AMRO Country Report
ACR-2026-06

ASEAN +3 MACROECONOMIC RESEARCH OFFICE

AMRO Annual Consultation Report

Hong Kong, China - 2026

ASEAN+3 Macroeconomic Research Office (AMRO)

August 2026

Acknowledgments

1. This Annual Consultation Report on Hong Kong, China has been prepared in accordance with the functions of AMRO to monitor, assess and report on its members' macroeconomic status and financial soundness, to identify relevant risks and vulnerabilities, and to assist them in the timely formulation of policy to mitigate such risks (Article 3 (a) and (b) of the AMRO Agreement).

2. This Report is drafted on the basis of the Annual Consultation of AMRO with Hong Kong, China from May 11-22, 2026 (Article 5 (b) of the AMRO Agreement). The AMRO Mission team was headed by Dr Jae Young Lee, Group Head and Lead Economist. Members include Mr Jungsung Kim, Senior Economist and Desk Economist for Hong Kong, China; Dr Yanchen (Yannson) Wang, Economist and Back-up Economist for Hong Kong, China; Dr Fan Zhai, Senior Economist; Dr Guohua Huang, Senior Economist; and Mr Wee Yang Ng, Research Analyst. AMRO Director/CEO Mr Yasuto Watanabe and Chief Economist Dr Dong He also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on Hong Kong, China for 2026 was peer-reviewed by a group of economists from AMRO's Country Surveillance, Financial Surveillance, Fiscal Surveillance, and Regional Surveillance teams; endorsed by Jiangyan Yu, Deputy Group Head and Senior Economist, Policy and Review Group; and approved by Dr Dong He, AMRO Chief Economist.

3. The analysis in this Report is based on information available up to June 10, 2026.

4. By making any designation of or reference to a particular territory or geographical area, or by using the term "member" or "country" in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.

5. On behalf of AMRO, the Mission team wishes to thank the Hong Kong, China authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

Table of Contents

Acknowledgments **1**
Executive Summary **3**
Context **5**
A. Recent Developments and Outlook **6**
A.1 Real Sector 6
A.2 External Sector 8
A.3 Monetary Conditions and Financial Sector 9
A.4 Fiscal Sector 13
B. Risks, Vulnerabilities, and Challenges **14**
B.1 Near-term Risks and Vulnerabilities 15
B.2 Medium- to Long-term Challenges 17
C. Policy Discussions and Recommendations **18**
C.1 Calibrating Macroeconomic Policies to Maintain Growth Momentum 18
C.2 Broadening New Growth Drivers 20
Box A. Toward an Effective Industrial Policy for Hong Kong's Industrial Upgrading 21
C.3 Adapting Fiscal Policy to Support Economic Transition 24
C.4 Supporting Property Sector Recovery and Containing Associated Risks 26
C.6 Strengthening Hong Kong's Role as a Premier Super Connector 28
Appendices **30**
Appendix 1. Selected Figures for Major Economic Indicators 30
Appendix 2. Selected Economic Indicators for Hong Kong, China 36
Appendix 3. Balance of Payments 37
Appendix 4. Statement of Central/ General Government Operations 38
Appendix 5. Monetary Survey 39
Appendix 6. Data Adequacy for Surveillance 40
Appendix 7. Debt Sustainability Analysis 41
Appendix 8. Climate Clipboard—Risks, Responses, and Opportunities 44
Annexes: Selected Issues **47**
Annex 1. Inside the LERS: Why HKD Stability Can Coexist with Wide Rate Differentials 47
Annex 2. From Gateway to Offshore RMB Hub: Hong Kong's Role as the Global Offshore RMB Business Center 52
Annex 3. Estimating Hong Kong's Potential Growth: Is Hong Kong's Financial Competitiveness Strengthening its Growth Potential? 60
Annex 4. Navigating Further Development: Legal and Healthcare Services in Hong Kong 66

Executive Summary

1. Hong Kong, China's[1] economic recovery has taken hold, with growth reaching 3.6 percent in 2025, supported by buoyant external trade, tourism and financial activities. Amid global trade tensions, Hong Kong's role as a bridge between the Chinese Mainland and the rest of the world has become an important source of resilience. However, the recovery remains uneven: externally oriented and financial sectors have outpaced other services, while residential property has begun to recover but commercial real estate remains subdued. Broadening growth momentum and fostering new growth drivers will therefore be key.

2. Hong Kong's economy is expected to maintain a steady growth trajectory, with projections of 3.4 percent and 3.0 percent growth in 2026 and 2027, respectively. Goods exports are expected to remain resilient, supported by the ongoing global technology upcycle. Government initiatives and the continued normalization of cross-boundary travel will underpin services exports. Domestically, despite a favorable interest rate environment, residents' shifting spending patterns will likely weigh on private consumption growth. Investment is expected to continue recovering, supported by the accelerated implementation of government infrastructure projects and a stronger recovery in the residential property market. A steady growth trajectory alongside low food inflation is expected to keep inflation in check, with headline CPI projected to increase by 2.0 percent in 2026 and 1.6 percent in 2027.

3. While the Middle East conflict poses the most imminent risk, the balance of risks to Hong Kong's economic outlook has improved relative to last year. While the direct impact is likely to be limited by Hong Kong's relatively low energy intensity and reliable energy supplies from the Chinese Mainland, a prolonged energy shock could delay US monetary easing and tighten domestic financial conditions through the LERS, weighing on credit, property activity, investment, and consumption. The indirect impact of Middle East tensions would likely transmit through global financial and monetary conditions, thereby warranting close monitoring.

4. Although unlikely to materialize, a reversal in the technology cycle and slower growth in the Chinese Mainland and other major economies could generate spillovers to the Hong Kong economy. A correction in technology valuations could weigh on the equity market, given Hong Kong's sizable technology listings, while weaker AI-related investment could dampen re-exports of electronics and semiconductors, as well as related logistics and professional services. A slowdown in the Chinese Mainland could further weigh on Hong Kong's growth momentum, given the city's deepened integration with the Chinese Mainland. In the US, the continued implementation of high tariffs and Middle East tensions may contribute to elevated inflation, potentially delaying interest rate cuts and dampening both consumer and investment sentiment.

5. Domestically, a renewed property market downturn, despite its low probability, would pose downside risks to domestic demand. Should residential property prices return to a downward trend, this could weaken household confidence and consumption through negative wealth and balance-sheet effects, while prolonged weakness in commercial real estate could strain investors and developers, tighten access to financing, and increase banks' credit risks. Nevertheless, risks to financial stability remain broadly contained, given limited borrower

[1] Hong Kong, China will be referred to as Hong Kong hereafter.

concentration in banks' commercial property exposures and existing risk-mitigation measures such as higher provisioning buffers and portfolio rebalancing.

6. That said, policy calibration should focus on maintaining macroeconomic stability, preserving policy space, and facilitating structural adjustment. Fiscal policy continues to be supportive and plays an active role, with government expenditure remaining elevated relative to pre-pandemic levels. With global uncertainty still high and expenditure already elevated, fiscal policy should refrain from additional discretionary fiscal stimulus, while remaining prepared to provide temporary and targeted support should downside risks materialize. The authorities could maintain the current supportive macroprudential stance, alongside targeted financial support, to sustain credit conditions and facilitate economic transition.

7. AMRO supports the authorities' proactive fiscal policy stance, which places greater emphasis on public investment and targeted development initiatives aimed at securing new growth drivers. Large-scale commitments to innovation, artificial intelligence, and strategic development platforms—most notably the Northern Metropolis—signal a recalibration of fiscal policy toward supporting medium- to long-term economic transformation. As fiscal policy takes on a more active role, greater attention to policy design, governance, and implementation will become increasingly important.

8. Fostering new growth drivers is essential to ensuring sustainable economic growth. As Hong Kong embarks on longer-term strategic planning, industrial policy should remain disciplined and focused on addressing market failures, while facilitating private sector participation in strategic initiatives. At the same time, greater emphasis should be placed on preserving open and contestable markets. Together, these policies will be essential for broadening Hong Kong's growth base and fostering the development of additional high-value-added service sectors.

9. In the property market, sustaining the recovery momentum in the residential segment while safeguarding financial stability against the risk of a disorderly adjustment in the commercial sector remains important. The continuation of a supportive policy stance will help reinforce market confidence. At the same time, addressing housing needs is equally important. Ensuring adequate housing supply should therefore remain a policy priority. Persistent weakness in commercial real estate warrants continued vigilance, as a disorderly adjustment could amplify financial stability risks through adverse feedback between property valuations, bank balance sheets, and credit conditions.

10. Continued strengthening of financial market infrastructure and policy frameworks will be important for reinforcing Hong Kong's position as a super connector. Hong Kong is well placed to benefit from Asia's ongoing economic integration, which is generating sustained demand for efficient cross-border payment systems and diversified settlement currencies, including the offshore RMB. Deepening offshore RMB markets—through enhanced liquidity management tools, closer offshore–onshore connectivity, and the broader use of RMB in investment, financing, and risk management—would help Hong Kong capture growing demand for cross-border financial services.

Context

Hong Kong's economy has grown briskly throughout 2025 and into 2026, even as the strong headline recovery masked increasingly uneven sectoral performance. *Growth has rebounded, supported by external trade, tourism, and renewed financial market activity, although some domestic-oriented sectors remain relatively weak amid the ongoing commercial real estate market adjustment. These developments suggest that Hong Kong's current trajectory reflects not a conventional cyclical upswing, but a deeper structural transition in its growth model.*

This transition is being driven by a set of mutually reinforcing structural forces that are reshaping the economy in fundamental ways. *As a mature high-income economy, Hong Kong is facing rising social expectations alongside increasing demand for public services and inclusiveness. At the same time, rapid population aging is weighing on potential growth. These domestic dynamics are interacting with deeper integration with the Chinese Mainland economy and a more fragmented global environment, which together are redefining Hong Kong's role as a global financial and trade hub.*

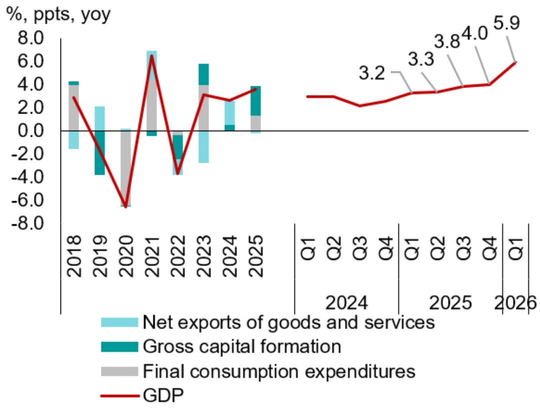
Against this backdrop, the key policy challenge is to broaden growth while managing the transition toward new drivers in a balanced and sustainable manner. *While financial intermediation—particularly linked to Chinese Mainland-related activities—remains a central pillar, its ability to generate broad-based employment and income growth is uncertain. This underscores the importance of facilitating structural adaptation across sectors, including through strengthening human capital, promoting domestic competition, and ensuring that regulatory frameworks remain supportive of innovation and evolving business models. At the same time, evolving fiscal policy debates point to a possible shift toward a more proactive and facilitative role for the government in supporting long-term development. The effectiveness of this transition will depend on how well Hong Kong can leverage its deepening Chinese Mainland integration and preserve its international competitiveness and institutional strengths, while managing associated risks.*

A. Recent Developments and Outlook

A.1 Real Sector

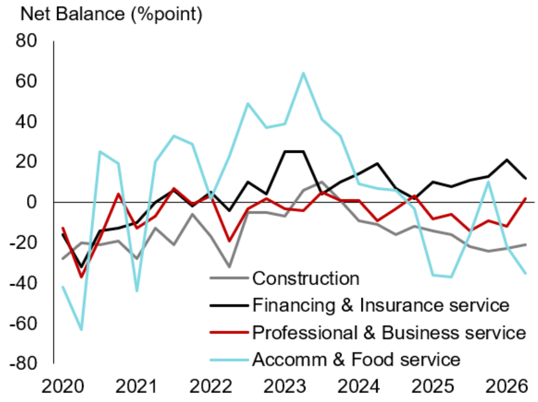
1. Hong Kong's economy picked up speed and exceeded expectations in 2025, supported by strong external demand and improved activity in tourism and financial services. The economy expanded by 3.6 percent year-on-year (yoy) in 2025, up from 2.6 percent (yoy) in 2024, despite concerns that US-led tariff increases would weigh on global trade. Robust external demand amid an upswing in the global technology cycle contributed to a steady increase in goods exports. Services exports also expanded strongly, reflecting increased inbound tourism and improved activity in financial services. On the domestic side, private consumption recovered modestly, despite continued spending leakage to neighboring jurisdictions[1], supported by low interest rates and a rebound in the stock market. Investment growth picked up to 4.8 percent (yoy) in 2025, from 1.9 percent in 2024, underpinned by ongoing infrastructure investment and sustained economic expansion. Despite the conflict in the Middle East, Hong Kong's GDP grew by 5.9 percent in the first quarter 2026, supported by private consumption, sustained investment activity, and strong export performance (Figure 1). The output gap is estimated to have turned positive in 2025, consistent with the strong growth recovery.[2]

Figure 1. GDP Growth by Expenditure (Percentage Point Contribution)



Source: Census & Statistics Department (C&SD); Haver Analytics

Figure 2. Business Sentiment of Large Enterprises

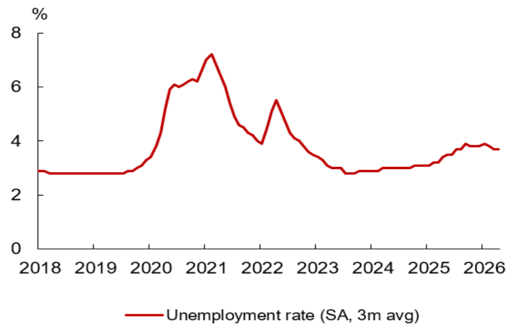


Source: C&SD; Haver Analytics

2. That said, the economic recovery remains uneven across sectors, reflecting ongoing structural shifts in the economy. The recovery in the services sector has been concentrated in externally oriented and financial segments, while other service sectors remained subdued. Among high value-added services, finance and insurance have rebounded strongly, while professional services and information and communication activities remained relatively modest.[3] This uneven recovery reflects that, amid heightened global economic uncertainty, the economy's structural transition into a renewed role as a connector between the Chinese Mainland and the rest of the world has come into sharper focus. Furthermore, increased spending by Hong Kong residents in nearby Chinese Mainland cities has intensified competitive pressures on domestic trade, posing a structural drag on their recovery. Business sentiment in Hong Kong also shows clear sectoral divergence. While sentiment in the financing and insurance sectors has improved rapidly, that in construction and professional services remains subdued (Figure 2).

3. The labor market has continued to improve, but conditions remained uneven across sectors, reflecting the uneven nature of the recovery. The seasonally adjusted unemployment rate declined from its recent peak of 5.5 percent in February-April 2022 to 3.7 percent in February-April 2026 (Figure 3). Wages continued to grow at a relatively strong pace, averaging 3.7 percent (yoy) in 2024 and 3.4 percent in 2025. However, the employment situation has diverged across sectors over the past two years. Employment increased in human health and social work activities as well as in the financing and insurance sector, while it contracted in construction, retail, accommodation and food services, and import/export trade and wholesale sectors. In sectors that saw decline in employment, unemployment rates tend to be relatively higher.[4] In contrast, the financing and insurance sector exhibits a low unemployment rate (Figure 4). These uneven labor market conditions underscore the need for labor relocation toward expanding services and innovation-driven sectors.

Figure 3. Overall Unemployment Rate



Source: C&SD; Haver Analytics

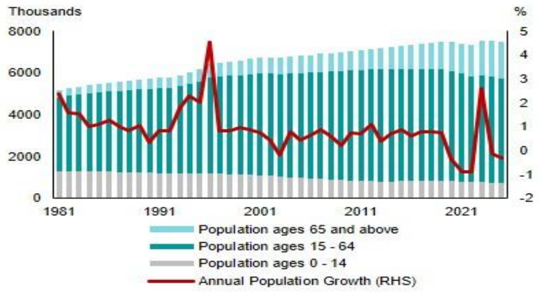
Figure 4. Unemployment Rate (moving three-month periods) by Sector

Source: C&SD; Haver Analytics

4. The pressures of population aging have increasingly come to the fore. As Hong Kong has already entered a super-aged society (Figure 5), its labor force has been on a structural declining trend. Labor force growth slowed from an average of 1.1 percent during 2010–2015 to 0.1 percent during 2016–2020, and further to -0.6 percent during 2021–2025. This downward trend is expected to persist through 2030. In this context, labor market tightness in Hong Kong reflects not only cyclical factors but also underlying demographic pressures from population aging. At the same time, rapid aging is expected to increase demand for healthcare and social spending, particularly among lower-income elderly groups. Moreover, rising demand for well-being and high-quality healthcare amid population aging suggests significant potential for the expansion of the silver economy.[5] To address these challenges, the Hong Kong government has established the Working Group on Promoting Silver Economy and is advancing initiatives to promote the silver economy across five major areas.[6] In addition, the government has continued to enhance its talent admission schemes to alleviate labor shortages in targeted professions and priority industries.

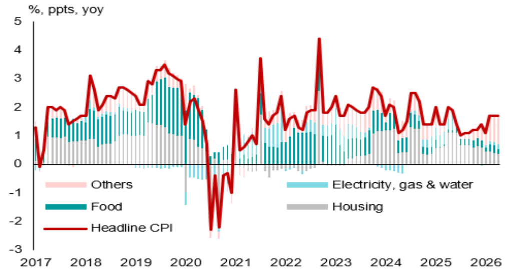
5. Inflation remained moderate despite the ongoing economic recovery. Headline consumer price inflation (CPI) was stable at 1.4 percent (yoy) in 2025, easing from 1.7 percent in 2024. The housing component, which accounts for around 40 percent of the CPI basket, increased by 1.9 percent in 2025, exerting some upward pressure on inflation. However, moderation in food price inflation and declines in durable goods prices helped contain overall price pressures. Durable goods prices fell by 2.2 percent in 2025. In addition, low food price inflation in Chinese Mainland contributed to keeping inflation in check. In early 2026, CPI rose by an average of 1.6 percent over the first four months, primarily driven by increases in the miscellaneous services, housing, and transport components (Figure 6).

Figure 5. Share of Population Aged 65 and over



Source: C&SD; World Bank; AMRO staff calculations

Figure 6. Contribution to Headline Inflation



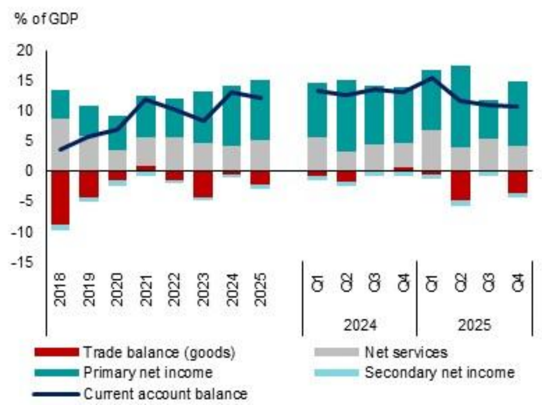
Source: C&SD; Haver Analytics; AMRO staff calculations

6. **Looking ahead, Hong Kong's economy is expected to maintain a steady growth trajectory.** Goods exports are expected to remain resilient, supported by the ongoing global technology upcycle. Government initiatives and the continued normalization of cross-boundary travel will underpin services exports. Domestically, despite a favorable interest rate environment, changes in residents' spending patterns would weigh on private consumption while it continues to expand. Investment is expected to continue recovering, supported by the accelerated implementation of government infrastructure projects and a stronger recovery in the residential property market. As a result, GDP growth is projected to remain above potential, reaching 3.4 percent in 2026 before moderating to 3.0 percent in 2027. In line with the projected growth trajectory, inflation is expected to rise to 2.0 percent in 2026 before easing to 1.6 percent in 2027.

A.2 External Sector

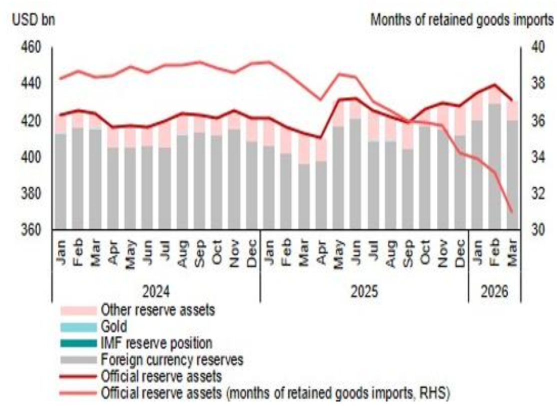
7. **Hong Kong's current account position remained well supported by a resilient services surplus and investment income.** Amid a partial easing of trade tensions and the continued AI-driven upcycle in trade, Hong Kong's merchandise exports and imports increased strongly by 36.2 percent and 39.6 percent (yoy), respectively, in the first five months of 2026, following robust growth of 15.4 percent and 15.5 percent, respectively, in 2025. Although the goods trade deficit widened to 2.2 percent of GDP in 2025, Hong Kong maintained a sizable current account surplus of 12.2 percent of GDP in 2025, supported by a strong services surplus and investment income (Figure 7). The number of visitor arrivals increased by 12.1 percent to 49.9 million, while the business receipts index for tourism, convention and exhibition services rose by 7.2 percent in 2025 and 8.2 percent (yoy) in Q1 2026, partly contributing to the improvement of services trade surplus.

