable, given significant buffers. A sharper-than-expected global growth slowdown as well as escalation of regional conflicts and resulting disruptions in trade could derail the recovery. While the financial system remains resilient, a sharp rise in global risk premia amid renewed stress in the global banking system and further tightening of monetary policy in major advanced economies could have adverse spillovers through financial channels. On the upside, transition to the post-pandemic new normal in both Hong Kong SAR and Mainland China could be smoother and more rapid than anticipated with strong pent-up demand, leading to a faster-than-expected economic recovery including inbound tourism.

With remaining slack in the economy, gradual fiscal consolidation would help secure a sustained and inclusive recovery. Pandemic-era measures to support vulnerable households and affected SMEs could be unwound gradually, while additional household support could be provided in a targeted manner to low-income households. Expanding social safety nets, for example by further increasing the adequacy and

coverage of social assistance benefits and introducing a dedicated unemployment benefit system, would help enhance the automatic stabilizer role of fiscal policy. A comprehensive tax reform over the medium term to broaden the tax base is imperative to provide a stable source of revenue to meet long-term spending needs while ensuring fiscal sustainability.

Amid renewed stress in the global banking system, the robust regulatory and supervisory framework should be further strengthened to maintain financial sector resilience. As credit risk will likely continue to materialize after years of domestic economic contractions, rising interest rates, and the ongoing stress in Mainland China's real estate sector, the supervisory focus should continue to be on ensuring banks' proper credit loss recognition and provisioning. A comprehensive and risk-based regulatory framework related to virtual assets is critical to safeguard financial stability and ensure investor protection.

Increasing housing supply is critical to resolving the structural supply-demand imbalance. Housing-related macroprudential measures should be maintained and can be recalibrated in the event housing-related stress materializes. The BSD and NRSD, assessed to be CFM/MPMs, need to be phased out once systemic risk from non-resident and speculative demands dissipates.

Promoting innovation and technological development can provide additional growth engines and boost economic resilience amid geoeconomic fragmentation. A newly launched investment fund set up by the government should operate with a clear mandate and strict standards for governance, accounting, and public reporting to minimize potential capital misallocation while effectively supporting the development of new innovative industries and fostering business dynamism.

## Hong Kong SAR. Selected Economic Indicators

	2018	2019	2020	2021	2022	Projections					
						2023	2024	2025	2026	2027	2028
<b>NATIONAL ACCOUNTS</b>											
Real GDP (percent change)	2.8	-1.7	-6.5	6.4	-3.5	3.5	3.1	2.9	2.8	2.7	2.7
Private consumption	5.3	-0.8	-10.6	5.6	-1.0	5.8	2.4	2.8	2.9	2.9	2.9
Government consumption	4.2	5.1	7.9	5.9	8.1	-1.0	-2.8	0.1	1.7	1.7	1.6
Gross fixed capital formation	1.7	-14.9	-11.1	8.3	-8.5	-6.9	8.5	5.8	4.2	4.1	4.1
Inventories (contribution to growth)	0.0	-0.5	1.8	-1.9	-1.0	0.7	0.2	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	-1.5	2.1	0.2	2.4	-1.4	0.2	0.3	0.1	-0.1	-0.2	-0.2
Output gap (in percent of potential GDP)	0.1	-2.5	-7.3	-2.3	-3.9	-2.1	-1.7	-1.1	-0.7	-0.3	0.0
<b>LABOR MARKET 1/</b>											
Employment (percent change)	1.4	-0.3	-4.7	-0.6	-1.6	0.8	0.3	0.3	0.3	0.3	0.3
Unemployment rate (percent, period average)	2.8	2.9	5.8	5.2	4.3	3.4	3.3	3.3	3.2	3.1	3.0
Real wages (percent change)	1.0	0.1	2.5	-0.5	-1.4	0.7	1.3	1.3	1.3	1.3	1.3
<b>PRICES</b>											
Inflation (percent change)											
Consumer prices	2.4	2.9	0.3	1.6	1.9	2.3	2.4	2.4	2.5	2.5	2.5
GDP deflator	3.7	2.0	0.6	0.7	2.2	2.2	2.2	2.2	2.2	2.2	2.2
<b>GENERAL GOVERNMENT 1/</b>											
Consolidated budget balance (percent of GDP) 2/	2.4	-0.6	-9.4	0.0	-6.7	-4.0	-1.0	0.2	0.6	1.3	1.3
Revenue	21.2	20.8	21.1	24.2	22.0	21.5	23.2	24.0	24.2	24.6	24.6
Expenditure	18.8	21.4	30.5	24.2	28.7	25.5	24.3	23.8	23.6	23.2	23.2
Fiscal reserves (as of end-March, percent of GDP)	41.3	40.8	34.7	33.4	29.5	26.1	25.1	25.0	25.9	27.4	28.3
<b>FINANCIAL</b>											
Interest rates (percent, period average)											
Best lending rate	5.0	5.1	5.0	5.0	5.1	...	...	...	...	...	...
Three-month HIBOR	1.8	2.1	1.1	0.2	2.1	...	...	...	...	...	...
10-year Treasury bond yield	2.2	1.6	0.7	1.2	2.8	...	...	...	...	...	...
<b>MACRO-FINANCIAL</b>											
Loans for use in Hong Kong SAR (excl. trade financing)	5.0	7.4	2.3	4.3	0.9	2.5	8.3	8.6	8.4	8.1	7.9
House prices (year-on-year percent change for last quarter)	5.8	3.4	-0.1	3.7	-13.6	1.0	5.7	7.3	5.8	5.3	5.3
Credit-to-GDP gap 3/	12.5	21.2	23.9	11.5	3.2	-14.5	-11.3	-7.4	-3.9	-1.5	0.1
<b>EXTERNAL SECTOR</b>											
Merchandise trade (percent change)											
Export value	7.3	-4.1	-1.5	26.3	-8.6	-4.5	9.9	6.0	4.3	4.2	4.2
Import value	8.4	-6.5	-3.3	24.3	-7.2	-2.9	10.4	6.0	4.3	4.3	4.3
Current account balance (percent of GDP)	3.7	5.9	7.0	11.8	10.7	8.0	6.5	6.0	5.5	5.0	4.5
Foreign exchange reserves											
In billions of U.S. dollars (end-of-period)	425	441	492	497	424	420	432	443	455	464	471
In percent of GDP	117	121	143	135	117	110	107	104	102	99	96
Net international investment position (percent of GDP)	354	432	615	574	486	468	451	434	419	404	390
Exchange rate											
Market rate (HK\$/US\$, period average)	7.839	7.836	7.757	7.774	7.832	...	...	...	...	...	...
Real effective rate (period average, 2010=100)	113.2	117.7	117.2	111.8	115.4	...	...	...	...	...	...

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

1/ Estimated values for 2022.

2/ Before issuance and repayment of government bonds and notes.

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