



IMF Executive Board Concludes 2024 Article IV Consultation Discussions with the People's Republic of China—Hong Kong Special Administrative Region

FOR IMMEDIATE RELEASE

Washington, DC – January 23, 2025: The Executive Board of the International Monetary Fund (IMF) concluded on January 14, 2025, the Article IV consultation discussions¹ with the People's Republic of China—Hong Kong Special Administrative Region and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.²

Hong Kong SAR's economy is on a path of gradual but uneven recovery following three years of recession since 2019. The removal of COVID-related restrictions in early 2023 resulted in a strong rebound in domestic demand and inbound tourism in 2023H1, and decline in unemployment rate to historical lows. However, the recovery has since lost momentum with domestic demand softening amid multiple headwinds, including the high interest rate environment and continued adjustment in the property market. Increased regional competition has also weighed on economic activity by putting pressure on some of the territory's traditional growth engines. The financial system has remained resilient, supported by strong institutional frameworks and substantial capital and liquidity buffers, while the Linked Exchange Rate System continued to function smoothly.

With domestic demand remaining weak, real GDP growth is estimated to have moderated to 2.7 percent in 2024 from 3.3 percent in 2023. Over the medium term, growth is expected to modestly slow to around 2½ percent, driven by demographic headwinds and lower contribution of additional physical capital. The output gap is projected to continue narrow and close by 2029, with inflation projected to rise gradually to around 2½ percent.

The outlook is subject to high uncertainty, with the balance of risks tilted to the downside. Key downside risks include a sharper-than-expected slowdown in Mainland China due to escalation of trade tensions or a deeper and more protracted adjustment in the property market. Tighter-for-longer monetary policy in the U.S., rising geoeconomic fragmentation pressures, and increased regional competition could also weigh on growth. On the upside, a meaningful improvement of consumer and business confidence in Mainland

¹ 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.

² 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.

China, deeper integration with the Greater Bay Area, increased investment in high value industries, and sustained inflows of skilled workers could support stronger growth.

Executive Board Assessment

In concluding the 2024 Article IV consultation discussions with Hong Kong Special Administrative Region (SAR), Executive directors endorsed staff appraisal as follows:

Hong Kong SAR's economy is recovering gradually after a protracted period of shocks, but emerging and longer-term challenges require close attention. Hong Kong SAR's economic recovery is underway, but momentum has flagged recently amid tight financial conditions, continued adjustment in the property sector, and a challenging environment for SMEs. Moreover, traditional growth drivers like logistics and trade are under pressure from regional competition while the territory's rapid aging and slowing labor force growth pose further challenges. Notwithstanding these developments, the financial system has remained resilient, supported by robust institutional frameworks, ample policy buffers, and a smooth functioning of the LERS. The preliminary assessment for 2024 suggests that Hong Kong SAR's external position is in line with fundamentals and desirable policies.

Growth is projected to moderate gradually over the forecast horizon with risks skewed to the downside. Growth is projected to stand at 2.7 percent in 2025 and decelerate modestly to around 2½ percent over the medium term reflecting rapid population aging and slower capital accumulation. The outlook is subject to a high uncertainty with key downside risks emanating from a sharper-than-expected slowdown in Mainland China due to escalation of trade tensions or a deeper and more protracted adjustment in the property market. Longer-than-expected period of tight monetary policy in the U.S., rising geoeconomic fragmentation pressures, and increased regional competition could also weigh on growth. Financial vulnerabilities in some areas are elevated, but systemic risk in the financial sector is assessed as manageable.

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. The plan to delay the attainment of a balanced budget until FY2027/28 is appropriate given the economic slack and the need to protect social welfare spending. However, given the mounting aging-related expenditure and critical investment plans, adherence to the authorities' balanced budget rule will require a larger and more stable revenue base. This could be achieved by increasing the progressivity of personal income tax, raising excise taxes, and introducing a VAT and taxes on capital gains and dividends. Steps to expand the coverage of social safety nets and increase their adequacy are also needed.

While the banking sector is well-capitalized and profitable, proactive efforts to monitor emerging risks are needed. With local firms seeing weakening debt servicing capacity and rising liquidity risk, supervisors should ensure that bank 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. Prioritization of systemic risk assessments for NBFIs and high-risk activities is needed, augmented with enhanced data collection

and stress testing, both at system-wide and sector specific levels. Ensuring that climate risks are integrated into financial institutions' risk management practices will help to support systemic risk surveillance efforts.

Further macroprudential easing should be calibrated carefully, while public housing supply should be further expanded to alleviate affordability pressures. The risks of a sharp and disorderly house price correction and speculative demand have eased, justifying the recent abolition of demand-side management measures and relaxation of macroprudential policies. Further policy easing should be carefully designed to maintain prudent underwriting standards and avoid excessive risk-taking. Continued efforts are needed to expedite the production of public housing and strictly enforce eligibility criteria to reduce social pressures.

Creating a vibrant, well-regulated digital and sustainable finance ecosystem would reinforce the territory's status as an international financial center. Recent efforts to step up the regulation of the fast-evolving intermediation of crypto assets are welcome, and should be part of a comprehensive regulatory strategy that includes 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.

