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**Statement by Mr. de Villeroché, Mr. Rozan, and Ms. Gilliot on People's Republic of  
China - Hong Kong Special Administrative Region  
(Preliminary)  
Executive Board Meeting 19/100  
December 13, 2019**

*We thank staff for their interesting set of documents and Mr. Jin and Ms. Lok for their insightful Buff statement. We concur with the thrust of staff's assessment regarding the soundness of the macroeconomic and prudential policy framework. Uncertainty is however looming over growth baseline projections amid risks of further escalation in trade tensions. The government's proactivity to deal with medium- and long-term challenges including demographics, income inequality and insufficient housing supply is encouraging and should be maintained to increase productivity and inclusiveness. We wish to make some additional remarks for emphasis.*

**Outlook and risks**

**After a sharp contraction in 2019, the economy is expected to recover, even though we note the rising external risks as well as the domestic structural challenges.** The materialization of the external and domestic risks identified in the Risk Assessment Matrix, some of which with a high likelihood, may impair further the optimistic baseline projections for 2020. This is indeed reflected in staff's own calculations of the growth-at-risk. Echoing the current discussion under the *Comprehensive Surveillance Review*, we see here a scope to look deeper into the optimism bias in article IV projections by paying more attention at risks to the baseline using the RAM and the Growth-at-Risk model. Nevertheless, we share staff assessment that thanks to its strong macroeconomic buffers, Hong Kong SAR should be in a strong position to weather these uncertainties and their materialization.

**Fiscal policy**

**An expansionary fiscal policy is warranted to bolster economic recovery and preserve employment while ensuring stronger fairness of the economic model of the SAR.** Greater countercyclical fiscal support is all the more warranted that the country has deep buffers and a very sizable current account surplus. The comfortable level of fiscal reserves allows for higher public spending targeted toward vulnerable households and SMEs. Fiscal buffers should indeed be put to good use to upgrade education and job training, increase investment in R&D but also invest in digital innovation, especially in the banking sector which remains one of the driving engines of the economy. Medium-term fiscal measures are also needed to increase revenues and address structural challenges to come including adverse demographics. Tax relief measures should be aimed at protecting the disposal income of the poorest and most vulnerable in the first instance. Likewise, additional revenues through new taxes, higher excise taxes and increases in top Personal Income Tax bracket should be carefully designed to enhance tax progressivity. Overall, the steps highlighted in the authorities' response are positive and point to their willingness to act decidedly.

We commend the authorities for setting ambitious target to reduce carbon emissions and encourage them to pursue in this direction to **reach the 2030 carbon intensity target** laid out in the government's Climate Action Plan 2030+.

### **Housing market**

**The three-pronged strategy to contain housing market pressures focusing on reducing housing supply-demand imbalances and using tight macroprudential measures and stamp duties seems adequate but more needs to be done to raise housing supply.** We thank staff for the interesting and very useful summary of property market measures and share staff's recommendations aimed at increasing spending on housing infrastructure on the fiscal side and increasing land supply and residential housing production on the supply side. However, given the limited remaining space for housing construction in the long run, a creative and sustainable management of "urban policy" will be important. The Greater Bay Area, as well as other initiatives like the launch of the transport mobile app "HKeMobility" may offer in that sense, an opportunity for Hong Kong to become an innovation hub, a high-level technological research center for AI and Fintech and smart city with full connectivity. **We agree that current macroprudential stance appears appropriate and should be adjusted going forward based on evolving financial stability risks including those related to mortgage lending from non-banks like property developers.** We believe phasing out the New Residential Stamp Duty (NRSD) and replacing it by non-discriminatory macroprudential measures could be contemplated without exacerbating systemic risks stemming from non-resident capital inflows.

### **Financial system**

**Hong Kong’s financial system remains sound, resilient, well supervised and regulated.** We commend the monetary authorities for the strengthening of both regulatory and supervision frameworks including risk management of household bank loans, stock lending by brokers, resolution regime and AML-CFT system. **If financial linkages with Mainland China have been strengthened, action measures to attract oversea investors to issue bonds in Hong Kong have also been implemented.** Though the cross-border initiative “Bond Connect” is firstly aimed at deepening the mutual access between Mainland China and Hong Kong’s capital markets, it has also reinforced the role of Hong Kong SAR as a key financial intermediary between the Mainland and the rest of the world. *How does staff assess the balance between risks and opportunities of this initiative?* In addition, investment opportunities for Mainland and overseas as well as international green finance investors have been developed through the *Pilot Bond grant Scheme* and the *Green Bond Grant Scheme* included in the 2018-2019 Budget. We commend the authorities for their leadership in these issues.

**Digital innovation has become a new and key focus for the financial sector, reflected in the virtual banking licenses recently granted by the HKMA.** We appreciate the interesting box on virtual banking which underscores the willingness of the authorities to support the diversification of the financial industry in a safe environment. In this area, digital services infrastructure robustness will be essential, and we welcome the authorities’ leadership in this regard. **We welcome HKMA’s strategy to spur innovation and set a level playing field for new players through a coordination of standards and practices and a strong supervisory framework.**