Figure 7. Current Account Balance



Source: C&SD; Haver Analytics; AMRO staff calculations

Figure 8. Foreign Reserves



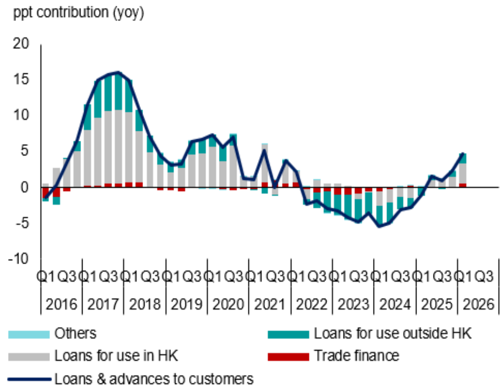
Source: HKMA; Haver Analytics

8. **A shift toward overseas deposits has contributed to a larger capital and financial account deficit.** The deficit in the financial non-reserve account widened slightly to 18.7 percent of GDP in 2025. While portfolio investment outflows slowed significantly from 38.9 percent of GDP in 2024 to 14.6 percent of GDP in 2025, "other investment" shifted from a net inflow of 7.8 percent of GDP in 2024 to a net outflow of 10.4 percent in 2025, driven mainly by a large build-up in currency and deposits abroad. This may reflect residents' portfolio relocation away from duration-bearing instruments toward deposits amid an uncertain US dollar rate environment. Despite the overall balance of payments deficit, Hong Kong's foreign reserves increased from USD421.5 billion at the beginning of 2025 to USD442.1 billion in April 2026, equivalent to 31 months of retained goods imports**,** reflecting positive valuation effects (Figure 8). Overall, Hong Kong's external position remained strong, underpinned by a sizable current account surplus and substantial foreign reserves.

A.3 Monetary Conditions and Financial Sector

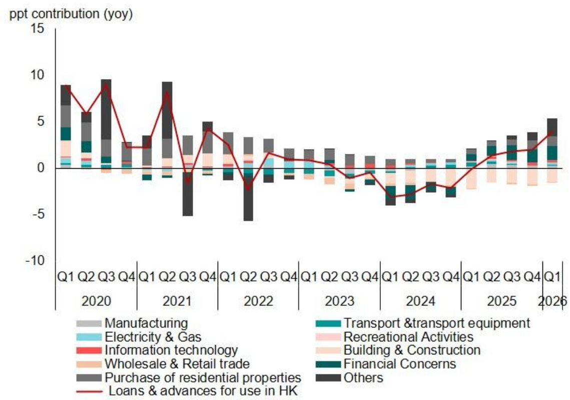
9. **Credit growth has reversed its downward trend, supported primarily by a recovery in domestic lending amid improving property market conditions and stronger financial activity.** Credit for use outside Hong Kong showed an uneven recovery, turning positive in Q2 and Q4 2025 despite intermittent declines (Figure 9), supported by a pickup in external lending demand, including from companies in the Middle East, the Chinese Mainland and Europe. Meanwhile, loans for use in Hong Kong ended a prolonged contraction that began in Q3 2023, returning to consistently positive growth from Q2 2025 onward (Figure 10). Property-related lending, including residential mortgage loans and credit to the "building and construction, property development and investment" sector, continues to account for nearly one-half of total credit for use in Hong Kong. Amid improving conditions in the residential property segment, the pace of decline in property-related lending has moderated, falling by 0.8 percent (yoy) in Q1 2026, suggesting nascent signs of stabilization. However, year-on-year growth in credit to the "building and construction, property development and investment" sector continued to contract, remaining negative for 12 consecutive quarters since Q2 2023 and the weakest among all sectors. Meanwhile, loans to non-bank financial institutions (NBFIs) recorded a fifth consecutive quarter of growth since Q1 2025, reflecting stronger lending demand amid more robust financial market activity.

Figure 9. Contributions to the Growth of Loans and Advances to Customers



Source: HKMA; AMRO staff calculations

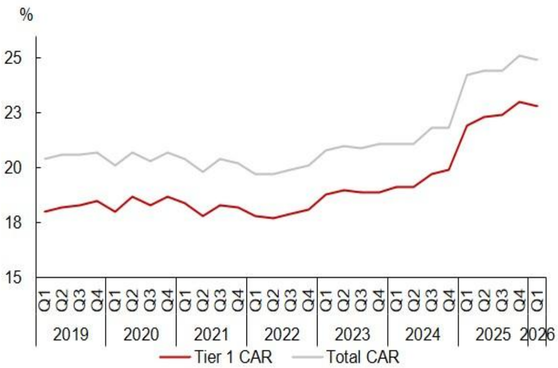
Figure 10. Loans for Use in Hong Kong



Source: HKMA; AMRO staff calculations

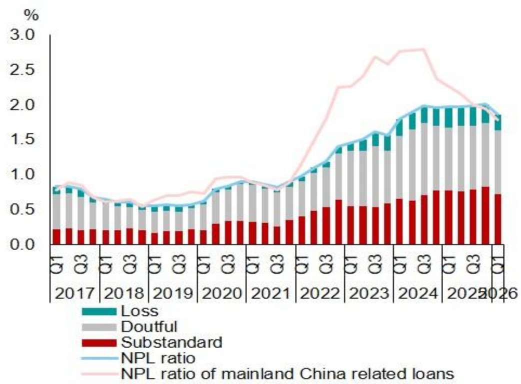
10. **Hong Kong's banking sector remains sound, underpinned by strong capital and liquidity buffers, as well as robust risk management**. In Q1 2026, the Tier 1 Capital Adequacy Ratio (CAR) and Total CAR stood at 22.8 percent and 24.9 percent, respectively, well above regulatory minimums, while liquidity conditions remained ample (Figure 11). Bank profitability also improved moderately in 2025. Notwithstanding these strengths, asset quality continues to warrant close monitoring. The non-performing loan (NPL) ratio has increased gradually since Q3 2021, standing at 1.87 percent in Q1 2026, with special mention loans at 2.20 percent (Figure 12). The increase in special mention loans has been mainly driven by exposures to the commercial real estate sector. In particular, some smaller banks may face more pronounced deterioration in asset quality due to concentrated exposures to commercial real estate markets. Meanwhile, the asset quality of Chinese Mainland-related lending improved, with the average NPL ratio declining from 2.7 percent in 2024 to 2.1 percent in 2025. Banks continue to maintain substantial provisioning buffers and have proactively managed credit risks through provisioning, write-offs, and portfolio rebalancing, particularly for commercial real estate and Chinese Mainland-related exposures. As a result, systemic risks in the banking sector remain contained, underpinned by strong balance sheets and adequate provisions to absorb potential losses.

Figure 11. Capital Adequacy Ratios



Source: HKMA

Figure 12. Non-Performing Loans in the Banking Sector

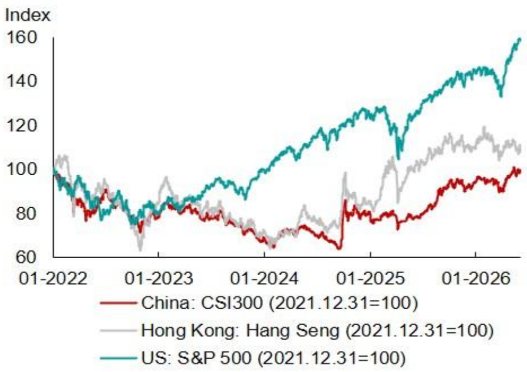


Source: HKMA; CEIC; AMRO staff calculations

11. **Hong Kong's financial markets recovered strongly in 2025 and remained active in early 2026.** The equity market recovered strongly in 2025, with the Hang Seng Index (HSI) rising by 27.8 percent—its best annual performance since 2017 (Figure 13). Chinese Mainland's policy stimulus, a buoyant IPO market, and sustained Southbound Stock Connect

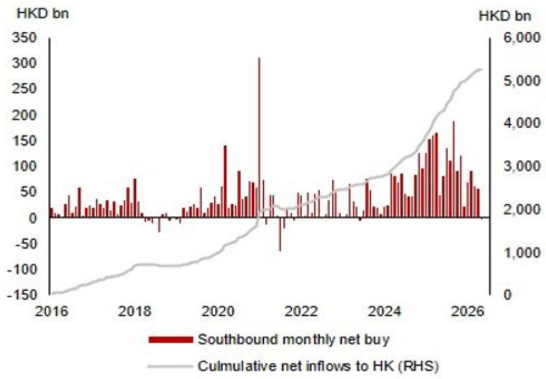
inflows helped support the rally (Figure 14).[7] The recovery extended into early 2026, with the HSI briefly exceeding 28,000 in late January, driven in part by strong sentiment around AI-related IPOs. However, some gains were reversed by end-March, with the index declining 12 percent from its January peak, amid renewed external headwinds, including escalating Middle East tensions and continued uncertainty over US tariff policy. In the bond market, lower HIBOR contributed to record HKD bond issuance in 2025 of HK$1629 billion (excluding Exchange Fund Bills and Notes), 59 percent higher than in 2024. Bond issuance remained solid in the first quarter of 2026. The fixed income and currency (FIC) market development blueprint issued in September 2025 by the Hong Kong Monetary Authority (HKMA) and Securities and Futures Commission (SFC) should help deepen the FIC market and reinforce Hong Kong's position as a regional multi-currency bond hub.

Figure 13. Stock Market Indices



Source: Shanghai Stock Exchange; Hang Seng Indexes Company; Standard & Poor's

Figure 14. Southbound Stock Connect Inflows



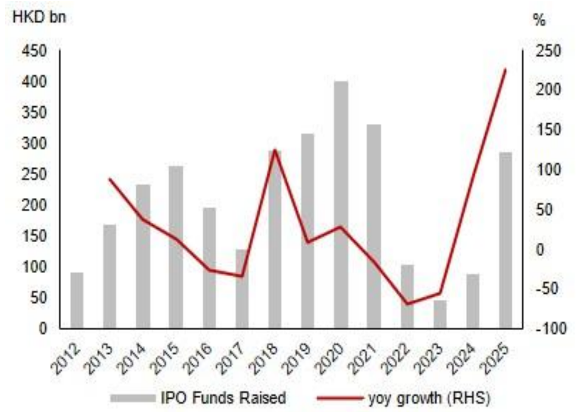
Source: HK Exchange; CEIC; AMRO staff calculations

12. **The Chinese Mainland has been a key driver of the recent buoyancy in Hong Kong's capital market, reinforcing the city's role as the leading offshore fundraising platform for Chinese Mainland firms.** Supported by a surge in A+H dual listings, IPO fundraising increased by 226.1 percent to HK$286.9 billion in 2025, making Hong Kong the largest global IPO market by funds raised (Figure 15). The momentum continued into early 2026, with several new-generation technology firms recording strong debuts. The broader presence of Chinese Mainland technology firms has supported market valuations, trading turnover, and investor sentiment. Southbound Stock Connect inflows provided further support, exceeding HK$1.4 trillion in 2025. In the fixed-income market, offshore RMB bond issuance in Hong Kong grew sharply, with some major Chinese Mainland technology firms raising CNH funding for AI- and cloud-related investments. Dim sum bond issuance reached RMB 1.1 trillion in 2025, lifting the outstanding stock of CNH debt securities in Hong Kong to over RMB 1.6 trillion. Recent measures, including the expansion of the Southbound Bond Connect investor base and the launch of the offshore RMB and cross-boundary repo business, have further deepened CNH liquidity and strengthened Hong Kong's role as a hub for RMB-denominated fundraising and intermediation.

13. **The Linked Exchange Rate System (LERS) continues to function smoothly, anchoring Hong Kong's monetary and financial stability amid volatile capital flows.** Following heightened fund flow volatility in mid-2025, when the strong-side and weak-side Convertibility Undertakings (CUs) were triggered in quick succession, market conditions have since normalized (Figure 16). As a result of the triggering of the CUs, the Aggregate Balance of the banking system increased from HK$44.7 billion at the end of April to HK$174.1 billion on 8 May and then declined to HK$54.1 billion at the end of August. With no further triggering

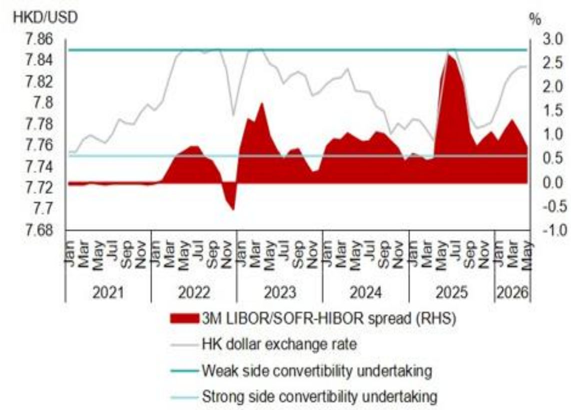
of the CUs, the Aggregate Balance has remained stable since September 2025. Following three US Fed rate cuts totaling 75 basis points between September and December 2025, HIBOR generally declined in Q4 2025 and continued to ease into 2026, amid weak equity-related funding demand. As a result, the negative HKD-USD interest rate differential widened, placing the HKD under some weakening pressure in Q1 2026, after trading in a narrow range of 7.77–7.79 against the US dollar in Q4 2025. As discussed in Selected Issue 1, the LERS has continued to function effectively, with exchange rate movements driven primarily by interest rate differentials between domestic and US markets.

Figure 15. IPO Fundraising in Hong Kong



Source: HK Exchange; CEIC; AMRO staff calculations

Figure 16. Hong Kong Dollar Exchange Rate

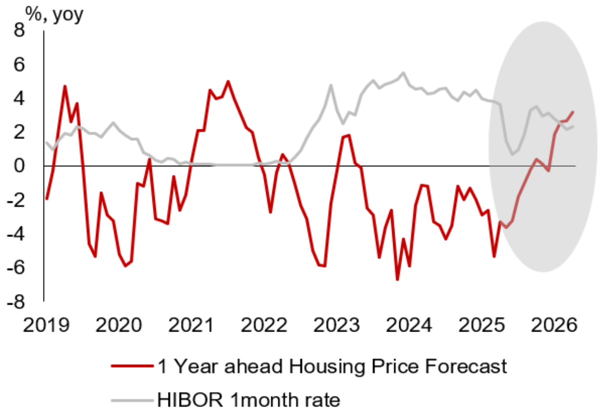


Source: HKMA; Chicago Mercantile Exchange; AMRO staff calculations

14. Policy developments in 2025 marked a further strengthening of Hong Kong's role as an offshore RMB business center. The HKMA introduced the RMB Trade Financing Liquidity Facility in early 2025 to provide medium-term funding support, which was subsequently transformed into the more flexible RMB Business Facility (RBF) in October 2025. The scope of the facility was further expanded toward end-2025, its size was doubled to RMB 200 billion in early 2026, and the facility was further enhanced in July 2026 by increasing its size to RMB 500 billion and extending available funding tenors to up to three years, representing a significant strengthening of the offshore RMB liquidity backstop. In addition, the HKMA introduced a series of measures to deepen the offshore RMB market, including enhancements to Southbound Bond Connect and the launch of offshore RMB and cross-boundary repo businesses, further improving market liquidity, broadening market participation, and enriching the offshore RMB ecosystem. These policy initiatives were introduced amid rising demand for RMB-denominated financing, [8] thereby supporting broader RMB intermediation and reinforcing Hong Kong's role as the leading offshore RMB business hub. Selected Issue 2 provides a detailed discussion of Hong Kong's role as the global offshore RMB business hub.

15. A divergence has emerged in the property market, with residential prices recovering but commercial real estate remaining subdued. Residential property prices have reversed the decline that began in late 2021 and have increased since the first half of 2025, supported by demand-side easing measures, [9] lower interest rates, and improved market sentiment (Figure 17). Housing transaction volumes also increased in 2025 and the first half of 2026. Meanwhile, commercial real estate has remained subdued, amid ample new office supply and structural shifts in demand, including remote work adoption and consumption leakage to nearby Chinese Mainland cities (Figure 18). Despite multiple headwinds, including falling rents and prolonged weakness in some retail segments, the office segment has shown signs of stabilization. Core office rents have shown signs of recovery and vacancy rates have declined, partly supported by improved financial market sentiment and related business activity. The retail segment has become increasingly bifurcated between small-sized shops and high-end retailers. Small-sized shops continue to struggle, as shifting consumption patterns among residents weigh on demand, particularly for street-level shops and supermarkets. By contrast, luxury retailers have recovered somewhat, supported by stronger demand for jewelry products among Chinese Mainland customers.

Figure 17. Interest Rates and Property Market Sentiment



Source: RICS-Spacious Hong Kong Residential Market Survey; Haver Analytics

Figure 18. Residential and Commercial Real Estate Prices

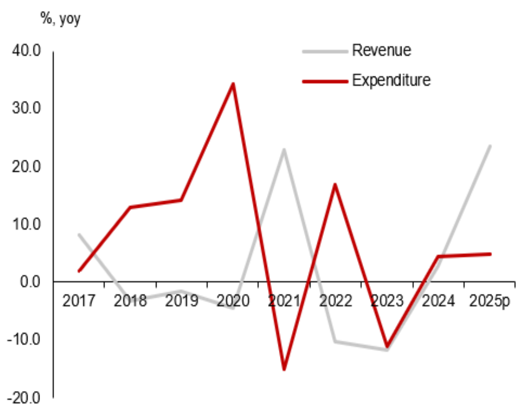
Source: Rating and Valuation Department; AMRO staff calculations
Note: The break in the line indicates that data is not available.

A.4 Fiscal Sector

16. After three consecutive years of fiscal deficits, fiscal conditions improved markedly in FY2025, supported by the economic recovery and buoyant asset markets. Fiscal revenue increased by 23.5 percent in FY2025, mainly driven by higher profits tax from improved corporate earnings, a sharp rebound in stamp duty receipts contributed by a strong stock market, and transfers from funds outside the Government's accounts. Expenditure growth remained moderate at 4.9 percent, despite a notable increase in capital expenditure related to the Northern Metropolis and other development projects (Figure 19). As a result, the fiscal deficit (before issuance and repayment of bonds) narrowed to around 2.8 percent of GDP in FY2025, from 5.8 percent of GDP in FY2024, and the consolidated position returned to balance earlier than expected (Figure 20). Building on this improvement, the authorities have adopted a measured approach toward fiscal consolidation, while continuing to support economic momentum and facilitate structural transformation.

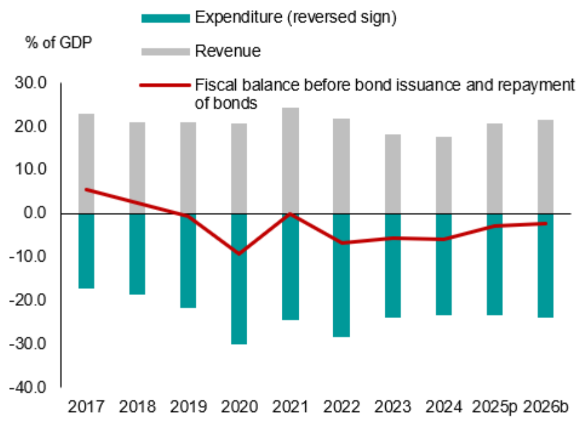
17. The fiscal deficit (before issuance and repayment of bonds) is projected to narrow further in FY2026. The fiscal revenue is budgeted to increase to 21.9 percent of GDP in FY2026, supported by continued economic expansion and transfers from funds outside the Government's accounts, the investment income of the Exchange Fund and the accumulated surplus of the Bond Fund. Fiscal expenditure is budgeted to rise to 24.2 percent of GDP, reflecting higher operating expenditure to support government priority initiatives (including innovation and technology development, tourism, and other key sectors) and continued growth in capital expenditure (including continued investments in the Northern Metropolis, the Hong Kong Park of the Hetao Shenzhen-Hong Kong Science and Technology Innovation Co-operation Zone, and the San Tin Technopole).[10] As a result, the overall fiscal deficit (before issuance and repayment of bonds) is budgeted to decline to about 2.2 percent of GDP in FY2026, implying further reduction relative to FY2025 (Figure 20).

Figure 19. Revenue and Expenditure Growth



Source: Financial Services and the Treasury Bureau, CEIC
Note: Figures are presented on a fiscal year basis.