The GBA initiative has the potential to lift growth prospects by creating a new global technology cluster and attracting skilled labor. A critical priority is to mobilize private sector-led R&D, leveraging on the territory's key strengths in finance, its well-regarded academic institutions, and the pro-market legal framework. Encouraging private investment would support Hong Kong SAR's competitiveness and limit potential adverse side effects that could accompany integration, including displacement of some activities. Efforts to attract skilled labor should be continuously monitored to ensure the talent attraction programs meet their objectives. At the same time, steps are needed to raise labor force participation, particularly among older adults and women.

Continued efforts are needed to address long-term challenges posed by climate change. To mitigate the risk of falling short of emissions reduction targets, the authorities should prioritize regional collaboration with Mainland China to develop zero-carbon energy and improve energy efficiency in aging and poorly maintained buildings. Incentivizing energy saving and green transportation with additional forms of carbon pricing mechanisms can also be considered. Finally, continued efforts to bolster infrastructure and enhance resilience against climate-related risks are also important.

Hong Kong SAR—Selected Economic and Financial Indicators, 2019-29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
NATIONAL ACCOUNTS											
Real GDP (percent change)	-1.7	-6.5	6.5	-3.7	3.3	2.7	2.7	2.6	2.5	2.5	2.4
Private consumption	-0.8	-10.6	5.6	-2.2	7.7	-0.7	0.5	1.0	1.4	1.9	1.9
Government consumption	5.1	7.9	5.9	8.0	-4.3	0.4	-0.5	-0.5	-0.2	0.0	0.3
Gross fixed capital formation	-14.9	-11.1	8.3	-7.4	11.1	3.6	7.7	8.1	3.6	1.5	1.6
Inventories (contribution to growth)	-0.5	1.8	-1.8	-0.9	-0.5	0.2	1.1	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	2.2	0.2	2.8	-1.3	-2.5	2.3	0.0	0.6	1.0	1.0	0.8
Output gap (in percent of potential GDP)	-2.5	-7.3	-2.3	-4.1	-2.5	-2.3	-1.7	-1.1	-0.6	-0.2	0.0
LABOR MARKET											
Employment (percent change)	-0.3	-4.7	-0.6	-1.6	2.7	1.1	1.0	-0.1	-0.2	-0.1	-0.1
Unemployment rate (percent, period average)	2.9	5.8	5.2	4.3	2.9	2.8	2.7	2.7	2.7	2.7	2.7
Real wages (percent change)	0.1	2.5	-0.5	-1.4	1.4	0.9	1.2	1.3	1.3	1.3	1.3
PRICES											
Inflation (percent change)											
Consumer prices	2.9	0.3	1.6	1.9	2.1	1.8	2.3	2.4	2.5	2.5	2.5
GDP deflator	2.0	0.6	0.7	1.7	2.8	2.3	2.3	2.4	2.5	2.4	2.5
GENERAL GOVERNMENT											
Consolidated budget balance (percent of GDP) 1/	-0.6	-9.4	0.0	-6.7	-5.8	-5.2	-3.0	-1.7	0.1	1.3	1.1
Revenue	20.8	21.1	24.2	22.1	18.4	19.4	20.6	21.5	22.0	22.4	22.4
Expenditure	21.4	30.5	24.2	28.9	24.2	24.6	23.6	23.2	21.8	21.1	21.4
Fiscal reserves (as of end-March, percent of GDP)	40.8	34.7	33.4	29.7	24.6	21.3	20.0	19.7	19.7	19.7	19.3
FINANCIAL 2/											
Interest rates (percent, period average)											
Best lending rate	5.1	5.0	5.0	5.1	5.8	5.6	...	...	...	...	...
Three-month HIBOR	2.1	1.1	0.2	2.1	4.6	4.4	...	...	...	...	...
10-year Treasury bond yield	1.6	0.7	1.2	2.8	3.6	3.0	...	...	...	...	...
MACRO-FINANCIAL 2/											
Loans for use in Hong Kong SAR (excl. trade financing)	7.4	2.1	4.3	0.9	-0.4	1.7	...	...	...	...	...
House prices (year-on-year percent change for last quarter)	3.8	0.2	3.7	-13.6	-7.1	-13.0	...	...	...	...	...
Credit-to-GDP gap 3/	21.2	23.9	11.5	3.2	-14.5	-38.9	...	...	...	...	...
EXTERNAL SECTOR											

Merchandise trade (percent change)											
Export value	-4.1	-1.5	26.3	-8.6	-7.8	7.2	1.7	3.1	3.2	3.0	3.0
Import value	-6.5	-3.3	24.3	-7.2	-5.7	3.1	3.0	3.5	3.7	3.7	3.9
Current account balance (percent of GDP)	5.9	7.0	11.8	10.2	9.2	12.0	10.6	10.2	10.0	9.9	9.5
Foreign exchange reserves											
In billions of U.S. dollars (end-of-period)	441	492	497	424	426	439	453	477	503	529	544
In percent of GDP	121	143	135	118	112	109	108	108	108	108	106
Net international investment position (percent of GDP)	432	615	574	492	468	457	446	435	424	413	403
EXCHANGE RATE											
Market rate (HK\$/US\$, period average)	7.836	7.757	7.773	7.831	7.830	...	...	...	...	...	...
Real effective rate (period average, 2010=100)	117.7	116.9	111.7	115.8	119.6	...	...	...	...	...	...

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

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

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

3/ Using latest data available for 2024.