

HKSAR Government's response to Fitch's announcement of change to Hong Kong's credit rating and outlook

In response to the announcement by Fitch today (September 6) on downgrading the credit rating of Hong Kong to "AA" from "AA+", and its outlook to "negative" from "stable", the Financial Secretary, Mr Paul Chan, made the following comments:

"We do not agree with the assessment by Fitch on Hong Kong's latest developments, and are disappointed by the downgrading of Hong Kong's credit rating and outlook. Despite the social incidents in Hong Kong over the recent months, we do not agree that this should lead to Fitch's calling into question the effective implementation of the 'one country, two systems' principle in Hong Kong.

"I must point out that, since Hong Kong's return to the Motherland, the Basic Law has provided a strong safeguard to the 'one country, two systems' principle and the continued prosperity of the Hong Kong Special Administrative Region (HKSAR). The HKSAR Government remains committed to upholding the 'one country, two systems' principle and the Basic Law, which are the most important and solid foundation for Hong Kong's sustainable social and economic development.

"The social incidents over the recent months have not affected Hong Kong's core competitiveness, including the free movement of capital, goods, information and people, a simple tax system with low tax rates, a sound regulatory system, rule of law and an independent judiciary, and quality professional services. The HKSAR Government respects people's freedom of speech and rights of peaceful assembly, procession and demonstration, and has always appealed to members of the public that they should express their views in a peaceful and orderly manner with no violence. The Government has also suggested concrete actions and started dialogue with the community with a view to finding a way out for Hong Kong.

"Fitch mentioned that the gradual rise in Hong Kong's economic, financial and socio-political linkages with the Mainland of China implies its continued integration into the Mainland's governance system, which may present greater institutional and regulatory challenges over time. We do not agree with this. Fitch's remarks are purely speculative and groundless. Hong Kong's deeper economic and financial ties with the Mainland of China should not be a rating constraint. On the contrary, this is a positive driver for Hong Kong's long-term development. China continues to be the main engine of global economic growth. Its economic restructuring and de-risking of the financial system are making progress, and its opening up continues to be deepened. There is a broad-based consensus among the business community that the growing economic and financial linkages with the Mainland will bring

significant economic development opportunities for Hong Kong.

"Hong Kong has sound economic fundamentals. Our fiscal performance and our international investment position have long been amongst those of the top-rated economies. Besides, banks in Hong Kong are well cushioned given their strong capital base, sound liquidity management and healthy asset quality. These factors continue to support the high credit rating of Hong Kong.

"Hong Kong's financial markets and banking system have been functioning normally in the past few months. The Linked Exchange Rate System (LERS) has been operating smoothly. There was no noticeable outflow of funds from the Hong Kong dollar or from the banking system. The level of Hong Kong dollar or US dollar deposits in Hong Kong has remained stable. As acknowledged by Fitch, we have the capability to defend the LERS.

"In fact, our strong economic fundamentals and ample financial buffers enable us to navigate through challenges in the face of the current relatively difficult environment, and to ensure macroeconomic and financial stability. Hong Kong has strong fiscal reserves, reaching HK\$1,143.7 billion as at the end of July 2019, equivalent to about 23 months of government expenditure, or 38.3 per cent of our Gross Domestic Product. The ample fiscal reserves enable us to meet the expenditure needs. The Government will remain vigilant in assessing the economic impacts of the internal and external environment, and introduce measures to support Hong Kong's economic development when necessary."