Figure 20. Fiscal Balance

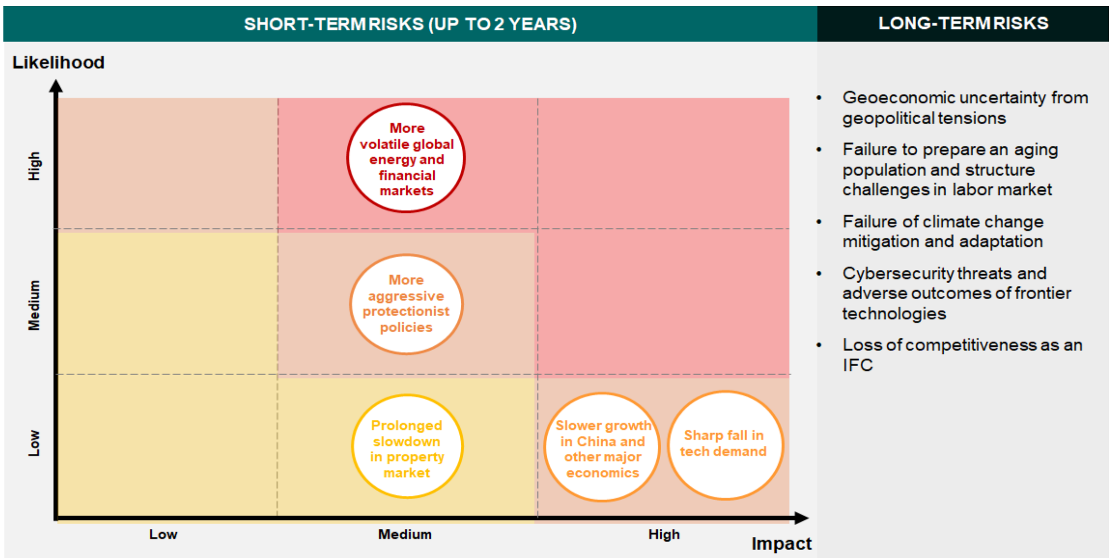


Source: Financial Services and the Treasury Bureau, AMRO estimates
Note: Figures are presented on a fiscal year basis.

B. Risks, Vulnerabilities, and Challenges

18. The balance of risks to Hong Kong's outlook has improved relative to last year. Near-term risks include volatility in global energy and financial markets, especially if an energy shock triggers global stagflation, or a significant slowdown in the Chinese Mainland and other major economies. Another high-impact but relatively low-probability risk is a reversal in the technology cycle, which would dampen external demand for Hong Kong's AI-related exports. A further key external risk is a resurgence in protectionism by the US administration, but Hong Kong's direct trade exposure to the US seems to be contained. Domestically, a renewed property market downturn, despite its low probability, could weigh on growth, while structural challenges—notably population aging and geopolitical uncertainty—may continue to drag on medium- to long-term prospects (Figure 21).

Figure 21. Risk Map for Hong Kong



Source: AMRO staff
Note: The Country Downside Risk Map captures the risks and challenges that could derail the country's macro-stability. These are in relation to: (1) growth and inflation outlook, (2) financial stability concerns, and (3) other key long-term challenges. The risks and challenges are divided into two categories; (1) short-term risks (these are conjunctural risks, up to two years, where the risks represent scenarios that could materially alter the baseline path), and (2) long-term risks (these are more persistent or secular trends and/or challenges, including perennial risks).

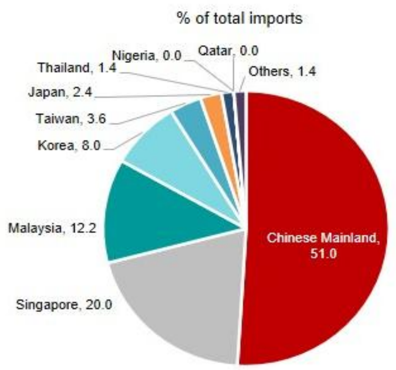
B.1 Near-term Risks and Vulnerabilities

19. Geopolitical tensions in the Middle East could affect Hong Kong's growth and inflation, although the direct impact is likely to be limited. The main direct channels would be higher energy prices and potential supply disruptions. Rising energy prices could raise import costs and exert upward pressure on inflation, while supply disruptions could weaken trade activity and place downward pressure on growth. However, the direct impact on Hong Kong may be relatively contained, given its low energy intensity, reliance on stable energy supplies from the Chinese Mainland, and the partial mitigation of price pass-through by government subsidies (Figure 22).

20. The indirect impact of Middle East tensions would likely transmit through global financial and monetary conditions, thereby warranting close monitoring. Energy price shocks could sustain global inflationary pressures and delay monetary easing, particularly in the US (Figure 23). A prolonged period of elevated US policy rates could tighten Hong Kong's domestic financial conditions through the exchange rate peg under the LERS. This could dampen credit demand, weigh on property market activity, and restrain domestic investment and consumption. Unlike broader external shocks, this channel would operate primarily through interest rate transmission and domestic liquidity conditions. Although the risks are not expected to intensify markedly, a persistently tight monetary environment could amplify cyclical headwinds and interact with sector-specific vulnerabilities, thereby warranting continued monitoring during the ongoing economic transition.

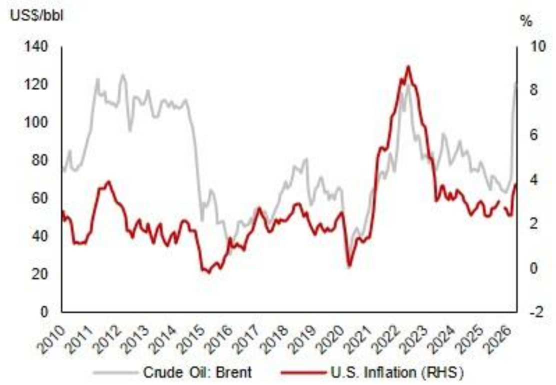
- In an adverse scenario in which the Middle East conflict escalates further, damaging Gulf energy infrastructure, disrupting oil and gas production, and leading to a prolonged closure of the Strait of Hormuz that keeps oil prices above USD 100 per barrel through end-2026, Hong Kong's real GDP growth could moderate to 3.0 percent in 2026, 0.4 percentage point below the baseline, while inflation could increase to 2.5 percent, 0.5 percentage point above the baseline.[11]

Figure 22. Hong Kong's Imports of Oil Products by Supplier, 2025



Source: C&SD; AMRO staff calculations
Note: Oil products refer to aviation fuel, auto fuels, gas oil, diesel oil, naphtha and fuel oil.

Figure 23. Energy Prices and US Inflation

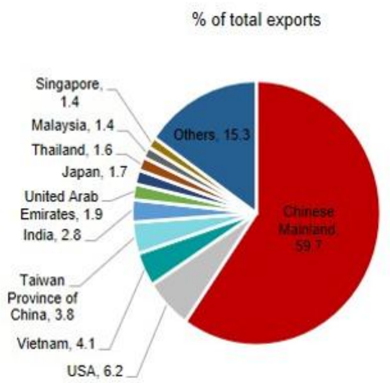


Source: World Bank; Haver Analytics; AMRO staff calculations
Note: There is a break in US inflation data in Oct 2025 due to the US government shutdown.

21. As a small, highly open economy with deep trade linkages, Hong Kong remains vulnerable to a more aggressive protectionist policy. If trade tensions between the US and China escalate into higher levels of retaliatory tariffs than last year, global trade could be significantly weakened. Heightened geoeconomic fragmentation, through trade and investment restrictions and shifting supply chains, could weaken business sentiment and complicate Hong Kong's structural repositioning as an international financial and commercial hub. Moreover, a re-escalation of trade tensions could affect Hong Kong's logistics, shipping, and other trade-related services.

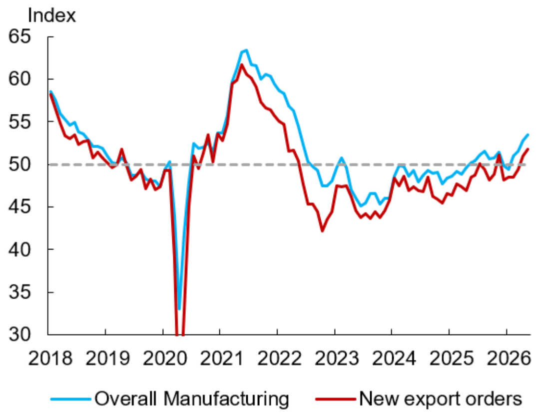
22. **Although the probability is low, slower growth in the Chinese Mainland, the US, and Europe could generate substantial spillovers to the Hong Kong economy.** A slowdown in the Chinese Mainland economy—arising not only from a re-escalation of trade tensions but also from domestic headwinds such as a weak property market and subdued consumption—could further weigh on Hong Kong's growth momentum, given the city's deepened integration with the Chinese Mainland (Figure 24). In the US, the continued implementation of high tariffs and the Middle East tensions may contribute to elevated inflation, potentially delaying interest rate cuts and dampening both consumer and investment sentiment. Meanwhile, in Europe, the recovery could be undermined by renewed trade tensions or heightened geopolitical risks in the Middle East. Notably, the euro area's manufacturing PMI has hovered at around the 50 threshold in recent years, pointing to a fragile recovery (Figure 25).

Figure 24. Share of Hong Kong's Exports by Country, 2025



Source: C&SD; AMRO staff calculations

Figure 25. Euro Area Manufacturing PMI



Source: JP Morgan/S&P Global; Haver Analytics

23. **Despite its low probability, a renewed property market downturn could weigh on household confidence, credit growth, and fiscal revenues.**

- On the housing side, a decline in residential property prices could dampen consumption through negative wealth effects. For households with significant housing-collateralized borrowing, balance sheet pressures could weigh further on sentiment and spending.

- Persistent declines in office and retail property prices could continue to strain the financial positions of property investors. Banks with high exposure to the commercial real estate sector could face elevated credit risks, compressed profit margins, and potential asset quality deterioration, thereby reducing lending capacity and risk appetite. Moreover, weaker conditions in the property market could weigh on developers' financial positions, constraining access to external financing and reinforcing downside risks to credit growth. Nevertheless, overall risks to the banking sector from commercial property-related lending remain contained, as exposures are not concentrated at the individual borrower level and banks have implemented risk-mitigating measures such as higher provisioning buffers and portfolio rebalancing.

24. **A reversal in the technology cycle, particularly in the current AI-driven upswing, represents a downside risk for Hong Kong through both financial and trade channels.** On the financial side, a repricing of AI-related earnings expectations and broader technology valuations could affect Hong Kong's equity market, given the significant presence of technology listings on HKEX. On the trade side, Hong Kong's re-export activity is closely linked to the global electronics and semiconductor supply chain. A slowdown in AI-related capital expenditure would weigh on trade flows and related logistics and professional services. The two channels could also reinforce each other through feedback effects: a correction in technology valuations could tighten firms' financing conditions and weigh on capital expenditure, thereby reducing investment and trade demand; conversely, weaker trade demand would erode the sales and profitability of listed technology firms exposed to the global AI supply chain, feeding back into equity market valuations. With these channels interacting, the effects on economic activity, asset markets, and fiscal revenues could become mutually compounded.

Authorities' Views

While a reversal in the technology cycle, particularly in the current AI-driven upswing, could pose risks to Hong Kong through financial and trade channels, the city's role as an international financial centre and a key trading platform in the global technology supply chain also provides resilience and longer-term opportunities. On the financial side, changes in AI-related earnings expectations and technology valuations could affect market sentiment given the significant presence of technology listings on HKEX. On the trade side, while a moderation in global AI-related capital expenditure may soften demand for certain electronics and semiconductor-related trade flows, Hong Kong is well positioned to benefit from the continued digitalization of the global economy, supported by its strengths in re-export trade, logistics, financing and professional services linked to innovation and technology industries. The two channels may interact through financing, investment and trade linkages; however, Hong Kong's deep capital markets and strategic role in connecting the Chinese Mainland with global markets should help cushion volatility and enable the city to capture new opportunities arising from the broader adoption of AI and advanced technologies.

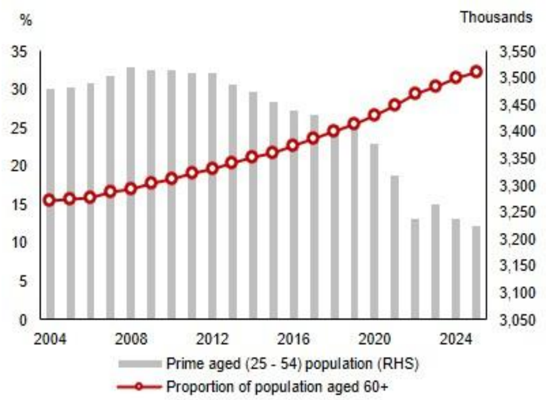
B.2 Medium- to Long-term Challenges

25. **Over the longer term, rising geoeconomic uncertainty poses a key risk.** In particular, as the US and China increasingly deploy trade, technology, and financial policies to advance strategic objectives, Hong Kong, at the nexus of China and global capital markets, faces a more fragmented operating environment. A deterioration of the stability of the US-China relations could generate adverse spillovers for Hong Kong's economy. Tightening US restrictions on technology transfer and outbound investment could weaken cross-border intermediation activities that have long underpinned Hong Kong's gateway role. More broadly, fragmentation in trade, technology, and financial systems could erode the network effects and institutional trust supporting Hong Kong's competitiveness. While sustained decoupling could

gradually narrow the scope for Hong Kong to function as a global financial hub, these risks may be partly offset by its established institutional strengths. In an environment of heightened uncertainty, Hong Kong's stable and well-regulated financial system could enhance its appeal as a safe haven for capital and reinforce its intermediary role between the Chinese Mainland and global markets.

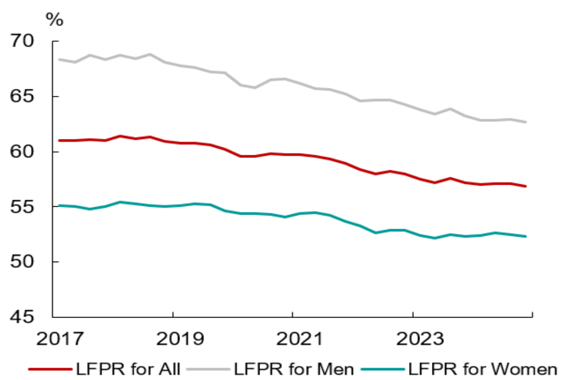
26. Population aging and related labor market frictions pose growing challenges to sustainable growth. Accelerating demographic aging could reduce the prime working-age population and lower labor force participation, thereby exerting downward pressure on medium- to long-term growth (Figure 26 and 27). In particular, skills mismatches and manpower shortages may constrain Hong Kong's ability to develop new growth drivers. The latest official forecast suggests that the manpower shortage will reach 180,000 by 2028. Due to an aging workforce and lack of new entrants, shortages of skilled workers could account for more than one-third of the overall manpower shortfall by 2028.[12] The limited availability of skilled labor, together with frictions in labor relocation, may hinder human capital accumulation. If these constraints persist, productivity gains could be delayed and the transition toward a more diversified growth model could become more costly.

Figure 26. Prime Working-age (25-54) Population in Hong Kong



Source: C&SD; AMRO staff calculations

Figure 27. Labor Force Participation Rate



Source: C&SD; Haver Analytics

C. Policy Discussions and Recommendations

C.1 Calibrating Macroeconomic Policies to Maintain Growth Momentum

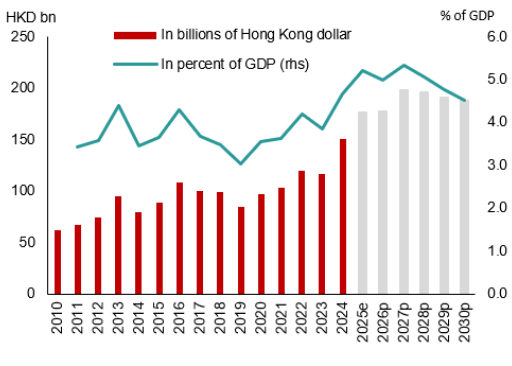
27. With economic activity operating slightly above potential, the overall macroeconomic policy stance should remain broadly neutral. While policy support has helped sustain the recovery, the positive output gap and steady growth momentum suggest that additional broad-based stimulus is no longer warranted. Policy calibration should therefore focus on preserving policy space, maintaining macroeconomic stability, facilitating structural adjustment, and ensuring that any further support remains temporary, targeted, and contingent on downside risks materializing, rather than being provided pre-emptively.

28. Fiscal policy continues to be supportive and play an active role, with government expenditure remaining elevated relative to pre-pandemic levels. Primary expenditure is budgeted to increase by 0.2 percentage points of GDP, implying a supportive stance.[13] In particular, increased capital expenditure is aimed at supporting new growth drivers and facilitating Hong Kong's structural economic transition (Figure 28). Such investments, including major strategic projects such as the Northern Metropolis development, are intended to address long-standing urban-capacity gaps and to support the development of new growth areas.

29. **With global uncertainty still high and expenditure already elevated, fiscal policy should refrain from additional discretionary fiscal stimulus, while standing ready to provide temporary and targeted support should downside risks materialize.** In response to the global oil price shock, the authorities announced temporary support measures, including a two-month diesel subsidy of HK$3 per liter for public and commercial vehicles and related industries, a two-month fuel subsidy of HK$0.5 per liter of liquefied petroleum gas for taxis, public light buses and school private light buses, as well as a 50 percent reduction in tunnel tolls for non-private vehicles, with an estimated fiscal cost of about HK$2 billion. The FY2026–27 Budget also provides an additional one-off allowances equivalent to one month's standard payment for Comprehensive Social Security Assistance (CSSA), Old Age Allowance, Old Age Living Allowance and Disability Allowance, and low-income working households receiving the Working Family Allowance (WFA), as well as tax reliefs. Therefore, it would be prudent to preserve fiscal buffers and avoid further stimulus unless warranted by a material deterioration in economic conditions.

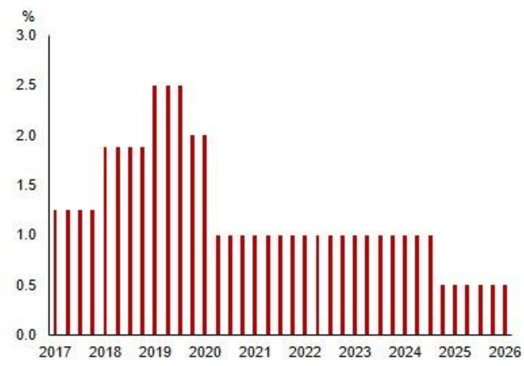
30. **The authorities could maintain the current supportive macroprudential stance, alongside targeted financial support, to sustain credit conditions and facilitate economic transition.** In October 2024, the HKMA lowered the Countercyclical Capital Buffer (CCyB) from 1 percent to 0.5 percent in response to moderating growth and sectoral weaknesses, thereby supporting banks' lending capacity (Figure 29). As credit demand has recently begun to recover from a prolonged decline, maintaining the CCyB at its current accommodative level in the near term appears appropriate to help sustain the ongoing recovery in credit growth and facilitate economic transition. At the same time, targeted financial support could continue to address the evolving financing needs of SMEs affected by geopolitical tensions and higher energy costs,[14] while broadening access to financing for innovation and technology. Such support measures could be further integrated with existing government-backed guarantee schemes to help mitigate banks' risk exposures and strengthen incentives for lending.

Figure 28. Government Capital Expenditure



Source: Financial Services and the Treasury Bureau, CEIC, AMRO staff projection
Note: Figures are presented on a fiscal year basis. Interest payments are excluded from capital expenditures.

Figure 29. Countercyclical Capital Buffer



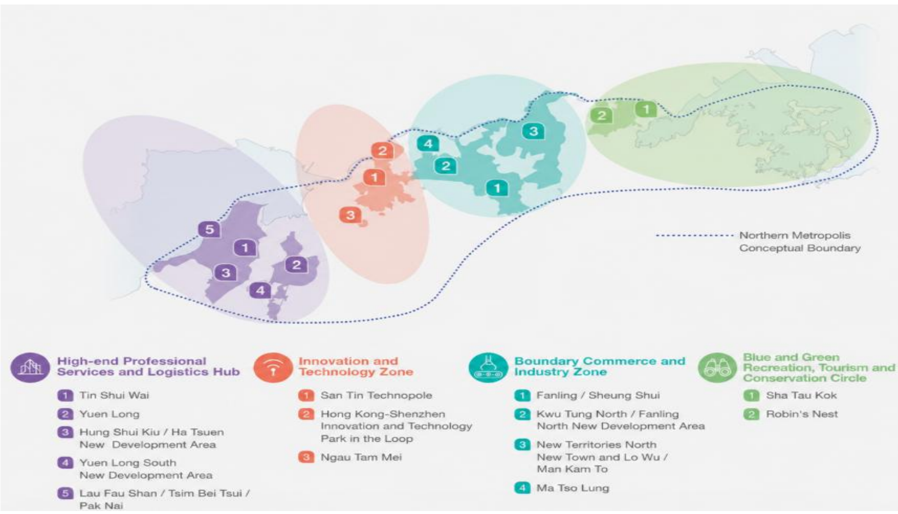
Source: HKMA, Haver Analytics

C.2 Broadening New Growth Drivers

31. Hong Kong's economic structure is concentrated in a relatively narrow set of service industries. The four key sectors—financial services, trading and logistics, tourism, and professional and business services—account for more than half of gross value added and over two-fifths of total employment. Financial services alone contribute around one-quarter of GDP, while trading and logistics account for close to one-fifth. Selected Issue 3, "Estimating Hong Kong's Potential Growth: Is Hong Kong's Financial Competitiveness Strengthening Growth Potential?", further examines the contribution of the financial sector to Hong Kong's potential growth. At the same time, manufacturing has fallen to less than 1 percent of GDP. As activity and employment are closely tied to asset markets, land transactions, financial conditions, and external trade cycles, Hong Kong's economy remains vulnerable to sector-specific shocks. Moreover, the absence of a diversified production base constrains the opportunities for innovation- and technology-driven growth, while the economy's heavy dependence on the property and financial sectors may exacerbate income disparities and limit the creation of higher-quality employment opportunities.

