

Government welcomes IMF's assessment commending Hong Kong's sound macroeconomic and prudential policies and resilience and stability of its financial system

The Government welcomes the release of a report today (June 9) by the International Monetary Fund (IMF) which reaffirms Hong Kong's position as an international financial centre with a resilient financial system, sound macroeconomic and prudential policies, and robust regulatory and supervisory frameworks.

The IMF's affirmation is carried in the Financial System Stability Assessment (FSSA) Report, published following a comprehensive assessment conducted by the IMF on Hong Kong's financial system under its Financial Sector Assessment Program (FSAP).

The IMF commends in the FSSA Report that Hong Kong's macroeconomic and prudential policies have provided it with important buffers to cope with the current economic slowdown and future shocks. Underpinned by large foreign exchange reserves, Hong Kong's Linked Exchange Rate System (LERS) has continued to support financial stability. Robust regulatory and supervisory policy frameworks are in place to support the development of the financial sector, and the institutional framework for systemic risk monitoring and oversight is well established. Rigorous stress tests performed by the IMF confirm that Hong Kong's financial system remains resilient in extreme stress scenarios.

The FSSA Report acknowledges that Hong Kong is a major international financial centre with one of the largest financial sectors in the world. Hong Kong's banking system holds assets equivalent to around 9.5 times its gross domestic product (GDP), and is a major contributor to the profitability and total assets of several global systemically important banks. The city is a global asset and wealth management centre with assets under management amounting to 10 times its GDP in 2019. It hosts one of the world's largest stock exchanges, with a market capitalisation of US\$6.1 trillion. Its life insurance sector is also amongst the world's largest, and it has the largest foreign exchange swap market in Asia.

The Financial Secretary, Mr Paul Chan, said, "The Government welcomes the IMF's reaffirmation of Hong Kong's position as an international financial centre. The positive appraisal of our financial system is a clear recognition of the Government's long-standing efforts to safeguard financial stability, which is underpinned by sound policies as well as robust institutional frameworks and market infrastructures. We will continue to reinforce our core

strengths, give full play to our unique advantages and identify new areas of growth, with a view to ensuring the long-term competitiveness and prosperity of Hong Kong."

The Secretary for Financial Services and the Treasury, Mr Christopher Hui, said, "We thank the IMF for the fair and balanced assessment on Hong Kong's financial system, which confirms once again the resilience and stability of our system. We will continue to work closely with regulators to maintain our robust and forward-looking financial regulatory regime and upgrade the financial infrastructure, in order to fortify our status as an international financial centre."

The Government also welcomes the IMF's assessment that policy oversight of the financial system is strong and has been modernised. The FSSA Report notes that banking supervision and regulation in Hong Kong continues to be strong, regulation and supervision in the insurance sector has been strengthened following the establishment of the Insurance Authority. The Report recognises the continuing efforts made by the authorities in strengthening and upgrading the financial infrastructure over the years. It also welcomes the authorities' efforts to address the risks of climate change, including implementation of climate-related mandatory financial disclosures by 2025, adoption of the Common Ground Taxonomy, and promotion of climate-focused stress testing for the financial sector.

The Chief Executive of the Hong Kong Monetary Authority, Mr Eddie Yue, said, "I welcome the IMF's steadfast support of the LERS as the bedrock of our monetary and financial stability. It is encouraging to note the IMF's assessment that our banking supervision and regulation remain strong, our macro-prudential measures remain appropriate, and its endorsement of our continued efforts to strengthen the regulatory and supervisory framework, and promote the competitiveness of Hong Kong's financial sector."

The Chief Executive Officer of the Securities and Futures Commission, Mr Ashley Alder, said, "The FSSA Report acknowledges Hong Kong's significant role as a premier listing platform and a global asset and wealth management centre, and I am pleased that the IMF recognises our efforts to strengthen our regulatory and supervisory framework and foster closer co-ordination with our Mainland counterparts. I also welcome the IMF's encouragement of our initiatives to tackle the risks to financial stability posed by climate change."

The Chief Executive Officer of the Insurance Authority, Mr Clement Cheung, said, "Since it commenced independent operation in June 2017, the Insurance Authority has made strenuous efforts to strengthen the supervision of insurance companies and intermediaries in Hong Kong, and I am pleased that our achievements are duly acknowledged by the IMF. Looking forward, we will continue our efforts to implement the group-wide supervision framework and the risk-based capital regime, as well as to enhance cross-sector co-ordination on emerging risks including cybersecurity and climate change."

The FSSA Report notes that the crisis management framework in Hong Kong

have been significantly strengthened by the introduction of a comprehensive resolution regime under the Financial Institutions (Resolution) Ordinance (Cap. 628) in 2017, further safeguarding the stability of the financial system.

The FSSA Report also considers that Hong Kong is well positioned to develop financial technology, leveraging its traditional strengths in financial services. It acknowledges the rapid development of the fintech industry, noting that the authorities play an active role in promoting Hong Kong as a fintech hub in Asia and adopt a proactive approach to promote financial innovation and inclusion. It also notes Hong Kong's solid regime to fight money laundering and terrorist financing.

For enhancement of the already robust financial system, the FSSA Report has tendered a number of recommendations. The Government and the financial regulators will study carefully and take forward the recommendations as appropriate.

The FSAP is a comprehensive and in-depth assessment conducted by the IMF in respect of an economy's financial sector, analysing the resilience of the financial system, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises. Hong Kong is one of 47 jurisdictions with systemically important financial sectors that have been identified for mandatory review under the FSAP.

The IMF Mission visited Hong Kong in September 2019 and conducted a virtual mission in February and March 2021 for discussions with government authorities, financial regulators and market players. The FSSA Report was considered and adopted by the IMF Executive Board on May 21, 2021.

The FSSA Report is available on the respective websites of the Financial Services and the Treasury Bureau (www.fstb.gov.hk) and the IMF (www.imf.org).