

# HKSAR Government's response to Moody's announcement of changes to Hong Kong's long-term issuer rating and credit outlook

In response to the announcement by Moody's Investors Service yesterday (January 20) to downgrade Hong Kong's long-term issuer rating to "Aa3" from "Aa2", while changing the credit outlook to "stable" from "negative", a Government spokesman made the following comments:

"We strongly disagree with Moody's assessment of Hong Kong's current situation and are deeply disappointed by Moody's decision to downgrade Hong Kong's credit rating.

"The constitutional and legal status of the Hong Kong Special Administrative Region (HKSAR) is very clear. Article 1 of the Basic Law points out that the HKSAR is an inalienable part of the People's Republic of China (PRC). Article 12 of the Basic Law states that the HKSAR shall be a local administrative region of the PRC which shall enjoy a high degree of autonomy and come directly under the Central People's Government. Article 43 of the Basic Law stipulates that the Chief Executive of the HKSAR shall be accountable to the Central People's Government and the HKSAR in accordance with the provisions of the Basic Law. Since the return to the Motherland, the HKSAR Government has been implementing 'one country, two systems', 'Hong Kong people administering Hong Kong' and a high degree of autonomy in strict accordance with the Basic Law. We do not consider that there is sufficient ground for Moody's to raise any query on them.

"Although Hong Kong has faced the most severe social unrest since its return to the Motherland in the past seven months or so, the HKSAR Government, with the staunch support of the Central Government, has firmly upheld the 'one country, two systems' principle and handled the situation in accordance with the law to curb violence on its own to restore social order as soon as possible.

"Moody's rating falls way out of line with Hong Kong's sound credit fundamentals. Our fiscal performance and external positions have long been amongst those of the top-rated economies and serve as a strong buffer for Hong Kong to withstand shocks. Confidence in the Linked Exchange Rate System has remained strong, as acknowledged by Moody's. The banks are well cushioned given their strong capital base, sound liquidity and healthy asset quality. Capital markets have had a good run in the past year, as initial public offerings and bond financing activities have continued to thrive, and Stock Connect and Bond Connect saw surges in turnover.

"The persistent social unrest reflects that there are deep-seated problems in society in Hong Kong, on which the Government will conduct an

independent review soon. We are also proactively engaging people from different backgrounds, political stances and age groups through dialogue and listening to their views humbly to find a way out for society.

"Actually, quite a number of social issues that Hong Kong is facing, including wealth inequality, an ageing population and high home prices as mentioned by Moody's are not unique to Hong Kong. Hong Kong's institutional strengths and its core competitiveness as an international financial centre, trade hub as well as one of the best places in the world to do business remain well in place. They include the rule of law and an independent judiciary; a robust supervisory regime; free flows of capital, talent, goods and information; a simple and low tax regime; efficient infrastructure; and quality professional services.

"The HKSAR Government has been proactively handling the above-mentioned social issues over the years. On improving people's livelihoods, the current-term Government announced in the Chief Executive's Policy Addresses in 2017, 2018 and 2019 a series of initiatives to help the underprivileged, including various social security schemes with cash allowances and welfare services for people in need. As a result, the recurrent expenditure on social welfare has increased from \$65.3 billion in 2017-18 to \$84.3 billion in 2019-20, representing a 29 per cent rise.

"In the face of an ageing population, the HKSAR Government has been implementing targeted measures to provide better retirement protection. For instance, the Higher Old Age Living Allowance launched in 2018 has become the most popular elderly social security payment, with more than 510 000 elderly persons currently receiving \$3,585 per month. The Chief Executive has recently announced major improvements to the Allowance, which include substantially increasing the standardised asset limit of the above-mentioned payment to \$500,000, benefiting more elderly people.

"On housing prices, maintaining the healthy development of the property market remains one of the policy objectives of the Government. To achieve this objective, the HKSAR Government has all along adopted a two-pronged approach by increasing the housing land supply through short, medium and long-term means under the 'supply-led' strategy to address the demand-supply imbalance at source in the long run, and at the same time implementing appropriate demand-side management measures as and when necessary to minimise various adverse consequences that may arise from an overheated market.

"To intensify the effort to meet the needs of the people for public housing, the Government has increased the ratio of public housing from 60 per cent to 70 per cent in the 10-year Long Term Housing Strategy, introduced a 'starter home' scheme for middle-income families and delinked the sale prices of subsidised flats from market prices to ensure affordability. The Government will continue to strive to avert the current demand-supply imbalance and strengthen the housing ladder, with a view to helping families in different income brackets to gain access to adequate and affordable housing.

"The HKSAR Government will continue to humbly listen to members of the

public and strengthen communications with the citizens, overcome these challenges and help relaunch Hong Kong."