32. The Hong Kong government has embarked on a more proactive policy stance in recent years, aiming to diversify the economic base and upgrade the industrial structure. The 2025 Policy Address sets out a "New Industrialization" strategy that seeks to consolidate Hong Kong's traditional strengths in financial and professional services while nurturing emerging sectors—including advanced manufacturing, life and health technology, new energy, AI and data science—with a view to creating higher-quality jobs and raising incomes.[15] The ongoing development of Hong Kong's first five-year plan, with the aim of alignment with Chinese Mainland's 15th Five-Year Plan, represents an important step toward providing medium-term strategic direction and policy coordination for economic upgrading and industrial transformation. The government is also accelerating the development of the Northern Metropolis (Figure 30), which is expected to serve as a key implementation vehicle through which Hong Kong translates national strategic positioning and local industrial upgrading objectives into investable projects, enterprise clusters, and new sources of productivity growth.[16]

Figure 30. Map of Northern Metropolis



Source: Northern Metropolis Action Agenda 2023
Note: Image extracted directly from Northern Metropolis Action Agenda 2023.

33. **As a new policy approach for the government, industrial policy should be pursued cautiously to address clearly identified market failures.** Industrial policy can play a useful role in supporting Hong Kong's new industrialization. To reduce the risk of distortion or capture, public intervention should remain selective, transparent, and disciplined, focusing on areas in which coordination failures, financing gaps, or early-stage technology risks may otherwise impede private investment. Policy should prioritize ecosystem development and efficient resource allocation across sectors with stronger comparative advantages—such as innovation and technology, advanced producer services, and high-value manufacturing niches closely linked to the Chinese Mainland and global markets. As discussed in Box A, well-designed industrial policy can help address coordination failures and support industrial upgrading, provided policy interventions remain focused, transparent, and aligned with Hong Kong's comparative advantages. The recent strong momentum in developing the Northern Metropolis is a good example of how the government can coordinate private sector participation in strategic initiatives.

Box A. Toward an Effective Industrial Policy for Hong Kong's Industrial Upgrading[2]

Well-designed industrial policy can address coordination failures that might otherwise prevent new industries from emerging and existing ones from upgrading. As is the case with other economies, Hong Kong faces coordination failures that market forces alone are unlikely to resolve. New economic activities often depend on complementary investments that markets may underprovide. Sectors such as life and health technology, AI, and new energy, which the authorities are keen to promote, require complementary investments in skills, testing and data infrastructure, regulatory capacity, standards, and public adoption. The return on investment often depends on whether these elements are put in place simultaneously. In an increasingly competitive global environment characterized by complex global value chains and a rapidly advancing technological frontier, industrial upgrading likely needs policy support as a catalyst. In this context, industrial policy can help coordinate complementary investments and also reduce first-mover risk.

However, industrial policy must be carefully crafted. Hong Kong's relatively strong institutional fundamentals, quality of governance, and bureaucratic capacity provide a sound foundation for effective industrial policy. The government has put in place a broad policy toolkit in support of its New Industrialization strategy, including spatial planning through the Northern Metropolis, innovation and technology funding, patient capital through the Hong Kong Investment Corporation Limited, R&D and commercialization schemes, land and tax incentives, capital subsidies, and strategic-enterprise attraction through dedicated agencies such as OASES and InvestHK. However, Hong Kong's structural characteristics—including a small, highly open economy, limited domestic market, scarce land supply, and weak industrial production base—mean that policy must be focused in scope and closely aligned with areas in which Hong Kong has clear comparative advantage.

International experience points to several areas in which Hong Kong's current approach to industrial policy could be strengthened.

- **Establish a unified industrial policy framework through Hong Kong's first five-year plan.** The effectiveness of industrial policy depends critically on whether the instruments complement each other. R&D incentives, skills policies, infrastructure investments, and framework conditions work best when bundled into coherent strategies rather than deployed as standalone measures. A shift from scattered, bureau-level initiatives toward a unified, top-down policy framework with clear targets, cross-departmental coordination, and explicit prioritization can enhance strategic

[2] Prepared by Fan Zhai, Senior Economist.

coherence and strengthen the effectiveness of industrial policy. Hong Kong's recent decision to develop its first local five-year plan is a welcome institutional step. This mechanism could be used to embed a coherent industrial strategy with defined sectoral priorities, measurable milestones, and an institutional mechanism for cross-bureau coordination.

- **Sharpen sector focus.** The government simultaneously supports various sectors. Beyond the four pillars of New Industrialization, it has in effect already implemented a targeted industrial policy for established industries such as financial services, maritime, aviation, tourism, and the creative sectors through preferential tax regimes, dedicated agencies, and sector-specific infrastructure. Industrial policy literature suggests successful cases typically involved concentrated resource allocation in a manageable number of sectors with clear comparative advantage or strong learning-by-doing potential. For a small, open economy with limited fiscal space, attempting too many initiatives simultaneously risks diluting impact. Hong Kong's industrial strategy can be more narrowly targeting toward those sectors in which Hong Kong has genuine competitive advantages—world-class universities, financial center infrastructure, IP protection, and connectivity to both Chinese Mainland and global markets. Critically, this requires a holistic view of industrial policy across manufacturing and services, recognizing that Hong Kong's greatest opportunities for productivity gains and quality job creation may lie as much in upgrading high-value services as in building new manufacturing capabilities.

- **Complement supply-side measures with demand-side instruments.** Hong Kong's industrial policy approach is heavily tilted toward supply-side incentives (subsidies, land, and tax measures) for selected firms and sectors. The 2025 Policy Address takes a welcome step by committing to comprehensive AI adoption in government services, which can serve as a powerful demand-side instrument by creating early markets and demonstration use cases. However, this remains an isolated initiative and is not part of a systematic strategy. The OECD framework highlights that demand-side instruments—public procurement, standards, and regulations that create early demand for new technologies—can be powerful complements to supply-side support, particularly in scaling up nascent industries (Criscuolo and others, 2022). Hong Kong could build more systematically on this approach: for instance, it could use public procurement to specify functional and performance outcomes; and establish performance-based standards for health-tech and fintech solutions. As a major purchaser of health, education, transport, and professional services, the Hong Kong government has substantial untapped leverage to shape demand in ways that support its diversification objectives.

- **Strengthen accountability, evaluation, and sunset mechanisms.** Every major industrial policy initiative must specify measurable targets, time-bound milestones, and contain an independent evaluation process. The support provided should be explicitly temporary, with sunset clauses and clear criteria for extension or withdrawal. Setting up an independent body or advisory council to rigorously evaluate outcomes can strengthen transparency and policy learning.

- **Safeguard competitive neutrality.** The current industrial policy approach leans toward providing targeted and negotiated support to attract enterprises. Support in the form of land or tax incentives, and financial subsidies may help secure anchor investments, but they also raise questions relating to opacity, weak competitive neutrality, and support drifting toward established or well-connected firms. Support should therefore be governed by clear objectives and transparent criteria, with ease of access to new competitors as well.

- **Strengthen public–private coordination.** The government should confer with industry to understand constraints, market failures, and emerging opportunities, but maintain sufficient distance to resist capture by vested interests. Korea's export promotion councils and Singapore's Economic Development Board offer models of how small economies can institutionalize effective public–private coordination.

References
Criscuolo, O, N. Gonne, K Kitazawa, and G. Lalanne (2022). “An Industrial Policy Framework for OECD Countries: Old Debates, New Perspectives.” *OECD Science, Technology and Industry Policy Papers*, No. 127, OECD Publishing, Paris.

34. **Industrial policy should preserve open and competitive markets and maintain contestable market structures.** Hong Kong is highly open to international trade and capital flows, but openness also needs to extend to domestic service sectors, where entry barriers, professional restrictions, and incumbency advantages can limit competition and slow productivity upgrading.[17] This matters because the development of high value-added services—such as legal, medical, professional, technology, and research-related services—depends on competition, talent mobility, global benchmarking, and continuous improvements in service quality. Hong Kong’s higher education sector offers a useful example: openness to international talent and institutional competition has helped strengthen quality and global reputation. Similar principles could be applied, where appropriate, to other service sectors by easing unnecessary entry and conduct restrictions, strengthening competitive neutrality, and ensuring a level playing field. In this way, industrial policy can be reinforced by ensuring public support that does not entrench incumbents, while helping Hong Kong broaden its growth drivers without compromising economic efficiency and openness.

35. **Addressing supply-side constraints will be essential to facilitate industrial upgrading and support new growth drivers.** Ensuring a more adequate, predictable, and efficiently allocated supply of land and infrastructure will be critical to reduce business costs and enable private investment, particularly in emerging sectors. While large-scale development initiatives such as the Northern Metropolis plans will expand capacity over time, transitional measures to better utilize existing land and infrastructure could help alleviate near-term constraints. In addition, securing a skilled workforce aligned with emerging industries is essential to develop new growth drivers. This will require a combination of targeted talent admission, stronger university-industry linkages,[18] and policies that make Hong Kong an attractive long-term destination for high-skilled professionals and their families.

36. **Broadening high value-added services will be central to diversifying Hong Kong’s growth drivers and strengthening its role as a global services hub.** Building on its established strengths in R&D capabilities and strong connectivity with the Chinese Mainland markets, Hong Kong can expand further into high value-added and knowledge-intensive activities. Reducing regulatory and institutional barriers—including those affecting market entry, qualification recognition, and cross-border service provision—would help foster competition and facilitate service sector upgrading (OECD 2024).[19] More broadly, as talent attraction policies have helped stabilize the residential property market, the expansion of high value-added services could generate positive spillovers, including stronger office demand and wage growth, thereby supporting higher medium-term growth. Selected Issue 4, ”Navigating Further Development: Legal and Healthcare Services in Hong Kong,” discusses policy options to support the further development of legal and healthcare services in Hong Kong.

- In the healthcare sector, rising expenditure—driven by population aging—highlights growing local demand, while increasing healthcare needs in the Chinese Mainland could support exports of medical services. Further enhancing cross-border arrangements could deepen integration with the Chinese Mainland. Measures such as the mutual recognition of medical qualifications and the portability of social health insurance for services provided at Hong Kong-operated facilities could be further expanded.

- Compared with Singapore, Hong Kong's legal-services export base is narrower and more exposed to Chinese Mainland-related finance, IPO activity, and trade-linked disputes, contributing to comparatively lower legal-service exports.[20] The authorities have emphasized efforts to strengthen the city's role as an international legal hub to strengthening Hong Kong's legal services sector, including by attracting international legal talent and educational institutions. Legal services could benefit from the evolving offshore RMB market, deeper financial integration, and rising demand from foreign firms entering the Chinese Mainland. Developing these sectors in a coordinated manner will further strengthen Hong Kong's role as a professional services hub.

- Maintaining the competitiveness of high value-added financial services remains essential. In this context, Hong Kong has taken a leading role in emerging areas such as fintech and green finance and could further expand its role as a hub of critical financial market infrastructures for the ASEAN+3 region.[21] This requires active participation in global cooperation on regulation and development in those areas. In particular, as Hong Kong, along with Japan, is among the first economies in the ASEAN+3 region to issue stablecoin licenses, its first-mover experience could serve as an important asset in strengthening the competitiveness of its financial services sector.

- In this process, maintaining a balance between innovation and financial stability will be equally important. The rapid development of fintech continues to pose challenges related to cybersecurity, data governance, and regulatory arbitrage. Going forward, active engagement in international regulatory discussions, clearer regulatory guidance to reduce uncertainty, and enhanced monitoring of systemic risks will be critical to ensuring that financial innovation develops in a sustainable and resilient manner.

C.3 Adapting Fiscal Policy to Support Economic Transition

37. Hong Kong's public finances have been evolving in recent years as the economy gradually transitions toward a more value-added, innovation oriented economic structure. This evolution reflects responses to multiple structural pressures, including population aging, higher social expectations, persistent urban capacity gaps, and the need to foster new growth drivers amid a shifting global and regional environment. The government has adopted a more proactive use of fiscal policy, with increased emphasis on public investment, targeted development initiatives, and diversified financing channels. Large-scale commitments to innovation, artificial intelligence, and strategic development platforms—most notably the Northern Metropolis—signal a recalibration of fiscal policy toward supporting medium- to long-term economic transformation. At the same time, the authorities have reiterated their intention to maintain fiscal discipline over the medium term, underscoring the need to balance a more active fiscal role with Hong Kong's longstanding commitment to fiscal prudence and credibility.

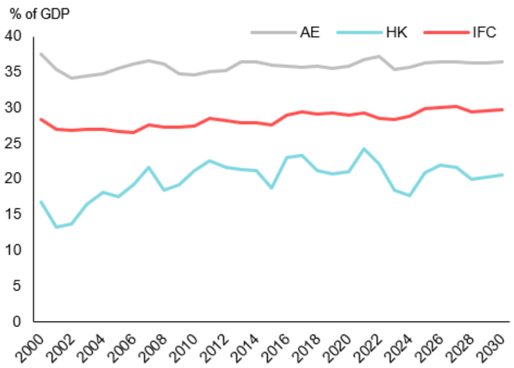
38. As fiscal policy takes on a more active role, greater attention to policy design, governance, and implementation will be critical. Several initiatives in the FY2026–27 Budget—particularly those related to innovation, AI, and sector specific development—exhibit features commonly associated with industrial policy. International experience suggests that the effectiveness of such measures is influenced by a number of considerations, including: (i) clear articulation of policy objectives and underlying economic rationale, particularly in addressing market failures or coordination constraints; (ii) anchoring major initiatives in a coherent medium-term strategy, supported by predictable multi-year budgetary allocations aligned with strategic priorities; (iii) market conforming approaches that encourage private sector participation and competition, as reflected in public private development models in the Northern Metropolis; (iv) transparency regarding fiscal costs, selection criteria, and expected outcomes; and (v) regular monitoring and evaluation mechanisms to assess effectiveness and allow for policy adjustment over time.

39. Hong Kong would benefit from enhanced public financial management, with stronger coordination, budgeting, and accountability arrangements to support its strategic priorities. A consolidated and coherent development strategy, with clearly defined objectives, economic rationale, and implementation priorities, would provide a stronger anchor for fiscal policy decisions. Given the cross-sectoral nature of many development initiatives, a program-based medium-term budget framework could help link budget allocations more directly to policy objectives, clarify expected results, and facilitate coordination across government entities. A performance management framework embedded throughout the budget cycle could help align expenditure more closely with policy priorities and improve resource allocation efficiency. Higher development expenditure also underscores the need to strengthen the public investment management framework to ensure effective implementation of large infrastructure projects. As the Government seeks to crowd in private investment through public private partnerships, clear and transparent framework for fiscal support and risk sharing will be important to contain fiscal risks and preserve market discipline. The public sector should assume only those risks that it is better placed to manage than the private sector.

40. The expanded role of public finance also underscores the importance of strengthening revenue mobilization to support rising development and social spending needs over time. Hong Kong's fiscal revenue-to-GDP ratio remains relatively low compared with other international financial centers (Figure 31). The authorities have recently introduced a few revenue measures, including higher stamp duties on high-value residential property transactions and the implementation of the global minimum tax and the Hong Kong minimum top-up tax from 1 January 2025, which are expected to generate additional revenue from FY2027–28 onward. While these measures are welcome, continued efforts to broaden the revenue base are needed to address longer-term expenditure pressures, particularly those related to population aging, while preserving competitiveness and attractiveness to talent. International evidence suggests that a broad-based, well-administered Value Added Tax is among the least distortionary taxes that can enhance revenue stability. Its burden on lower income groups could be mitigated by targeted transfers. At the same time, a more progressive salary tax could raise revenue and support equity, with higher contributions from high-income earners while preserving Hong Kong's appeal to talent.

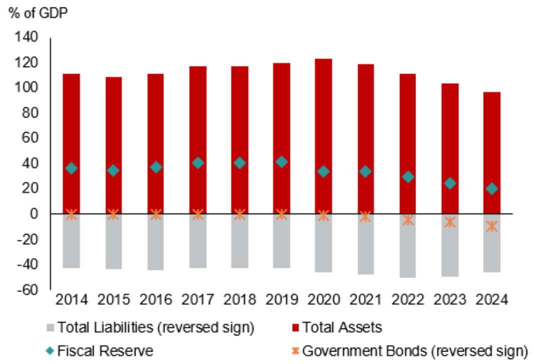
41. Complementing the existing fiscal framework with an Intertemporal Public Sector Balance Sheet (IPSBS) approach could strengthen fiscal anchors during the transition. The traditional focus on the annual budget balance has become less informative in the context of large, long-term investments and demographic change. At the same time, the emphasis on fiscal reserves and government bonds in the Budget provides only a partial view, leaving a substantial portion of the Government's balance sheet outside the analytical scope (Figure 32). The increasing use of bond financing, capital injections into development platforms, and transfers from funds outside the Government's accounts, the investment income of the Exchange Fund and accumulated surplus of the Bond Fund, underscore the need for a more comprehensive fiscal analytical framework. Budget documents could better leverage the financial information reported in the Government's accrual-based accounts and extend it in a forward-looking manner to support policy decision-making.[22] Building on this, the framework could be developed gradually into a full-fledged IPSBS approach framework, enhancing transparency regarding the fiscal implications of major initiatives and strengthening public communication on long-term fiscal sustainability.[23]

Figure 31. Government Revenue



Source: IMF Fiscal Monitor database (April 15, 2026 release); HK authorities; AMRO staff calculations.
Note: AE stands for advanced economies. IFC refers to international financial centers, including Hong Kong, Luxembourg, Singapore, and Switzerland. Data on Hong Kong are sourced from official authorities.

Figure 32. Government Assets and Liabilities



Source: Financial Services and the Treasury Bureau, AMRO staff calculations.
Note: Figures are presented on a fiscal year basis.

C.4 Supporting Property Sector Recovery and Containing Associated Risks

42. **For the residential property market, sustaining the recovery momentum while meeting Hong Kong residents' high expectations for housing needs remains essential.** The continuation of a supportive policy stance by the Hong Kong authorities would be instrumental in reinforcing market confidence. At the same time, addressing housing needs is equally important. Ensuring adequate housing supply to meet demand—particularly for lower- and middle-income households—should therefore remain a policy priority, as waiting times for public rental housing exceed the government's long-standing target of three years, despite visible progress having been made.[24] In this context, the authorities' Long-Term Housing Strategy, which is updated through an annual progress report,[25] represents a commendable approach to assessing housing demand and guiding supply. In addition to addressing housing supply needs, improving the quality of housing in line with Hong Kong's high-income levels would further enhance overall living standards and social outcomes. A significant step in this direction is the commencement of the Basic Housing Unit regime, effective from March 2026, which establishes a new legal framework under the "registration first, enforcement later" approach. The regime, which includes a 48-month transitional arrangement, introduces minimum standards of living conditions for subdivided units rented out in residential flats, with the aim of ensuring safe, hygienic, and reasonable living conditions for low-income tenants.[26]

43. The commercial real estate segment remains subdued, and proactive policy responses may be needed to safeguard financial stability against the risk of a disorderly adjustment. Both office and retail properties have recorded notable price declines since late 2018, though the office segment has shown signs of stabilization more recently, underscoring persistent structural challenges. Should a disorderly adjustment materialize, particularly through adverse feedback loops among commercial property valuations, bank balance sheets, and broader credit conditions, it could pose material risks to financial stability. In this context, the authorities should remain vigilant to spillover risks and stand ready to deploy macroprudential tools should systemic vulnerabilities intensify. At the same time, broad-based demand-supportive measures could help underpin a more orderly market adjustment over the medium term. Recovery disparities between core commercial districts and retail-oriented neighborhoods may become increasingly structural. E-commerce expansion and shifting tourism spending patterns could reinforce these trends, highlighting the need for urban renewal, digital transformation initiatives for small businesses, and a broader and geographically diversified range of tourism offerings.

44. Although risks to the banking sector are generally contained, banks should maintain adequate buffers against property-related vulnerabilities. While conditions in the residential property segment have improved, the broader property sector—particularly commercial real estate—remains vulnerable to weak sentiment and subdued demand. Ongoing financial distress among some property developers continues to raise credit risks that could spill over into the banking system and the broader economy if the commercial real estate downturn persists. Property-related loans should continue to be subject to enhanced scrutiny, with provisions adjusted as necessary to reflect potential further downturns in the market. This should be supported by both micro- and macro-level bank stress testing. In this regard, the HKMA has been conducting both bottom-up and top-down stress tests regularly to assess banks' resilience under scenarios of significant decline in property prices and macroeconomic downturns.

