

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

On the announcement by Moody's Investors Service today (December 6) to change the credit outlook of Hong Kong to "negative" from "stable", while affirming the "Aa3" long-term issuer rating, the Government has the following response:

"Moody's affirmed Hong Kong's long-term issuer rating at 'Aa3', the fourth highest rating, given Hong Kong's significant credit strengths, fiscal buffers and large foreign currency reserves which give the city resilience and significant buffer to weather shocks. However, we disagree with its decision to change Hong Kong's credit outlook to 'negative' on the ground of tight linkage of credit profiles with the Mainland, and the potential spillovers from the developments in the Mainland. Hong Kong's deepening and expanding economic and financial ties with the Mainland should not be a rating constraint. On the contrary, these ties are a source of strength for Hong Kong's long-term development."

"As pointed out by the Ministry of Finance, the implication of the real estate market adjustment is manageable and the local Government debt issue have been put under control with positive results. The Mainland is progressing towards high-quality development, and the country is fully capable of deepening reforms on a sustained basis, and weather risks and challenges. Looking ahead, the Mainland economy has immense development resilience and potential, and its long-term bright prospects have remained unchanged."

"Indeed, the Mainland continues to be an important engine of global economic growth. It is firmly on track to grow by at least 5 per cent this year, which will outpace many other economies, and is expected to contribute to more than 30 per cent of global growth according to the International Monetary Fund. The continued high-level two-way opening-up of the Mainland, as well as its pursuit of green transition, digital economy and innovation and technology, will continue to create boundless business and investment opportunities for Hong Kong. Our deepening and expanding economic and financial ties with the Mainland will continue to be a positive driver supporting our long-term economic growth, bringing benefits to the local and international businesses operating in the city."

"Moody's also made unfounded comments on the high-degree of autonomy of the Hong Kong Special Administrative Region, our political and judicial institutions, the implementation of the National Security Law (NSL) and changes to the electoral system. We must point out that the Central Authorities have reiterated their commitment of upholding the 'one country, two systems' in the long run. That means that the core strengths of Hong Kong

as an international financial and trade centre will remain. They include the common law system and the rule of law; a judiciary that continues to make decisions independently without fear or favour; free flow of capital, goods, information, talent; a simple and low tax system; and a friendly business environment that aligns with the best international practices, and much more."

"Contrary to what Moody's has suggested in its assessment, the implementation of the NSL has put an end to the chaotic situation and serious violence, which occurred between June 2019 and early 2020, and restored stability and increased the confidence in Hong Kong, thereby allowing the city to resume its normal operation and return to the path of development swiftly. Some facts are able to demonstrate this: while the number of foreign companies in Hong Kong has remained stable at around 9 000, the amount of deposits in our banking system stood at about US\$2 trillion as at end of November this year – about 10% higher than it was prior to the implementation of the NSL. Hong Kong is also the green and sustainable finance hub in Asia. The green and sustainable debts issued last year amounted to US\$80 billion, up more than 40% than 2021. Private equity capital under management in Hong Kong as of September this year was more than US\$210 billion. That makes Hong Kong rank second in Asia, behind only the Mainland."

"And with improvements made in Hong Kong's electoral system, the principle of 'patriots administering Hong Kong' in the political system has been implemented to ensure that the governance of the HKSAR remains in the hands of patriots, thereby ensuring Hong Kong's stability and development."

"Hong Kong's financial markets and banking system have a strong track record of resilience. The Linked Exchange Rate System (LERS) has been operating smoothly. Banks remain well capitalised with sound liquidity management. Banks' overall asset quality remained sound by international standards."

"The International Monetary Fund (IMF) Staff Report released in May this year reaffirmed once again Hong Kong's status as a major international financial centre with robust institutional frameworks, substantial capital and liquidity buffers, high-quality financial sector regulation, and a well-functioning LERS. It also points out that the HKSAR Government is proactively solidifying Hong Kong's status as an international financial centre, and strengthening impetus for economic growth and competitiveness."

"The strengths of Hong Kong have withstood different tests over time, and will continue to do so in the future."