



People's Republic of China—Hong Kong Special Administrative Region: Staff Concluding Statement of the 2026 Article IV Mission

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](#) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

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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 also reinforced its position as a global financial center and super-connector between the Chinese mainland and the rest of the world. However, the recovery remains ongoing and economic activity is still below its pre-pandemic trend, while headwinds—including weak private investment and declining labor force participation, both of which remain below pre-pandemic levels—persist. Growth is expected to moderate in the near term mainly reflecting weaker external demand and tighter financial conditions stemming from the war in the Middle East.¹ Risks are tilted to the downside, including from a potential intensification of conflicts and escalating geopolitical tensions. Given the economic slack, an expansionary fiscal stance in 2026 is appropriate. Over the medium term, revenue reforms will be needed to broaden and stabilize the revenue base, rebuild fiscal reserves and address rising spending pressures. Financial sector risks appear manageable, supported by strong buffers and robust regulatory oversight, although continued vigilance is warranted in segments exposed to commercial real estate and more leveraged corporates. Strengthening labor force participation, advancing innovation and digital and sustainable finance, and leveraging

¹ This preliminary assessment is based on data available during and immediately after the mission. Projections will be revisited in the July 2026 World Economic Outlook (WEO) Update and the October 2026 WEO based on updated data and revised assumptions regarding the global economy.

Hong Kong SAR's role as the super-connector will be important to sustain long-term growth in an increasingly uncertain global environment.

Recent Developments: Resilient Growth, Super-Connector Role Reinforced

1. The economy of Hong Kong SAR has continued to recover following a series of major shocks since 2019. Real GDP surpassed its pre-pandemic peak in 2025, supported by strong exports—particularly in technology-related sectors—alongside improving private consumption and investment. Inflation remains contained, reflecting subdued domestic price pressures and imported disinflation. Equity fundraising and asset management activity have picked up alongside improved market sentiment, reinforcing Hong Kong SAR's role as a global financial center and super-connector between the Chinese mainland and the rest of the world, particularly its role as a leading fundraising hub and premier offshore renminbi center. Banks remain well capitalized, liquid, and profitable despite pressures from commercial real estate (CRE), while the non-bank financial sector continues to expand. The Linked Exchange Rate System continues to operate smoothly and remains an appropriate and credible anchor for macroeconomic and financial stability.

2. The recovery remains incomplete, however, and economic activity remains below its pre-pandemic trend. Economic slack, while gradually narrowing, remains. Private investment has yet to fully recover, the labor force participation rate (LFPR) is at historically low levels, and visitor arrivals remain below pre-pandemic levels. While residential property prices have broadly stabilized, CRE—particularly the retail and office segments—continues to face headwinds from structural changes in demand and elevated vacancy rates. At the same time, deeper integration with the Chinese mainland brings important opportunities while also increasing exposure to Mainland-specific risks.

Outlook and Risks: Moderating Near-Term Growth and Elevated Risks

3. Looking ahead, growth is expected to moderate. After a strong rebound last year, real GDP growth is projected to decelerate to 2.4 percent in 2026, reflecting weaker external demand and tighter financial conditions related to the conflict in the Middle East, partly offset by strong early-year momentum and a looser fiscal stance. Over the medium term, growth is projected to normalize to around 2.25 percent. The output gap, while narrowing, is expected to close by 2031, with inflation rising gradually from 1.4 percent in 2025 to around 2.5 percent.

4. The risks to the outlook are tilted to the downside.

- *External downside risks.* Escalating geopolitical tensions, intensification of conflicts in the Middle East, persistent commodity price pressures, higher global interest rates, trade fragmentation, and heightened financial market volatility could weaken external demand and tighten financial conditions. Given Hong Kong SAR's high degree of openness and financial interconnectedness, such shocks would transmit rapidly. In particular, 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 technology cycle, including from a reassessment of AI-related productivity gains, could further weigh on exports and activity, while cyber risks remain elevated.

- *Domestic downside risks.* Persisting vulnerabilities in the commercial real estate (CRE) sector, and a further decline in prices—potentially triggered by risk-off shocks or tighter financial conditions—could adversely affect banks and the broader economy under adverse scenarios.
- *Upside risks.* Stronger-than-expected productivity gains from AI and faster implementation of strategic investment projects, including in the Northern Metropolis, could boost growth and support structural transformation.

Balancing Near-Term Support with Medium-Term Fiscal Consolidation

5. Fiscal consolidation is expected to proceed at a slower pace than envisaged in previous budgets, with fiscal deficits narrowing progressively over the medium term.