C.5 Addressing Labor Market Challenges Amid an Aging Population

45. Policies should support the re-employment of older workers and promote greater female labor force participation. The Re-employment Allowance Pilot Scheme (REA Scheme) to support the employment of persons aged 40 or above has shown encouraging progress, recording over 36,000 job placements as of 2025. In tandem with the REA Scheme, the authorities have implemented the Employment Programme for the Elderly and Middle-aged (EPEM) to encourage employers to engage older and middle-aged persons and provide them with on-the-job training.[27] In addition, the authorities have established a working group to promote the silver economy, aimed at turning population aging to a source of new growth opportunities. These initiatives represent important steps toward addressing labor market challenges and harnessing aging-related economic opportunities. However, they may not fully address the underlying causes of relatively low participation among older workers and women, such as age-related health constraints and limited job flexibility. In this context, the authorities should regularly assess the effectiveness of existing measures. To support the employment of near-retirees, retirees, and women, the authorities could consider targeted measures—such as more favorable wage subsidies and calibrated reductions in Mandatory Provident Fund contribution burdens to help offset perceived productivity costs and reduce employer bias. Flexible work arrangements such as adjusted work hours and workloads aligned with workers' physical capacity can help foster an inclusive work environment.

46. Measures aimed at alleviating skill mismatches can enhance labor market efficiency and strengthen Hong Kong's competitiveness. Skill mismatches remain a persistent structural constraint on labor market efficiency, warranting a dual-track approach that strengthens external talent attraction while accelerating domestic workforce relocation.

- On the talent supply side, the government's expanded suite of admission schemes—including the Top Talent Pass Scheme and the updated Talent List covering 60 shortage professions—has generated significant inflows. Some of the new arrivals may face challenges in securing suitable employment and coping with the relatively high living costs on long-term retention.[28] To strengthen these schemes, the government could better align admission criteria with sector-specific shortages identified in the Manpower Projection, while providing more robust post-arrival employment support and stronger retention incentives.

- On the labor relocation side, the recently announced reform of the Employees Retraining Board provides a useful platform for facilitating worker transitions toward expanding sectors. The 2026-27 Budget reinforced this by allocating HK$50 million[29] to support public organizations, technology enterprises and tertiary institutions in organizing AI application courses, seminars, and competitions. To maximize effectiveness, retraining policies could be more tightly targeted toward fast-growing service and innovation sectors—such as fintech, green finance, professional services, and elder care—where labor demand is expected to rise further.

C.6 Strengthening Hong Kong's Role as a Premier Super Connector

47. Hong Kong's continued policy innovation and market development will be key to strengthening its role as a super connector and anchoring its position within the offshore RMB ecosystem. Hong Kong is well placed to benefit from Asia's ongoing economic integration, which is generating sustained demand for efficient cross-border payment systems and diversified settlement currencies, including the offshore RMB. It can further evolve into a core RMB business hub serving corporates and investors across the world. The RMB has great potential as a major funding currency, as its interest rate is likely to remain relatively low and the exchange rate broadly stable, while Chinese firms and households are likely to increase their outbound investment positions. Realizing this transition will require increasing the supply of investable RMB-denominated assets and strengthening the offshore RMB ecosystem. It will be also important to broaden the use of RMB not only from trade settlement to a wider range of financial activities—including investment, financing, and risk management—but also from Chinese Mainland-related transactions to trade and financial activities involving third-party economies.

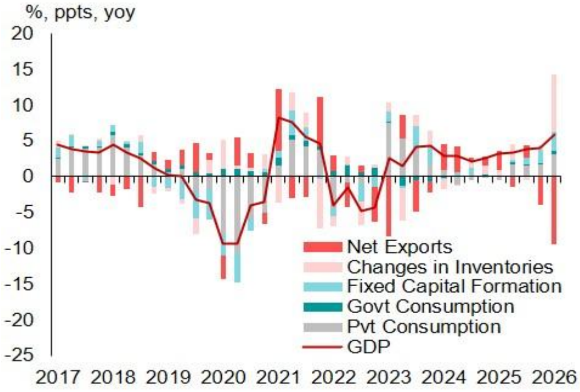
48. Hong Kong's efforts to develop green finance in support of Climate Action Plan 2050 can position it as a regional hub for green and sustainable financing. The authorities have made progress in strengthening the policy and institutional foundations of green finance. In 2025-2026, additional policies have been introduced, including the phased adoption of International Sustainability Standards Board (ISSB)-aligned sustainability disclosure standards, and the expansion of the Hong Kong Taxonomy for Sustainable Finance.[30] Hong Kong's green finance market could be further supported by leveraging ongoing policy and taxonomy developments. Closer alignment with evolving definitions, subsidies, and regulatory incentives would help sustainable bond issuers identify new financing opportunities. Hong Kong should also position itself as a leader in adaptation and resilience finance by promoting bonds that support climate adaptation projects, drawing on tools such as the Climate Bonds Resilience Taxonomy to ensure credibility and alignment with international best practices.

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

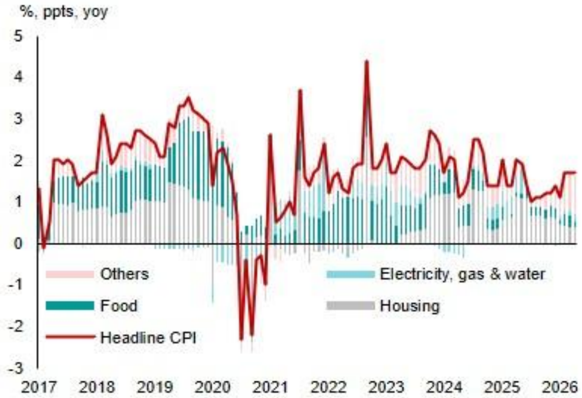
Figure 1.1 Real Sector

Hong Kong's economy has continued its modest recovery since 2023.



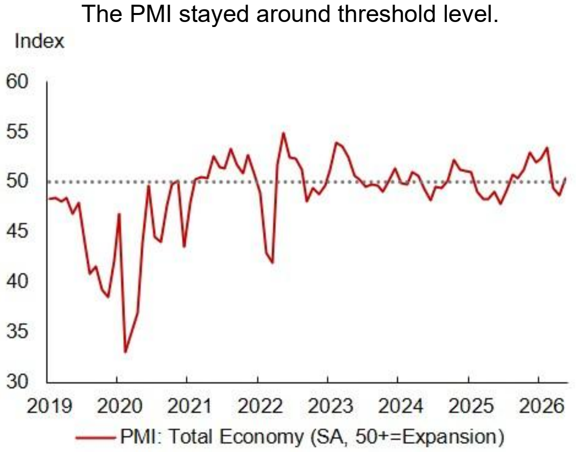
Source: C&SD; Haver Analytics

Inflation rose moderately on housing and food prices.



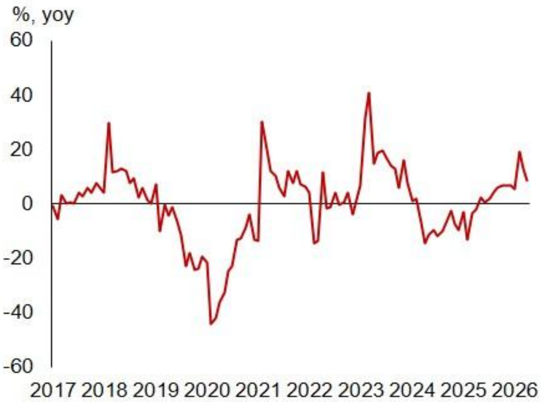
Source: C&SD; Haver Analytics; AMRO calculations

The PMI stayed around threshold level.



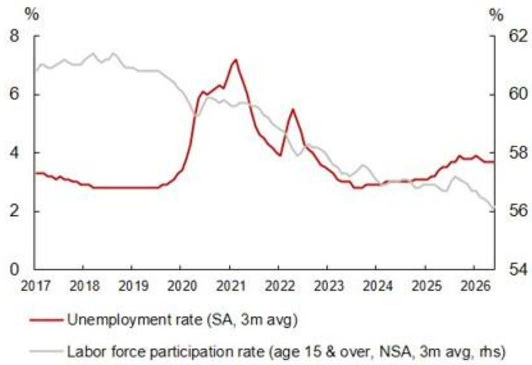
Source: S&P Global; Haver Analytics

Retail sales have recovered since early 2025.



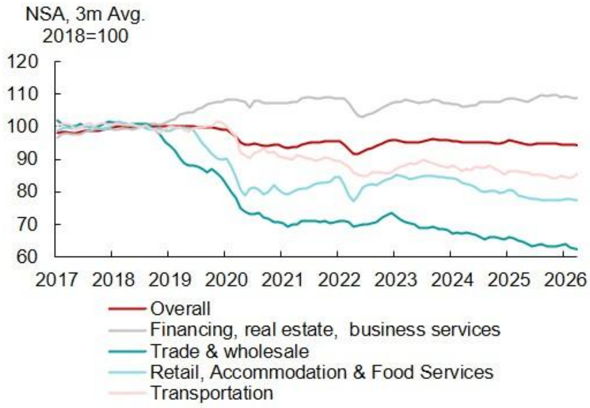
Source: C&SD; CEIC

Hong Kong's labor market conditions remained resilient...



Source: C&SD; Haver Analytics

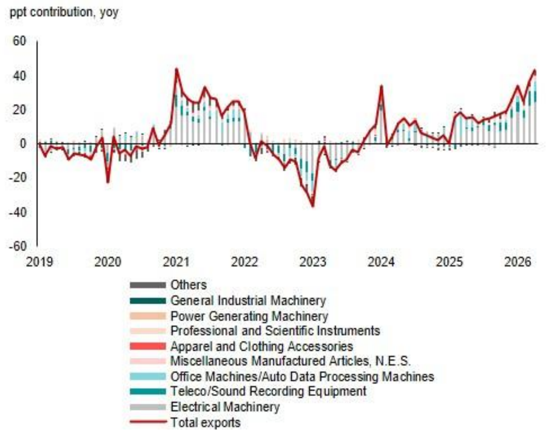
...but the employment recovery was uneven across sectors.



Source: C&SD; Haver Analytics

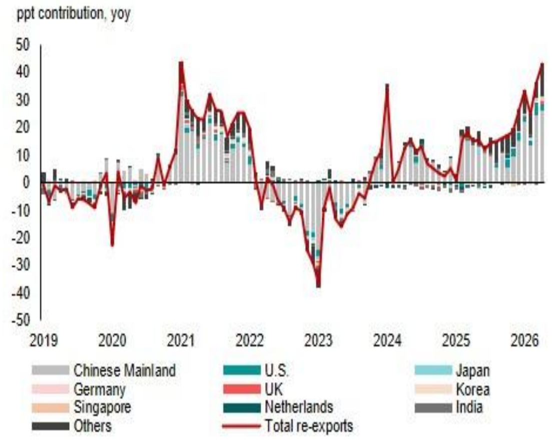
Figure 1.2. External Sector

Exports continued to increase in early 2026, reflecting strong global demand for AI-related electronic products...



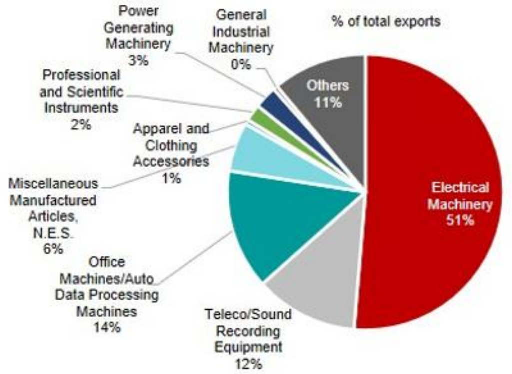
Source: C&SD; Haver Analytics

…, mostly to Chinese Mainland.



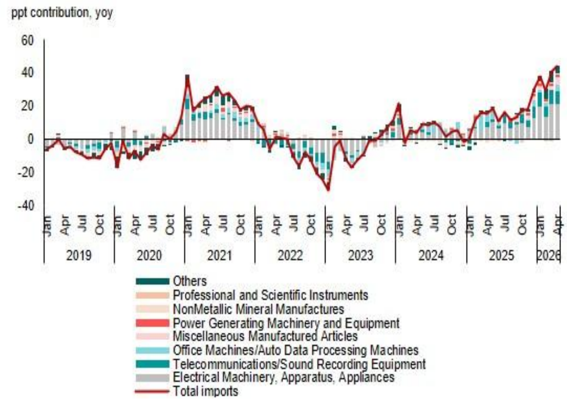
Source: C&SD; Haver Analytics

Electrical machinery remained the largest export category in Apr 2026.



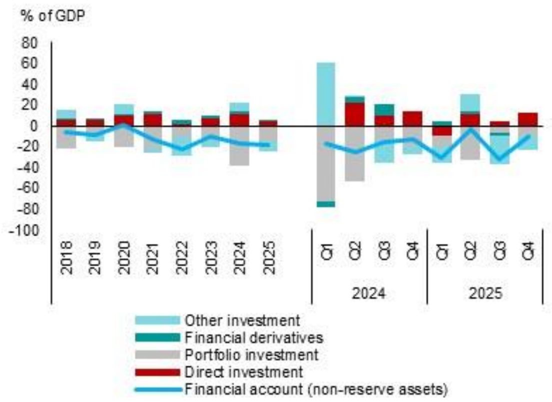
Source: C&SD; AMRO staff calculations

Imports also surged in line with exports.



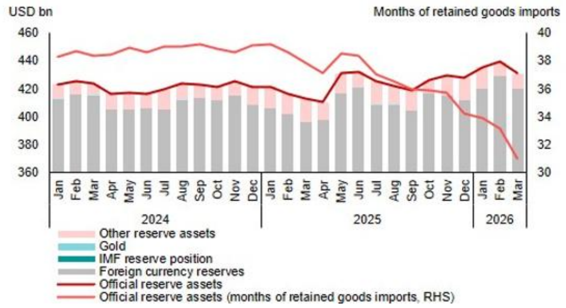
Source: C&SD; AMRO staff calculations

The financial account saw large outflows in 2025, mainly driven by portfolio outflows.



Source: C&SD; AMRO staff calculations
Note: The financial account excludes reserve assets.

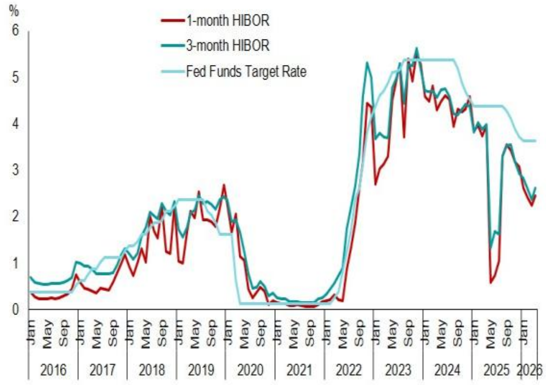
FX reserves remained ample, still covering about 31 months of retained imports.



Source: HKMA; Haver Analytics

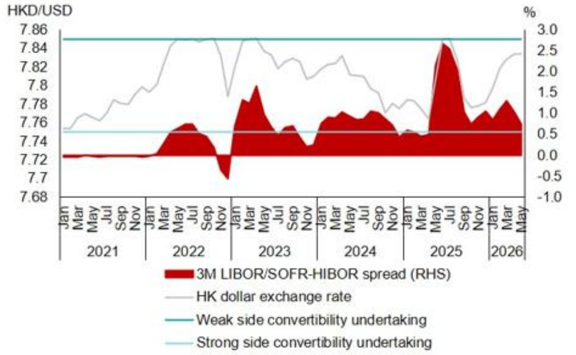
Figure 1.3. Monetary and Financial Markets

Hong Kong's interbank rates declined following the triggering of the strong-side CU and the increase in the Aggregate Balance.



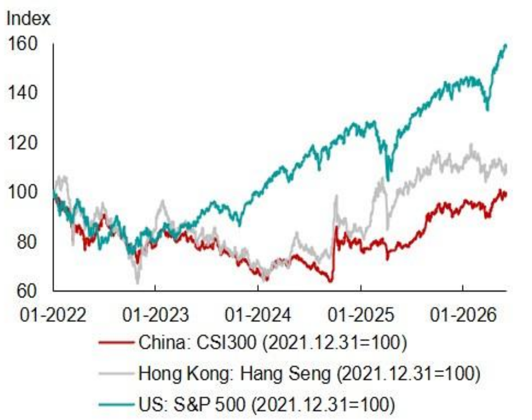
Source: HKMA; Federal Reserve Bank of New York

HKD weakened slightly, moving away from the strong-side convertibility undertaking, likely due to a widening SOFR-HIBOR spread.



Source: HKMA; Chicago Mercantile Exchange; AMRO staff calculations

The Hang Seng Index has exhibited heightened volatility due to trade policy volatility in early 2025 but has since shown steady recovery.

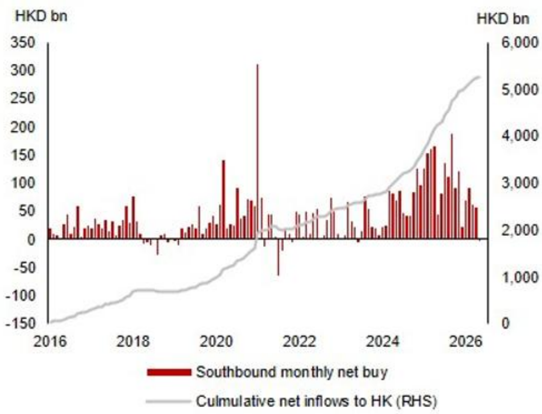


Source: Hang Seng Indexes Company; Shanghai Stock Exchange; Standard & Poor's

Yields of Hong Kong government bonds have fallen from their peaks in late 2023.

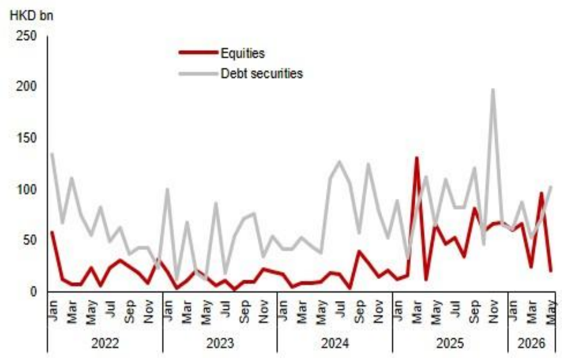
Source: HKMA; Haver Analytics

The Southbound Connect has seen strong net buying in 2025.



Source: HK Exchange; CEIC; AMRO staff calculations

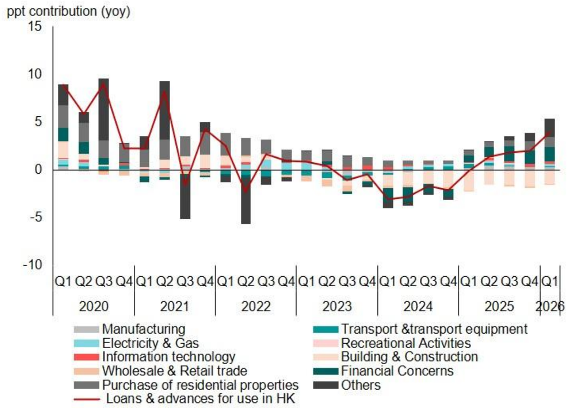
Hong Kong's fund raised (equities and debt securities) surged, going into 2026.



Source: CEIC; AMRO staff calculations

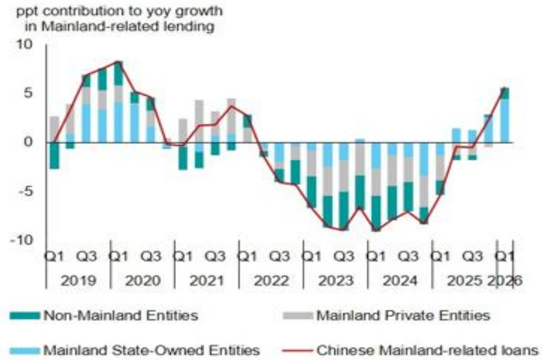
Figure 1.4. Banking Sector

Credit growth moderated, mainly due to a decline in building and construction loans.



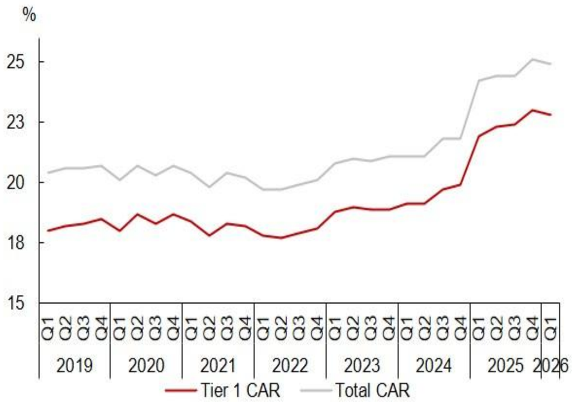
Source: HKMA; AMRO staff calculations

Banks increased loan exposure to the Chinese Mainland in 2025 and early 2026.



