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**Statement by Mr. Rojas and Mr. Ramos Murillo on People's Republic of China-Hong Kong Special Administrative Region
(Preliminary)
Executive Board Meeting
May 9, 2014**

Authorities should be commended for their good macroeconomic management, prudent fiscal stance and careful use of macro prudential tools. Therefore we would like to limit ourselves to the following comments:

On the financial sector, Hong Kong SAR banks are among the best run, however, the size of the sector with respect to GDP can be a cause for concern. Thus, we encourage authorities to remain vigilant of this sector *and wonder if there are particular staff recommendations in this regard.*

On the fiscal and real sector, we welcome recommendations from the Group of Long-Term Fiscal Planning to address inequality and fiscal issues arising from the aging of the population. In our view, the latter is, albeit a longer-term problem, an important one that needs to be tackled well in advance. According to UN data, Hong Kong SAR is projected to reach a higher median age than mainland China, Thailand, and Singapore by 2040, reaching a 56.3 level, compared to 45.9, 45.7 and 50.3, respectively.

Therefore, fiscal initiatives to tackle this problem should not be limited to impact expenditures related to health care and social protection but should extend to other counter actions. *Staff views on immigration policies and family incentives to ameliorate this long-term issue would be appreciated.*

On a related matter, housing-prices trends have also been mentioned as a compounding problem for attracting younger populations. Thus, in addition to containing the rise in housing prices and buffering for a possible price fall in the next 2-4 years, tackling the supply is warranted to help provide a longer-term solution to this issue.

On the housing sector, we welcome the use of macroprudential measures such as loan-to-value to contain prices and exposures. Considering the relatively short experience of

economies with the use of such instruments and given that some of the criticism of macroprudential rules is the possibility of circumventing them, *we wonder if further measures are being considered.*

On the external sector, considering a) that deepening ties with the Mainland are broadly expected to grow, b) the Mainland's further liberalization of its capital account and financial sector, and c) the normalization of monetary policy in the United States, *we would like to have staff's view on a gradual incorporation of the RMB as part of the currencies that the Hong Kong Dollar could be pegged to.*

With these remarks we wish authorities all the best in their endeavors.