The 2026-27 Budget indicates that revenue in 2026-27–2027-28 will be boosted by transfers from the Exchange Fund, the Bond Fund and funds outside the government accounts, contributing to a faster reduction in the headline deficit than previously envisaged. Excluding these transfers, the underlying deficit in 2025-26–2027-28 would be larger. In staff’s baseline, the consolidated deficit (before bond issuance and repayment) is projected to narrow to 4.9 percent of GDP in 2025-26, largely reflecting stronger revenues driven by more collections from profits taxes and a rebound in stamp duties amid firmer equity and residential property market activity. The deficit is projected to widen to 5.3 percent of GDP in 2026-27, reflecting lower operating revenue as a share of GDP. Over the medium term, consolidated deficits are projected to persist through 2031 but narrow progressively, as revenue gains moderate and capital spending remains elevated, with some uncertainty around the growth of revenues absent one-off transfers.

6. While the fiscal stance in 2026 appears appropriate, efforts should focus on achieving stronger medium-term consolidation including prioritizing fiscal reforms. The incomplete recovery in domestic demand supports maintaining an expansionary stance in the near term. At the same time, stronger medium-term consolidation efforts will be needed to rebuild fiscal reserves and address rising structural spending pressures from population aging, social protection needs, and large infrastructure projects, while bolstering capacity to respond to future shocks in a more uncertain global environment. Incremental savings and selective “user-pay” adjustments, while helpful, would leave the fiscal position exposed to the territory’s narrow and cyclical revenue base. Broader revenue reforms will therefore be needed over time to strengthen and stabilize the revenue base, building on earlier reform discussions, including options identified in the 2006–07 tax consultation, such as the introduction of a goods and services tax.

Safeguarding Financial Sector Stability

7. Maintaining banking sector resilience will require continued supervisory focus on exposures to vulnerable segments of the corporate sector. Exposures to highly leveraged non-financial corporations, particularly in real estate and among SMEs, warrant close monitoring, building on the authorities' ongoing efforts. Continued timely recognition of expected credit losses and adequate provisioning will remain important to safeguard bank balance sheets. Remaining support measures for small and medium-sized enterprises (SMEs), including government backed credit guarantees and principal repayment moratoriums, should be carefully targeted and calibrated to ease liquidity strains among companies without distorting credit allocation or delaying necessary restructuring of non-viable firms. Digital infrastructure, including the Commercial Data Interchange, can help reduce information asymmetries and improve access to financing for 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 continue to pose risks for exposed banks, and the authorities should continue to ensure prudent underwriting, sound valuation practices, and capital buffers commensurate with concentration risks. Surveillance of Chinese mainland exposures, including interconnectedness and spillovers from the property sector, remains important.

8. Strengthening the monitoring framework is welcome as the non-bank financial institution (NBFI) 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. The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) have enhanced the surveillance framework by integrating granular supervisory and trade-repository data to identify leveraged entities and risk concentrations. Expanded risk assessments and targeted stress testing have improved early-warning capabilities.

9. Expanding system-wide stress testing would further strengthen macroprudential oversight. This would enable the authorities to assess the propagation of shocks across the financial system—including banks, non-bank financial institutions, key non-financial sectors, and digital markets—under severe but plausible scenarios. The exercise could be coordinated through existing interagency arrangements, and could initially focus on targeted areas where risks are most apparent, given the resources required to develop a comprehensive system-wide framework. Strengthening data on intersectoral exposures, as recommended in the 2021 FSAP, would further support a more comprehensive assessment of systemic risks and transmission channels.

Improving housing affordability

10. Improving housing affordability will require a sustained expansion of public housing supply and stronger targeting of existing programs. Demand for public rental

housing and subsidised sale flats remains elevated. Scaling up public housing production is essential to reduce waiting times. To this end, the Government has identified sufficient land to meet the public housing supply target of 294,000 units in the 10-year period from 2026/27 to 2035/36. Recent measures to tighten Well-off Tenants Policies, increase the additional rent payable by well-off tenants, and strengthen enforcement against tenancy abuse should help improve allocation and safeguard the efficient use of public housing resources.

Pursuing Structural Transformation in a Changing Global Landscape

11. Hong Kong SAR is well placed to build further on its digital and sustainable finance agenda, supported by effective implementation and robust systemic oversight.