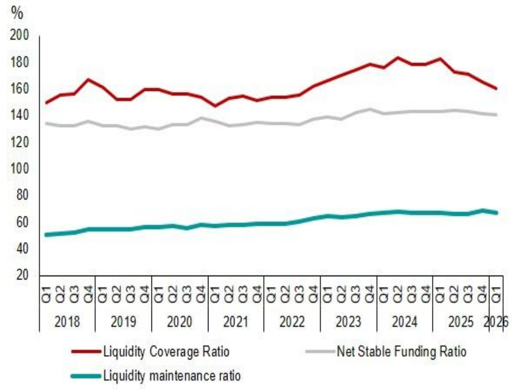
Source: HKMA; AMRO staff calculations

Hong Kong's banking sector continued to be well capitalized…



Source: HKMA

…with ample liquidity.

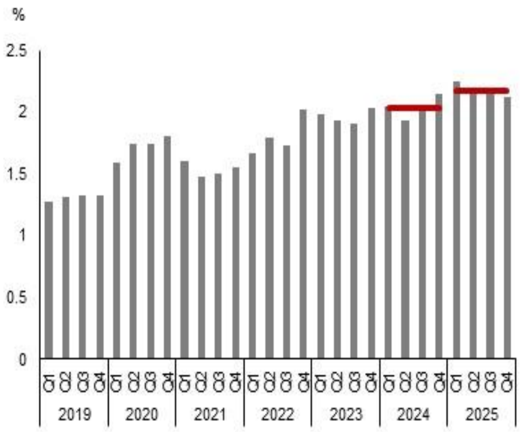


Source: HKMA

ROE and ROA recovered to pre-COVID levels, reflecting improved profitability.

Source: HKMA

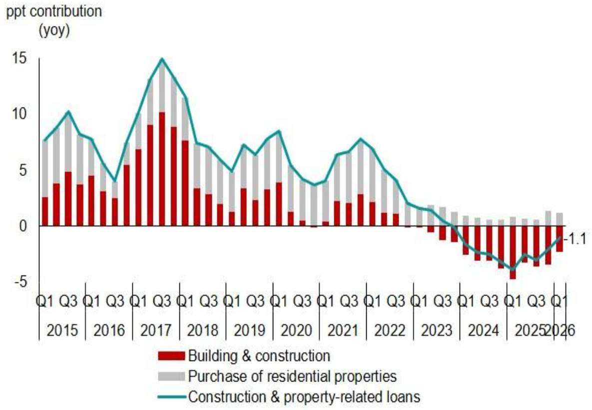
Special mention loans fell to 2.12 percent of total loans as of Q4 2025.



Source: HKMA

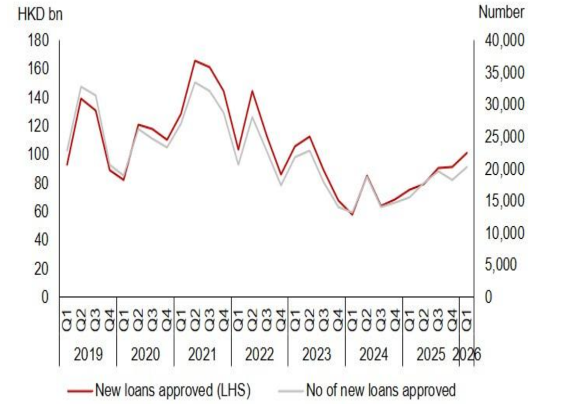
Figure 1.5. Property Sector

Construction and property loans continued to shrink, driven by lower building and construction credit.



Source: HKMA; AMRO staff calculations
Note: Purchases of residential property loans is the combination of purchase of flats in the home ownership scheme and the purchase of other residential properties.

The recovery in mortgage loans has been modest so far.

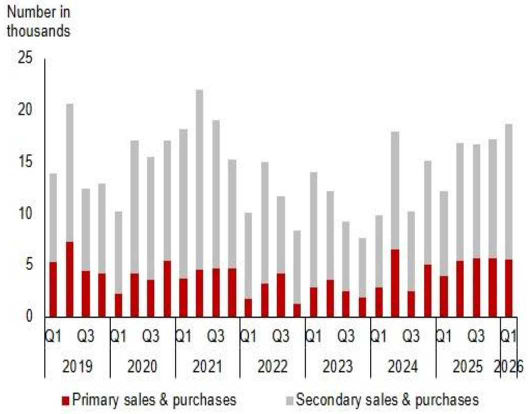


Source: HKMA; AMRO staff calculations

Nonetheless, expectations of property price and sales & purchases for the next 12 months also increased in Q4 2025 and Q1 2026.

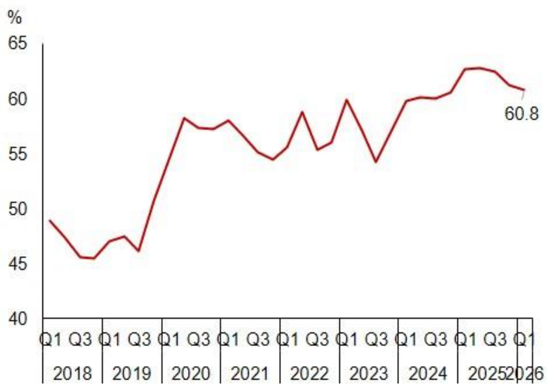
Source: RICS-SPACIOUS Hong Kong Residential Market Survey

This expectation aligns with the pickup in property transactions observed in 2025 and early 2026.



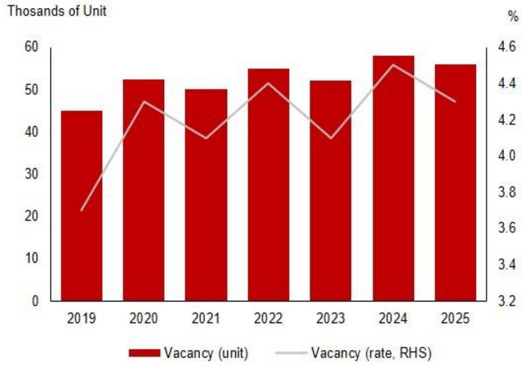
Source: Land Registry; AMRO staff calculations

The loan-to-value ratio of new mortgages inched up to 60.8 percent in Q1 2026.



Source: HKMA

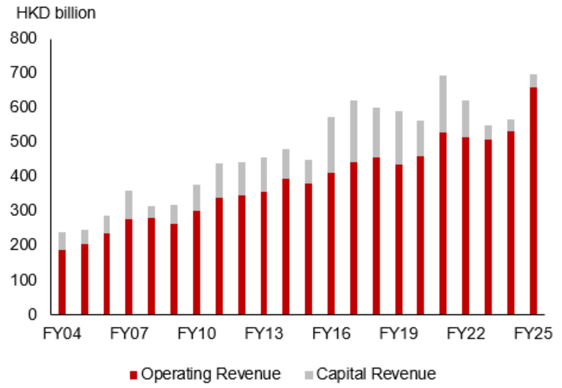
The vacancy rate of the private domestic property market remained stable in 2025.



Source: Hong Kong Rating and Valuation Department
Note: The vacancy rate is for the private domestic property market.

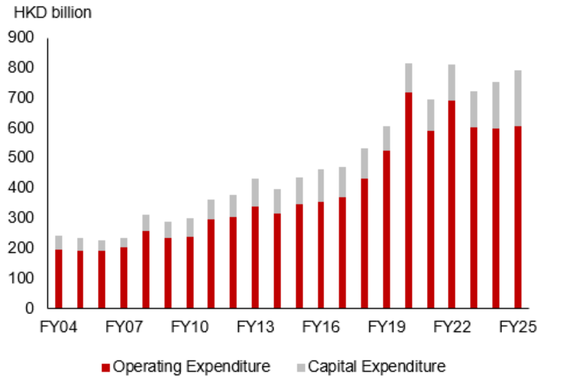
Figure 1.6. Fiscal Sector

Government revenue rose in FY2025 along with increased direct taxes, stamp duties and land premium.



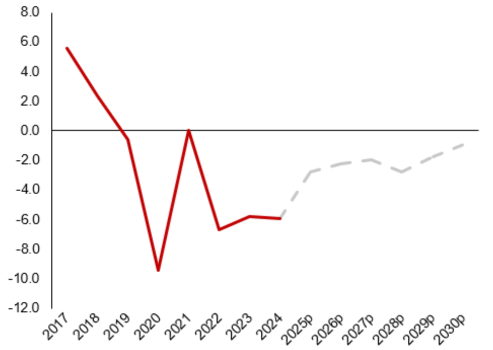
Source: Financial Services and the Treasury Bureau (FSTB); CEIC

Government expenditure increased in FY2025 driven by higher capital expenditure.



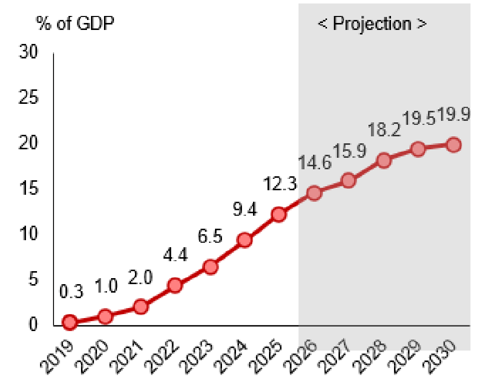
Source: FSTB; CEIC

The fiscal balance (before issuance and repayment of bonds) as a percentage of GDP is projected to gradually narrow from FY2025.



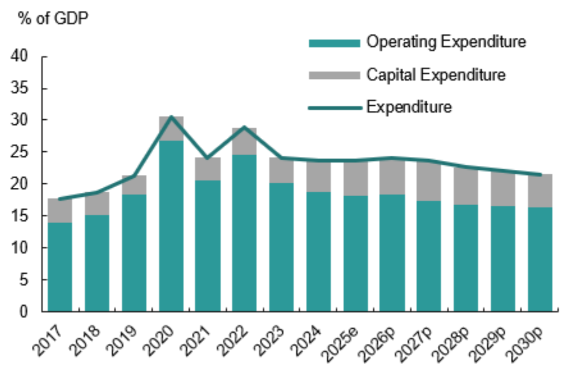
Source: FSTB;

The outstanding government bonds balance as a percentage of GDP is projected to increase.



Source: FSTB

Fiscal expenditure as a percentage of GDP is projected to decline.



Source: FSTB.

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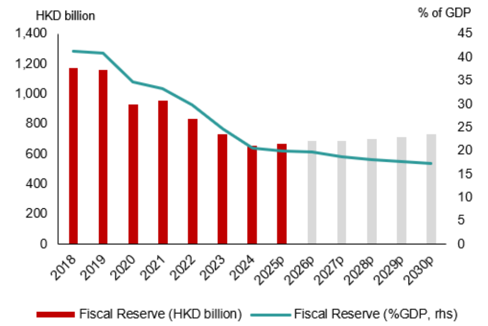
Fiscal reserves as a percentage of GDP are expected to decline through FY2030.



Source: FSTB

Appendix 2. Selected Economic Indicators for Hong Kong, China

	2022	2023	2024	2025 e/	2026 p/	2027 p/	2028 p/	2029 p/	2030 p/
Real Sector and Prices	(In annual percentage change)								
Real GDP	-3.7	3.2	2.6	3.6	3.4	3.0	2.8	2.6	2.5
Private consumption	-2.2	6.8	-0.2	1.7	2.3	1.8	1.7	1.6	1.5
Government consumption	8.0	-3.9	0.7	1.5	1.2	0.5	0.3	0.3	0.3
Gross domestic fixed capital formation	-7.4	11.4	1.9	4.8	9.5	6.0	5.0	4.5	4.5
Exports	-12.5	-6.5	5.1	11.2	25.1	22.8	19.3	18.7	17.2
Goods	-14.0	-10.0	5.3	12.0	28.3	25.1	20.9	19.9	18.1
Services	-0.5	19.2	4.1	6.2	4.5	5.3	5.0	6.0	7.0
Imports	-12.2	-5.2	3.9	11.5	25.8	22.8	19.2	18.6	17.2
Goods	-13.2	-8.3	3.0	12.6	28.7	24.7	20.6	19.7	17.9
Services	-1.2	25.6	11.3	4.3	3.8	4.3	4.0	5.0	7.0
GDP deflator	1.7	2.9	4.1	0.9	1.6	1.4	1.3	1.2	1.2
Labor Market									
Unemployment rate (In percent, period average)	4.3	2.9	3.0	3.7	3.7	3.8	3.9	3.9	3.9
Prices									
Headline inflation (Period average)	1.9	2.1	1.7	1.4	2.0	1.6	1.5	1.4	1.4
Underlying inflation (Period average, netting out one-off govt relief measures)	1.7	1.7	1.1	1.1	1.4	1.2	1.1	1.0	1.0
External Sector	(In billions of U.S. dollars, unless otherwise specified)								
Current account balance (In percent of GDP)	10.2	8.4	13.1	12.3	11.0	11.1	11.4	11.6	11.6
Goods trade balance (In percent of GDP)	-1.4	-4.2	-0.5	-2.2	-3.3	-3.3	-3.1	-3.0	-2.9
Services trade balance (In percent of GDP)	5.5	4.8	4.3	5.1	5.2	5.4	5.7	6.0	6.2
Primary income (In percent of GDP)	6.6	8.5	9.9	10.0	9.8	9.6	9.4	9.2	8.8
Overall balance	-47	-10	-11	-9	-14	-12	-11	-11	-9
(In percent of GDP)	-13	-3	-3	-2	-3	-3	-2	-2	-2
Gross official reserves excluding net forward position	424	426	422	428	426	425	426	428	429
(In months of retained imports of goods)	40	38	39	34	32	29	30	31	31
Total external debt	1779	1846	1890	2062	2194	2274	2299	2324	2349
Short-term external debt (% of international reserves)	271	268	269	289	274	273	274	276	272
Fiscal Sector (General Government)	(In percentage of GDP, fiscal year)								
Revenue: AMRO[1)]	21.9	18.1	17.5	20.7	21.6	20.7	19.4	19.9	20.1
Expenditure: AMRO[1)]	28.5	23.8	23.4	23.4	22.9	22.5	21.8	21.6	21.4
Fiscal balance (before bonds): AMRO[1)]	-6.6	-5.7	-5.8	-2.8	-1.3	-1.8	-2.4	-1.7	-1.3
Fiscal balance (before bonds): Authorities	-6.7	-5.8	-5.9	-2.8	-2.2	-2.0	-2.8	-1.8	-0.9
Public debt: AMRO[1)]	4.3	6.4	9.3	12.2	13.5	14.7	16.8	18.3	19.4
Public debt: Authorities	4.4	6.5	9.4	12.3	14.6	15.9	18.2	19.5	19.9
Monetary and Financial Sector	(In annual percentage change, period end)								
Total loans	-3.0	-3.6	-2.8	2.3	2.5	2.7	2.5	2.3	2.3
Total loans (In percent of GDP)	376.3	341.9	310.9	304.4	297.1	292.1	287.5	283.2	279.3
Loan to deposit ratio (In percent)	68.5	62.8	57.0	52.2	54.2	56.2	54.2	55.2	55.2
Classified loan ratio (In percent)	1.4	1.7	2.2	2.2	2.1	2.2	2.1	2.0	1.9
Capital adequacy ratio (In percent)	20.1	21.1	21.8	25.1	26.1	27.1	26.1	25.9	25.7
Memorandum Items									
Exchange rate (LCY per USD, end-period)	7.81	7.81	7.76	7.78					
GDP in billions of HKD	2808.9	2981.2	3186.5	3329.8	3497.4	3653.2	3804.3	3950.1	4097.4
GDP in billions of U.S. dollars	358.6	380.8	408.4	427.0	451.3	471.4	490.9	509.7	528.7
GDP per capita (USD)	48,821	50,529	54,275	56,943	60,179	62,860	65,460	67,968	70,503
Interest rates (%, end-period)									
Three-month Hibor	5.0	5.2	4.4	2.9	2.5	2.3	2.5	2.6	2.6
10Y Govt' bond yield	3.6	3.2	3.7	3.0	3.3	3.6	3.6	3.5	3.5
Asset prices									
Hang Seng Index (end of period, 1964=100)	19,781	17,047	20,060	25,631					
(% yoy)	-15.5	-13.8	17.7	27.8					
Residential property prices (end of period, 1999=100)	334.7	311.3	289.2	299.6					
(% yoy)	-15.0	-7.0	-7.1	3.6					

Source: Hong Kong authorities; IMF; Haver Analytics; CEIC; AMRO staff calculations and estimates

Note: 1) Fiscal year based GDP used for calculations and AMRO staff's own projection. 2) Fiscal balance excludes net issuance of government bonds and notes, 3) p/ denotes projections from 2026 to 2030. 4) Fiscal figures refer to fiscal year.

Appendix 3. Balance of Payments

	2022	2023	2024	2025
	(In percent of GDP)			
Current account	10.2	8.4	13.1	12.3
Goods	-1.4	-4.2	-0.5	-2.2
Total exports of goods	171.3	151.4	155.4	172.9
Imports of goods	172.8	155.6	155.9	175.1
Services	5.5	4.8	4.3	5.1
Exports of services	23.2	25.5	26.2	27.0
Imports of services	17.6	20.7	21.9	21.9
Primary income	6.6	8.5	9.9	10.0
Secondary income	-0.5	-0.6	-0.7	-0.7
Capital account	0.0	0.2	0.0	0.0
Financial account	9.9	8.1	14.5	16.6
Financial non-reserve assets	22.9	10.8	17.3	18.7
Direct investment	-1.0	-6.8	-11.1	-5.0
Portfolio investment	11.3	15.2	38.9	14.6
Financial derivatives	-5.0	-3.4	-2.7	-1.4
Other investment	17.6	5.8	-7.8	10.4
Reserve assets	-13.1	-2.7	-2.8	-2.1
Net errors and omissions	-0.4	-0.5	1.4	4.4
Overall Balance of Payments	-13.1	-2.7	-2.8	-2.1

Source: C&SD; CEIC; AMRO staff calculations.

Appendix 4. Statement of Central/ General Government Operations

	2022/23	2023/24	2024/25	2025/26
	(In billions of HKD)			
Opening Balance	957	835	735	654
Consolidated Revenue	622	549	565	697
General Revenue	552	530	551	679
Operating Revenue	513	508	532	660
Direct Tax	264	262	279	323
Stamp Duties	70	49	64	103
Others	179	198	189	234
Capital Revenue	39	22	20	19
Land Premium	70	20	14	19
Conslidated Expenditure	810	721	753	790
Operating Expenditure	690	601	597	604
Capital Expenditure	121	120	157	186
Net Issuance & Repayment of Gov Bonds & Notes	66	72	108	104
Consolidated Surplus	-122	-100	-80	11
Closing Balance	835	735	654	666
	(In percent of GDP)			
Opening Balance	34.1	28.0	23.1	19.7
Consolidated Revenue	22.1	18.4	17.7	20.9
General Revenue	19.7	17.8	17.3	20.4
Operating Revenue	18.3	17.0	16.7	19.8
Direct Tax	9.4	8.8	8.7	9.7
Stamp Duties	2.5	1.6	2.0	3.1
Others	6.4	6.6	5.9	7.0
Capital Revenue	1.4	0.7	0.6	0.6
Land Premium	2.5	0.7	0.4	0.6
Consolidated Expenditure	28.9	24.2	23.6	23.7
Operating Expenditure	24.6	20.2	18.7	18.2
Capital Expenditure	4.3	4.0	4.9	5.6
Overall balance	-6.7	-5.8	-5.9	-2.8
Primary balance	-6.7	-5.6	-5.7	-2.5
Net Issuance & Repayment of Gov Bonds & Notes	2.3	2.4	3.4	3.1
Consolidated Surplus	-4.4	-3.4	-2.5	0.3
Closing Balance	29.7	24.6	20.5	20.0
Memorandum Items:				
GDP in billions of HKD (Calendar Year)	2,809	2,981	3,187	3,330

Source: FSTB

Appendix 5. Monetary Survey

	2023	2024	2025	2026*
	(In percent of change, period end)			
Total monetary base	-1.1	3.3	4.2	1.6
Total money supply				
M1	-6.2	5.8	13.2	9.8
M2	4.0	7.3	11.6	2.5
M3	4.0	7.4	11.6	2.5
Hong Kong dollar money supply				
Currency in circulation	-1.0	1.8	6.5	3.4
M1	-10.3	1.3	11.7	6.4
M2	1.9	2.7	4.2	3.2
M3	1.9	2.8	4.2	3.2
Deposit				
Total	5.1	7.1	11.8	2.4
Hong Kong dollar	2.1	2.8	3.8	3.2
Foreign currency	7.9	10.9	18.5	1.9
Loans and advances				
Total	-3.6	-2.8	2.3	3.6
Hong Kong dollar	-2.8	-5.8	-1.9	1.3
Foreign currency	-5.0	2.4	8.8	6.8
Interest rates	(In percent, period average)			
Discount window base rate	5.5	5.6	4.6	4.0
HIBOR: 1 month	4.3	4.4	2.7	2.4
HIBOR: 3 month	4.6	4.5	3.1	2.6
Composite interest rate	2.4	2.5	1.5	1.3
HSBC's best lending rate	5.8	5.8	5.2	5.0

Source: HKMA; CEIC; AMRO staff calculations
* As of end-April 2026

Appendix 6. Data Adequacy for Surveillance

Criteria / Key Indicators for Surveillance	Data Availability (i)	Reporting frequency / timeliness (ii)	Data Quality (iii)	Consistency (iv)	Others if any (v)
National Account	(i) For expenditure components, yearly and quarterly data in nominal and real terms are available; (ii) for production components, yearly data in nominal terms are available, and yearly and quarterly data in real terms are available; and (iii) for income components, yearly data in nominal terms are available.	Quarterly, about 1 month for expenditure and about 2.5 months for production after the end of the reference quarter	-	-	-
Balance of Payments (BOP) and external position	Quarterly data are available	Quarterly, within three months after the end of the reference period	-	-	-
Central government budget / external debt	Monthly central government public finances are available, while quarterly external debt data are available in detail	Budget: monthly, within one month after the end of the reference period	-	-	-
Inflation, money supply and credit growth	Monthly inflation, money supply and credit growth data are available	Monthly data are released within one month after the end of the reference period	-	-	-
Financial sector soundess indicators	Available	Financial sector soundness indicators (FSIs) are available from the IMF website	-	-	-
Housing market indicators	Available	Monthly data are released within one month after the end of the reference period	-	-	-

Source: AMRO staff compilations. This preliminary assessment will form the "Supplementary Data Adequacy Assessment" in the ERPD Matrix.
Note:
(i) Data availability refers to whether official data is available for public access by any means.
(ii) Reporting frequency refers to the periodicity with which the available data is published. Timeliness refers to how up to date the published data is relative to the publication date.
(iii) Data quality refers to the accuracy and reliability of the available data, taking into account the data methodologies.
(iv) Consistency refers to both internal consistency within the data series itself and its horizontal consistency with other data series of either the same or different categories.
(v) Other criteria might also apply, if relevant. Examples include but are not limited to potential areas of improvement for data adequacy.

Appendix 7. Debt Sustainability Analysis[3]

1. **Hong Kong's public debt is projected to rise gradually over the medium term while remaining at a low level, and gross financing needs (GFNs) are expected to stabilize** (Table 7.1). Under AMRO's baseline projection, public debt increases from 12.2 percent of GDP in FY2025 to 19.4 percent of GDP by FY2030, reflecting a gradual build-up of market borrowing to support the development of the Northern Metropolis and other public works projects. Real GDP growth strengthened to 4.3 percent (yoy) in FY2025 and is projected to remain above potential, easing to around 3.4 percent in 2026 and 3 percent in FY2027, with inflation expected to remain moderate. On the fiscal side, conditions improved markedly in FY2025, with the deficit (before bond issuance and repayment) narrowing to around 2.8 percent of GDP, supported by buoyant revenue (including profits tax, stamp duties, and transfers from funds outside the Government's accounts); the FY2026 Budget envisages a further decline in the deficit (before bond issuance and repayment of bonds) to about 2.2 percent of GDP. Over the medium term, debt dynamics are driven mainly by primary deficits and interest costs, partially offset by real GDP growth and inflation (Figure 7.1). GFNs are projected to remain broadly stable at around 4–5 percent of GDP over the medium term.

2. **Overall, Hong Kong's public debt sustainability risk is assessed to be low** (Figure 7.1). Under the baseline, both the public debt ratio and GFNs remain low, and stress tests suggest that adverse shocks would raise the debt path but keep it at moderate levels (Figure 7.2). Hong Kong's external position provides an important buffer, supported by a sizeable current account surplus and substantial foreign reserves. While the share of foreign-currency-denominated public debt is relatively high, risks are mitigated by the continued smooth functioning of the Linked Exchange Rate System. In addition, although the share of short-term public debt has increased with the expansion of domestic instruments, the absolute level remains small (for example, short-term public debt was about 1.6 percent of GDP in FY2024), limiting near-term refinancing pressures. Nevertheless, as the baseline projects a continued gradual rise in debt alongside ongoing development-related expenditure, maintaining a credible medium-term fiscal strategy and strengthening the resilience of public finances (including through stable revenue sources) will remain important to preserve fiscal space and sustain low debt-related risks.

[3] Public debt comprises the green bonds issued under the Government Sustainable Bond Programme and the government bonds issued under the Infrastructure Bond Programme. Government bonds issued under the government Bond Programme are not for fiscal operation and are therefore excluded.

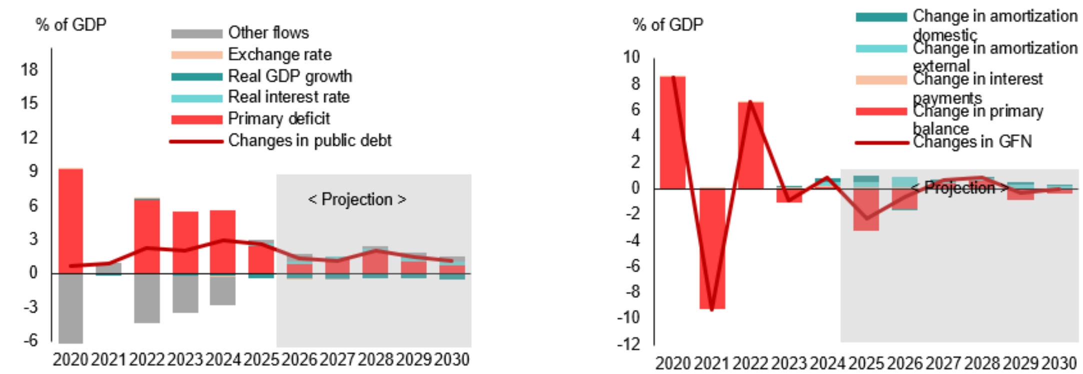
Table 7.1. Macroeconomic and Fiscal Indicators

	2020	2021	2022	2023	2024	2025p	2026p	2027p	2028p	2029p	2030p
Macroeconomic indicators (Percent)											
Real GDP growth	-2.4	3.3	-2.1	3.2	2.7	4.3	3.4	3.0	2.8	2.6	2.5
GDP deflator	-0.1	1.0	1.9	3.3	3.5	0.5	1.6	1.4	1.3	1.2	1.2
Effective interest rate	2.5	1.7	1.9	3.1	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Fiscal indicators (Percent of GDP)											
Revenue	20.7	24.4	21.9	18.1	17.5	20.7	21.6	20.7	19.4	19.9	20.1
Expenditure	29.9	24.3	28.5	23.8	23.4	23.4	22.9	22.5	21.8	21.6	21.4
Fiscal balance (before bonds)	-9.2	0.0	-6.6	-5.7	-5.8	-2.8	-1.3	-1.8	-2.4	-1.7	-1.3
Primary balance	-9.2	0.0	-6.6	-5.5	-5.7	-2.4	-0.9	-1.3	-1.9	-1.1	-0.7
Public debt	1.0	2.0	4.3	6.4	9.3	12.2	13.5	14.7	16.8	18.3	19.4
Gross financing needs	9.2	0.0	6.6	5.7	6.5	4.3	3.6	4.3	5.2	4.9	4.8

Source: HK Treasury and HKMA through CEIC and Haver; AMRO staff estimates
Notes: 1) The macroeconomic and fiscal indicators for 2020-2030 are based on AMRO staff fiscal year estimates and projections. 2) Any discrepancy between the fiscal balance (before bonds) and revenue less expenditure is due to rounding.

Figure 7.1. Public Debt and GFN Dynamics

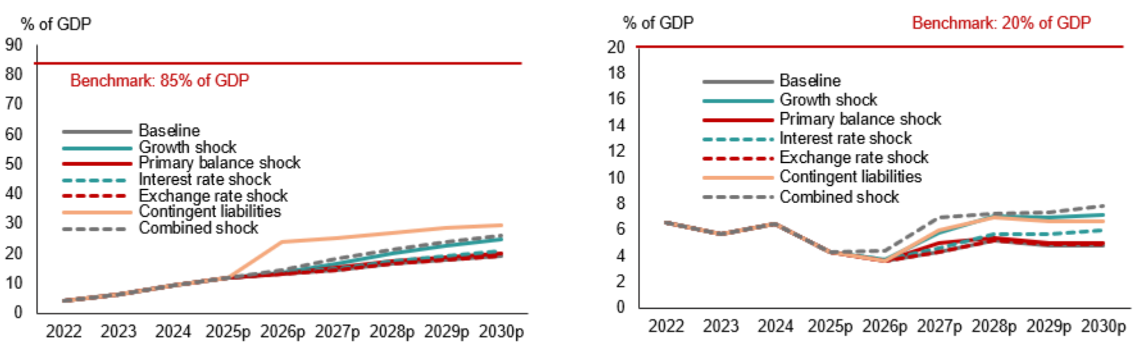
Panel A. Contribution to Changes in Public Debt | Panel B, Contribution to Changes in GFN



Source: HK Treasury and HKMA through CEIC and Haver; AMRO staff estimates

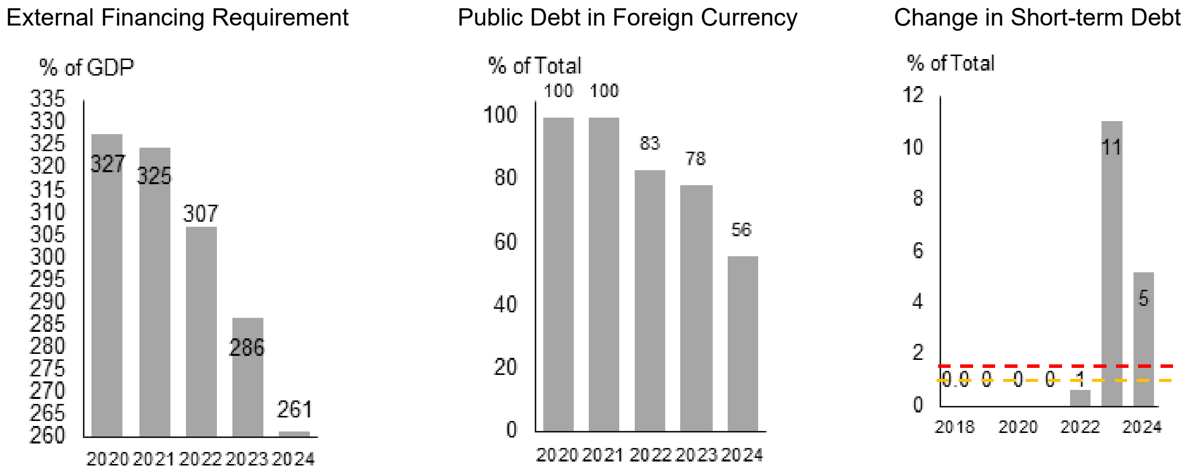
Figure 7.2. Macro-Fiscal Stress Test

Panel A. Stress Test for Public Debt | Panel B. Stress Test for GFN



Note: The scenarios for the stress test are as follows: 1) Real GDP growth shock: one standard deviation or –2.9 percentage point shock to 2026 and 2027; 2) Primary balance shock: one standard deviation or –0.8 percent of GDP shock to 2026 and 2027; 3) Interest rate shock: +6.3 percentage point shock for new external financing and +0 percentage point shock for new domestic financing from 2026; 4) Exchange rate shock: one-time +0.5 percentage points shock in 2026; 5) Contingent liability shock: realization of 11 percent of GDP contingent liabilities, which are mainly government guarantees as of end FY2024; 6) Combined shock: a combination of growth (half size), primary balance (half size), interest rate, and exchange rate shocks.
Source: HK Treasury and HKMA through CEIC and Haver; AMRO staff estimates.

Figure 7.3. Debt Profile Vulnerabilities



Note: 1) Short-term debt is based on the remaining maturity; 2) External financing requirements = current account deficit + amortization of public external debt + amortization of private external debt.
Source: HK Treasury and HKMA through CEIC and Haver; AMRO staff estimates

Figure 7.4. Heatmap of Public Debt Sustainability

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Public Debt												
Gross Financing Needs												
Debt Profile	Market Perception of Sovereign Risk											
	External Financing Requirement											
	Public Debt Held by Non-residents											
	Public Debt in Foreign Currency											
	Change in Short-term Debt Share											

Note 1) For Public Debt and Gross Financing Needs, the cell is highlighted in green if the benchmark is not exceeded under all shocks or the baseline, yellow if exceeded under any specific shock but not the baseline, and red if exceeded under the baseline; 2) For Debt Profile, the cell is highlighted in green if the country value is less than the lower early warning benchmark, red if it exceeds the upper early warning benchmark, and yellow if it lies between the lower and upper early warning benchmarks.
Source: AMRO staff estimates

Appendix 8. Climate Clipboard—Risks, Responses, and Opportunities[4]

A. Physical risks

Exposure/ Sources of risk	Potential macro-financial impact
• Sea level rise (chronic) • Extreme rainstorms and tropical cyclones (acute) • Extreme droughts (acute) • Extreme heat (acute)	• Estimated direct economic losses: HKD4.6 billion (0.2% of GDP) due to Super Typhoon Mangkhut in 2018, 3.8 times higher than that of Super Typhoon Halo in 2017 • Trading in the financial markets delayed/ cancelled' business activities suspended in severe impact scenarios • Property and infrastructure damage from city-wide flash floods and landslides • Impact on agriculture sector: According to the Emergency Relief Fund in respect of primary producer grants, Super Typhoon Saola, Severe Typhoon Haikui and rainstorm associated with its remnant in September 2023 led to an estimated loss of over HKD1.7 million for pigs (involving two livestock farms with an estimated total loss of over 1500 pigs).

B. Transition risks

Sources of risk	Potential macro-financial impact
• Changes in climate policy, technological changes, or a change in market sentiment • Phasing out of coal-fired electricity generation plants • Phasing out of fuel-propelled vehicles • Regulatory and supervisory transition • Financial risk exposure • Systemic and liability risks	• Increase in spending on technology and infrastructure investment necessary for the development of and shift to renewable energy sources • Heightened credit risks, especially for emission-intensive firms in disorderly transition • Increase in government spending, via fiscal incentives/ subsidies, to promote private sector shift to renewable energy sources • Compliance costs for businesses, although the impact may be limited given the relatively small size of carbon-intensive sectors such as energy • Impact on lending and investment portfolios of financial institutions, as market preferences may shift toward greener assets. • Uncertainty around evolving regulatory standards and the pace of policy change that could impact business planning and investment decisions

C. Adaptation response framework and strategies

Adaptation framework	Key initiatives/strategies	Estimated financing need and sources	
• Hong Kong's Climate Action Plan 2050 (Chapter 5: Climate Change Adaptation and Resilience)	• Strengthen building and infrastructure design against extreme weather events (tropical cyclones, rainstorms) • Enhance drainage management and landslip prevention measures • Integrate water body revitalization with green and ecological conservation in drainage work • Develop policies/ plans to enhance Hong Kong's adaptive capacity based on climate science and international standards	• In the next 15 to 20 years, the government will allocate roughly HKD240 billion to implement various measures on climate change mitigation and adaptation. *Note: Separate budget for mitigation and adaptation is not available.*	
		Domestic	**External**
		• Annual budget	• N/A

D. Mitigation response framework and strategies

Nationally Determined Contribution (NDC)	National framework / Strategies	Estimated Financing and sources
• Reduce carbon emissions by 26 percent-36 percent by 2030 against the 2005 baseline **Long-term commitment** • Halve total carbon emissions from 2005 level by 2035 • Achieve carbon neutrality before 2050	• Hong Kong's Climate Action Plan 2030+ (Jan 2017), outlining strategies that include: ➢ Phasing down coal in favor of natural gas for electricity generation by 2030 ➢ Scaling up renewable energy sources ➢ Enhancing energy and carbon efficiency in buildings and infrastructure • Hong Kong's Climate Action Plan 2050 (Oct 2021), with four key decarbonization strategies: 1) Net-zero electricity generation 2) Energy saving and green buildings 3) Green transport 4) Waste reduction • Hong Kong Roadmap on Popularization of Electric Vehicles (Mar 2021) ➢ Provides key measures to achieve zero vehicular emissions by 2050 • Clean Air Plan for Hong Kong 2035 (Jun 2021) ➢ Outlines major areas of action to meet air quality targets from the World Health Organization's Air Quality Guidelines • Energy Saving Plan 2015–2025+ (May 2015) ➢ Assesses energy use in Hong Kong and establishes goals to reduce the city's energy intensity by 40 percent by 2025 • Waste Blueprint for Hong Kong 2035 (Feb 2021) ➢ Sets out key areas of action to achieve the vision of waste reduction, resources circulation and zero landfill • Climate Change Framework for Built Environment (Jun 2023) ➢ Supports building industry in achieving carbon neutrality ➢ Facilitates reporting of environmental, social and governance achievements ➢ Justifies green finance requirements ➢ Enables disclosure of climate risk strategies • The Strategy of Hydrogen Development in Hong Kong (Jun 2024) ➢ Set outs the four major strategies of improving legislations, establishing standards, aligning with the market, and advancing with prudence to create an environment conducive to the development of hydrogen energy in Hong Kong in a prudent and orderly manner	• As announced in the Hong Kong's Climate Action Plan 2050 promulgated in 2021, in the next 15 to 20 years, the government will allocate about HKD240 billion to implement various measures on climate change mitigation and adaptation. *Note: Separate budget for the mitigation and adaptation is not available.*

[4] Prepared by Wee Yang NG, Research Analyst.

E. Enabling regulations for climate resilience		
E.1. Supervisory requirement	**E.3. Carbon pricing frameworks**	**E.4. Sustainable finance frameworks**
• Supervisory Policy Manual for Climate Risk Management (Dec 2021) ➢ Provides guidance to authorized institutions (AIs) on key components of climate-related risk management ➢ Outlines the HKMA's approach and expectations for reviewing AIs' climate-related risk management **E.2. GHG accounting framework** • Guidelines to account for and report on greenhouse gas (GHG) emissions and removals for buildings (commercial, residential or institutional purposes) in Hong Kong (2010) ➢ Ensure accurate and fair reporting of GHG emissions and removals for commercial, residential, and institutional buildings, reflecting their GHG performance • ISO 14064 1 Greenhouse Gas Accounting and Verification (Mar 2022) ➢ Provides institutions with a framework for quantifying and reporting carbon emission performance to support sustainable development	• Conducted a feasibility study on carbon market opportunities for Hong Kong (Mar 2022) • Launched Core Climate (Oct 2022) ➢ Serves as an international carbon marketplace established by the Hong Kong Exchanges and Clearing Limited (HKEX) ➢ Provides effective and transparent trading of voluntary carbon credits and instruments across Asia and beyond	• Securities and Futures Commission's Strategic Framework for Green Finance (Sep 2018) with aims to: ➢ Enhance climate-related corporate disclosures aligned with recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) ➢ Develop policies and guidance for asset managers' disclosures and combat greenwashing ➢ Facilitate development of green-related investments ➢ Support investor awareness and capacity building in green finance ➢ Participate in international sustainability initiatives to promote Hong Kong as an international green finance center • Hong Kong Monetary Authority's Sustainable Finance Action Agenda (Oct 2024) with aims to facilitate sustainable fund flows and ensure that banks manage the risks associated with the net zero transition properly. It includes eight goals in four areas, namely • Banking for net zero • Investing in a sustainable future • Financing net zero Making sustainability more inclusive

E.5. Financial system		
Initiatives	**Guidelines**	**Status**
1. Taxonomy	• Common Ground Taxonomy (CGT) – Climate Change Mitigation (Jun 2022)	• CGT Research Series Phase 1: Principles for advancing the adoption of the Common Ground Taxonomy in Hong Kong SAR and the Greater Bay Area) (June 2022) • CGT Research Series Phase 2: Understanding Use Cases of the Common Ground Taxonomy (Sep 2022) • CGT Research Series Phase 3: Operationalizing IPSF Common Ground Taxonomy in the Greater Bay Area (Sep 2023)
	• Hong Kong Taxonomy for Sustainable Finance (**May 2024**)	• In May 2024, the HKMA published Phase 1 of the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy), encompassing 12 economic activities under four sectors, namely Energy, Transportation, Construction, and Waste. • HKMA releasedPhase 2A of the Hong Kong Taxonomy in Jan 2026. Two new sectors namely Manufacturing, and Information Communications and Technology (ICT) were introduced. Additionally, Phase 2A broadened the scope of the Energy,Transportation, and Construction sectors by adding new activities. Phase 2 also introducedtransition elements and a new environmental objective on climate change adaptation (Jan 2026). • Development of the next phase of the Hong Kong Taxonomy is underway.
2. Risk management and assessments	• Pilot Climate Risk Stress Test Report (Dec 2021) • Guidelines for Banking Sector Climate Risk Stress Test (Apr 2023) • 2023 – 2024 Banking Sector Climate Risk Stress Test (Feb 2025)	• Integrated climate-related risks into the regular supervisory stress testing framework in 2026 after completion of the second round sector-wide climate risk stress test. • Published good practices on various aspects of climate risk management: • Due diligence processes for green and sustainable products **(Dec 2022)** • Good practices on climate-related risk governance **(Aug 2024)** • Good practices on climate risk management **(Oct 2025)** • Good practices on integrating climate-related risks into internal capital adequacy assessment process and capital planning **(Apr 2026)**
3. Climate-related financial disclosures	• Supervisory Policy Manual for Climate Risk Management (Dec 2021) • Roadmap on Sustainability Disclosure (December 2024) • HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (the HKFRS S1) (December 2024) • HKFRS S2 Climate-related Disclosures (the HKFRS S2) (December 2024)	• The Roadmap on Sustainability Disclosure in Hong Kong sets out Hong Kong's approach to require publicly accountable entities (PAEs) to adopt the ISSB Standards. It provides a well-defined pathway for large PAEs to fully adopt the ISSB Standards no later than 2028. • Hong Kong Sustainability Disclosure Standards took effect on 1 Aug 2025, with large publicly accountable entities expected to fully adopt ISSB-aligned standards no later than 2028.
4. Data availability	• Launched a Physical Risk Assessment Platform for banks to assess the potential impact of physical risk on residential and commercial buildings in Hong Kong under different climate scenarios	• The beta version of the platform was launched in May 2024, and the formal version with enhanced functionalities was launched in July 2025.
5. Capacity building	• Pilot Green and Sustainable Finance Capacity Building Support Scheme • **Sustainable Finance Internship Programme** for university students in sustainable finance disciplines	• Launched in FY2022 for a pilot period of three years (HKD200 million earmarked for the scheme) and extended in FY 2025 for three more years to 2028

F. Potential opportunities from the low-carbon transition		
• Green economy • Green finance hub in the region • Premier financing platform for green projects and firms	• Carbon-neutral communities • Innovation and technology center for green and sustainable development • Research and development center for green and sustainable development	• Development of relevant support infrastructure for EVs, including charging facilities/ stations • Light manufacturing, e.g., producing spare parts for EVs, solar panels, etc.