The “Fintech 2030” strategy aims to modernize market infrastructure as well as to promote responsible AI innovation and asset tokenization within a robust regulatory framework. Ensuring consistent application of the “same activity, same risks, same regulation” principle will be key to preventing regulatory arbitrage. Enhanced cross-sectoral coordination, improved data collection, and integration of crypto exposures into macro-financial surveillance would help monitor emerging risks. Continued attention to operational, cyber, and interoperability risks remains essential to safeguard financial stability and market integrity. Timely and high-quality implementation of the IFRS Sustainability Disclosure Standards, supported by robust assurance and data frameworks, will help maintain market confidence and mitigate greenwashing risks.

12. In an environment of increasing geoeconomic fragmentation Hong Kong SAR’s super-connector role remains central to sustaining its position in global trade and finance.

The territory continues to leverage its position as a leading offshore RMB hub, deepen integration with the Chinese mainland through the capital market Connect schemes, play a central role in intermediating foreign direct investment, and benefit from a strong legal and regulatory framework. Initiatives such as those relating to the Guangdong-Hong Kong-Macao Greater Bay Area and the Northern Metropolis can further strengthen this role by fostering cross-border integration and supporting innovation and high value services.

13. The proposed use of industrial policy, including preferential policy packages, can support the strategic objective of economic diversification but should be approached with caution.

Any such strategy should be grounded in a clear identification of areas where market-based outcomes may fall short of policy objectives, 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 that it flows toward commercially viable investments and achieves the intended outcomes.

14. Coordinated policy responses are needed to address the ongoing decline in the LFPR.

While population aging remains the primary driver, the trend has been exacerbated by delayed labor market entry among younger cohorts amid rising educational attainment, evolving skill demands, and uncertainty related to technological change, including AI adoption. Raising the LFPR will require policies to encourage greater participation among

older workers and women, strengthen education and training systems to reduce skills mismatches, and support workforce adaptation to technological change through reskilling, improved job matching, and adequate social protection during transitions.

The mission would like to thank the authorities in Hong Kong SAR for excellent discussions, meticulous organization, and the warm hospitality extended to us throughout our visit.

Hong Kong SAR—Selected Economic and Financial Indicators, 2021—28

	2021	2022	2023	2024	Prel.		Projections	
					2025	2026	2027	2028
NATIONAL ACCOUNTS								
Real GDP (percent change)	6.5	-3.7	3.2	2.6	3.5	2.4	2.4	2.3
Private consumption	5.6	-2.2	6.8	-0.2	1.7	1.7	1.7	2.1
Government consumption	5.9	8.0	-3.9	0.7	1.6	1.1	0.6	0.1
Gross fixed capital formation	8.3	-7.4	11.4	1.9	4.3	7.2	1.3	0.7
Inventories (contribution to growth)	-1.9	-0.7	0.1	0.2	1.9	-1.2	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
Output gap (in percent of potential GDP)	-2.3	-4.1	-3.9	-4.0	-2.6	-2.2	-1.6	-1.2
LABOR MARKET								
Employment (percent change)	-0.6	-1.6	2.7	-0.4	-0.6	0.0	-0.1	0.0
Unemployment rate (percent, period average)	5.2	4.3	2.9	3.0	3.7	3.3	3.2	3.0
Real wages (percent change)	-0.5	-1.4	1.4	1.5	1.7	1.1	0.8	1.1
PRICES								
Inflation (percent change)								
Consumer prices	1.6	1.9	2.1	1.7	1.4	2.1	1.8	2.1
GDP deflator	0.7	1.7	2.9	4.2	1.0	2.7	1.9	2.1
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
Revenue	24.2	22.1	18.4	17.7	18.8	18.1	20.0	20.5
Expenditure	24.2	28.9	24.2	23.6	23.7	23.4	23.3	21.9
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
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
Import value	24.3	-7.2	-5.7	6.0	15.5	12.4	4.4	3.2
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
Gross capital formation (percent of GDP)	16.8	15.2	16.2	16.1	18.3	18.8	19.2	19.7
Gross national savings (percent of GDP)	28.6	25.4	24.6	29.2	30.6	31.4	31.5	31.8
Foreign exchange reserves								
In billions of U.S. dollars (end-of-period)	497	424	426	422	428	468	499	527
In percent of GDP	135	118	112	103	100	104	106	107
Net international investment position (percent of GDP)	574	492	461	490	586	569	558	546
EXCHANGE RATE								
Market rate (HK\$/US\$, period average, derived from monthly average)	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.