Source: Hong Kong's authorities; media reports; AMRO staff
Note: The Common Ground Taxonomy (CGT) – Climate Change Mitigation is an instruction report issued by International Platform on Sustainable Finance (IPSF), while the CGT Research Series Phase 1-3 is a series of research done by Hong Kong Green Finance Association (HKGFA).

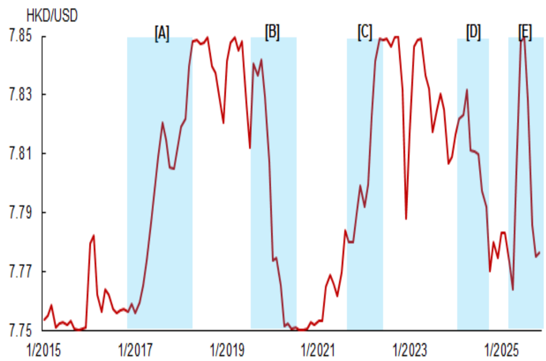
Annexes: Selected Issues

Annex 1. Inside the LERS: Why HKD Stability Can Coexist with Wide Rate Differentials[5]

Background and Recent Developments in Hong Kong's Exchange Rate

1. **The Hong Kong dollar exchange rate has witnessed periods of relatively high fluctuations within the Convertibility Zone multiple times over the past decade.** Operating under a Linked Exchange Rate System (LERS), the currency has remained stable within a narrow band of 7.75 to 7.85 to the US dollar. However, shifts in US monetary policy or significant changes in capital flow and market liquidity conditions have tended to amplify fluctuations within the designated range (Figure A1.1).

Figure A1.1. Hong Kong Dollar Exchange Rate



Source: HAVER; AMRO staff calculations
Note: HKD/USD denotes monthly average of HKD per USD.

Table A1.1. Episodes of Sustained Movement towards Strong-/ Weak-side

Episode	Event	HKD/USD (Monthly Average)
A	US interest rate hikes, widening positive LIBOR-HIBOR spread	7.758 (Oct 2016) 7.848 (June 2018)
B	Equity-related demand, negative USD-HKD interest rate spreads, heightened risk-off sentiment	7.811 (July 2019) 7.753 (July 2020)
C	Weak performance in equity market, widening positive LIBOR-HIBOR spread	7.781 (Sept 2021) 7.849 (June 2022)
D	US interest rate cuts, surge in local stock market activity	7.824 (March 2024) 7.771 (Oct 2024)
E	Equity market inflows, firming HIBORs	7.775 (March 2025) 7.782 (Dec 2025)

Source: Hong Kong Association of Banks; HKMA; AMRO staff calculation
Note: Figures in the third column show the exchange rate at the start and at the end of the episode.

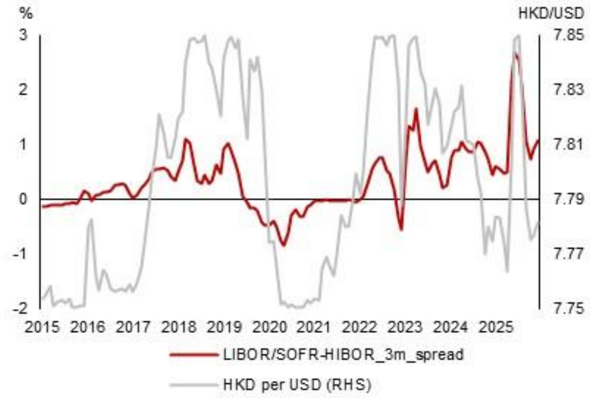
2. **In several episodes, there were sustained movements towards the strong- or weak-side of the Convertibility Undertakings (CU).** Table A1.1 shows these episodes were primarily driven by a combination of US monetary policy and the resulting USD-HKD interest rate differentials, capital flow dynamics, and shifts in market sentiments. USD-HKD interest rate differentials played an important role across all episodes. Wider positive USD-HKD spreads tended to create episodes of the triggering of weak-side CU and vice versa. Equity-related inflows also played an important role, particularly in episodes B, C, D and E. Strong equity market inflows tended to be associated with episodes of triggering of strong-side CU, while weak inflows created episodes of triggering of weak-side CU. Whenever the HKD exchange rate strengthens (weakens) to the strong-side (weak-side) CU, the HKMA stands ready to sell (buy) Hong Kong dollar against US dollar upon requests by banks; for instance in episodes A, B and E, the CU was triggered[6] to maintain the HKD within the convertibility bands.

3. **Within the LERS, movements of the HKD towards the weak-side or strong-side CUs are driven mainly by shifts in interest rate differentials and capital flows.** When Fed tightening widens the positive USD-HKD interest-rate differential, measured by LIBOR/SOFR

[5] Prepared by Wee Yang NG, Research Analyst and Jungsung Kim, Senior Economist.
[6] The weak-side CU was triggered 13 times between 12 and 18 April 2018 and six times between 15 and 18 May 2018 during episode A while the strong-side CU was triggered six times between 21 April and 27 April 2020 during episode B and four times in early May during episode E.

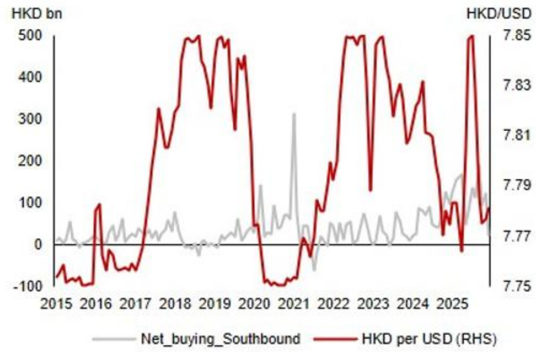
minus HIBOR as applicable, arbitrage and capital outflows typically push HKD exchange rate towards the weak-side CU (Figure A1.2). Conversely, when equity inflows surge or carry trade turns favorable in HKD, the HKD exchange rate tends to move towards the strong-side CU (Figure A1.3, Figure A1.4). Whenever the weak-side or strong-side of the CU is triggered, the Aggregate Balance contracts or expands accordingly, leading to changes in the HIBOR. When the weak-side CU is triggered, the HKMA purchases HKD, which contracts the Aggregate Balance and lifts HIBOR, tightening liquidity conditions. However, when the strong-side CU is triggered, the HKMA sells HKD, which expands the Aggregate Balance and lowers HIBOR (Figure A1.5), easing liquidity conditions and guiding the exchange rate back within the convertibility zone.

Figure A1.2. LIBOR/SOFR-HIBOR Spread and HKD Exchange Rate



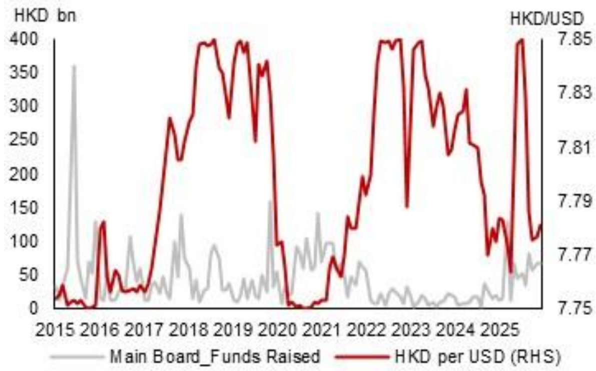
Source: Hong Kong Association of Banks; CEIC; Haver Analytics
Note: LIBOR data available until June 2023 as it was discontinued in the summer of 2023, SOFR was used after June 2023.

Figure A1.3. Southbound Inflows and HKD Exchange Rate



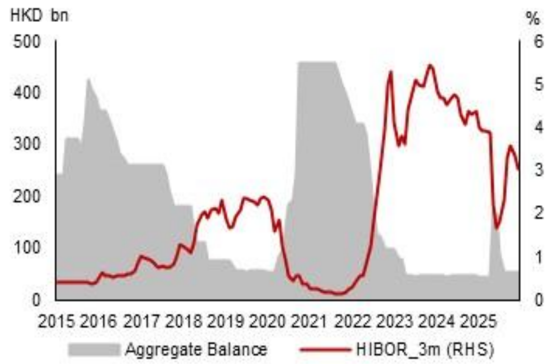
Source: HK Exchange; Hong Kong Association of Banks; Haver Analytics

Figure A1.4. Main Board Equity Funds Raised and HKD Exchange Rate



Source: Hong Kong Association of Banks; HK Exchange; CEIC

Figure A1.5. Aggregate Balance and HIBOR



Source: HKMA; Hong Kong Association of Banks; CEIC; Haver Analytics

Empirical Analysis of Recent HKD Exchange Rate Movements

4. **Correlation analysis suggests that HKD movements are most closely associated with short-term USD-HKD interest rate differentials** (**Table A1.2**), particularly the LIBOR-HIBOR spreads. This finding supports the view that interest-rate arbitrage is a key transmission channel through which exchange rate pressures are transmitted under the LERS. By comparison, equity market variables and risk sentiment show weaker correlations with the HKD exchange rate, indicating that they are likely secondary influences rather than the principal drivers of HKD fluctuations.

Table A1.2. Correlation Analysis of HKD Exchange Rate with Other Variables

	0		2		4		6
VIX	-0.11	-0.11	-0.11	-0.11	-0.11	-0.11	-0.11
Southbound net buy	-0.06	-0.07	-0.07	-0.07	-0.07	-0.08	-0.08
SOFR-HIBOR overnight spread	0.59	0.59	0.59	0.59	0.59	0.59	0.59
SOFR-HIBOR 3m spread	0.29	0.28	0.28	0.28	0.27	0.27	0.26
SOFR-HIBOR 1m spread	0.45	0.45	0.45	0.45	0.45	0.45	0.45
LIBOR-HIBOR overnight spread	0.65	0.65	0.65	0.65	0.65	0.65	0.66
LIBOR-HIBOR 3m spread	0.63	0.64	0.64	0.64	0.64	0.64	0.64
LIBOR-HIBOR 1m spread	0.64	0.64	0.64	0.64	0.64	0.64	0.64
HKEX turnover	-0.06	-0.07	-0.07	-0.07	-0.08	-0.08	-0.07
Aggregate Balance (HK$ bn)	-0.51	-0.50	-0.50	-0.50	-0.49	-0.49	-0.49

Lag (days)

Correlation: 1.0 / 0.5 / 0.0 / -0.5 / -1.0

Source: HKMA; HK Exchange; Hong Kong Association of Banks; CEIC; Haver Analytics; AMRO staff calculation
Note: The coefficients displayed here are the correlation coefficients between HKD per USD and other variables. CBOE's VIX is used as a proxy for risk-off sentiment. HKEX turnover refers to the Hong Kong Exchange turnover, a measure of stock market activity in Hong Kong .

5. **Regression results further suggest that the HKD movements are mainly driven by relative short-term USD-HKD interest rate differentials.** AMRO's staff estimates using the OLS model (Table A1.3) provide insights into some key drivers of the recent movements in Hong Kong's exchange rate. The HKD spot exchange rate is used as the dependent variable, while the independent variables comprise LIBOR/SOFR-HIBOR spread, Southbound Connect net buying, Hong Kong Exchange turnover value, and CBOE's volatility index (VIX). These variables were selected as they represent key macro-financial factors identified in the literature and by the HKMA as influencing HKD exchange rate dynamics. The regression results point to short-term USD-HKD interest rate differentials as a key observable factor associated with HKD movements, rather than as the sole determinant of exchange rate fluctuations. In both the LIBOR-based and SOFR-based specifications, higher short-term USD rates relative to HKD rates are associated with a weaker HKD, consistent with the interest rate arbitrage mechanism under the LERS. Southbound net buying enters with a negative coefficient in USD-HKD and SOFR-based specifications and is statistically significant in Eq.1 and Eq.2, indicating that stronger Chinese Mainland purchases of Hong Kong equities tend to support the HKD. However, the magnitude and significance of this effect are less consistent than those of the interest rate differential. HKEX turnover is negative throughout and is strongly significant in the SOFR-based model, suggesting that stronger market-wide equity activity may coincide with HKD strength. By contrast, the role of VIX is less stable across specifications, implying that the influence of global risk sentiment is more episodic and sensitive to sample periods.

Table A1.3. OLS Model Results for Major Drivers of HKD Movements

	Explanatory Var.							
Dependent Var.	USD_HKD_t	$(LIBOR - HIBOR)_t$	$(SOFR - HIBOR)_t$	SB_NB_t	$HKEX\_turnover_t$	VIX_t	C	Adj R^2
HKD_t (Eq. 1)	0.032***	—	—	-0.000**	-0.000***	-0.000	7.794***	0.375
HKD_t (Eq. 2)	—	0.047***	—	-0.001*	-0.000	0.001***	7.775***	0.444
HKD_t (Eq. 3)	—	—	0.018***	0.000	-0.000***	-0.002***	7.833***	0.576

Source: AMRO staff estimations
Note: 1) ***, ** and * denote that null hypothesis is rejected at the 1 percent, 5 percent, and 10 percent significant level, respectively. 2) HKD, USD_HKD, (LIBOR-HIBOR), (SOFR-HIBOR), SB_NB, HKEX_turnover, VIX represent HKD per USD spot exchange rate, USD-HKD interest rate differentials, LIBOR-HIBOR spread, SOFR-HIBOR spread, Southbound net buying, HKEX turnover value and CBOE's Volatility Index respectively. 3) Daily data is used in the regression analysis. Given the daily frequency of the data and the likelihood of autocorrelation and time-varying volatility, Newey-West standard errors are used as a robustness measure. 4) 1-month interest rate differentials are used in all equations. 5) For Eq.1. LIBOR data is used until 30 June 2023 and SOFR data is used after 30 June 2023. For Eq.2, the sample period is from January 2015 to June 2023. SOFR data was used after June 2023 in Eq.3. 6) The sample period is from 2015 to 2025.

Policy Implications

6. **The empirical result that the Hong Kong dollar exchange rate is largely driven by USD-HKD interest rate differentials shows that the LERS has been functioning normally.** While there were periods in recent years when exchange rate volatility increased notably—attracting market attention—the Hong Kong dollar has remained within the convertibility zone, consistent with the system's design. This provides strong evidence that the exchange rate regime has been operating in a broadly stable and effective manner. The stability of the exchange rate regime has remained an important anchor for financial markets and has helped preserve confidence in Hong Kong's role as an international financial center amid a challenging external environment, including heightened US-China tensions.

7. **Sizable divergences between Hong Kong and USD rates can persist without undermining the effective functioning of the LERS.** Under the LERS, the trigger for currency board operation is not the size of the interest rate differential itself, but whether the Hong Kong dollar reaches either side of the CU. As long as the exchange rate remains within the convertibility zone, HKMA is not required to adjust the Aggregate Balance, even if the HIBOR remains significantly below comparable USD rates. In such circumstances, abundant HKD liquidity, and offsetting capital flows such as equity-related inflows, can slow the arbitrage process and allow rate differentials to persist. When the HKD reaches the weak-side CU and banks request conversion, the resulting CU transactions involve the HKMA purchasing HKD, thereby contracting the Aggregate Balance and placing upward pressure on HIBOR.

8. **Looking ahead, continued monitoring of the interaction between capital flows, Hong Kong dollar liquidity conditions, and USD-HKD interest rate differentials will remain important in assessing the functioning of the LERS.** As economic integration with the Chinese Mainland deepens and capital flows between Hong Kong and the Chinese Mainland via various Connect scheme channels increase, the city's financial conditions may align more closely with those of the Chinese Mainland. Against this backdrop, the exchange rate dynamics of the Hong Kong dollar and its relationship with Hong Kong's broader financial conditions and business cycles may warrant further analysis and discussion. A better understanding of these interactions would help assess how the LERS continues to operate in an environment where Hong Kong remains anchored to the US dollar while becoming increasingly integrated with the Chinese Mainland's financial cycle.

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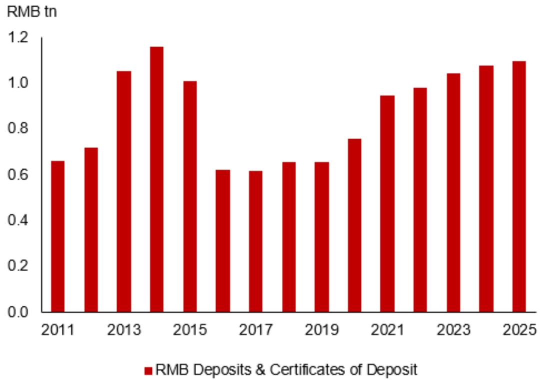
Annex 2. From Gateway to Offshore RMB Hub: Hong Kong's Role as the Global Offshore RMB Business Center[7]

Background

1. **Hong Kong remains the leading offshore RMB center, with offshore RMB activity expanding steadily in recent years**. Hong Kong has long served as the primary offshore hub for RMB business, supported by its deep and sophisticated financial markets, and strong real-sector and financial linkages with the Chinese Mainland. As the largest offshore RMB market, Hong Kong plays a pivotal intermediary role between the onshore (CNY) and offshore (CNH) markets, facilitating cross-border RMB settlement, financing, and investment activities through a market-driven framework. Since the launch of the RMB trade settlement scheme in 2009, Hong Kong's offshore RMB market has expanded significantly across a broad range of activities, including deposits, trade financing, bond issuance, and foreign exchange trading.

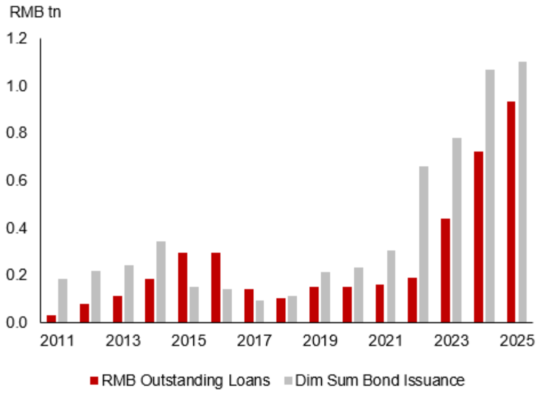
2. **The offshore RMB liquidity pool has regained momentum in recent years, supported by growing demand for RMB-denominated financial services**. Following a period of moderation, the CNH liquidity pool has resumed growth since 2020, with RMB deposits and Certificates of Deposit reaching RMB1.10 trillion, approaching the historical peak of nearly RMB1.16 trillion recorded in 2014 (Figure A2.1). On the demand side, RMB lending and dim sum bond issuance have also strengthened over the past three years, rising to RMB0.93 trillion and RMB1.10 trillion in 2025, respectively (Figure A2.2).

Figure A2.1. RMB Deposits and Certificates of Deposit in Hong Kong



Source: CEIC; AMRO staff calculations

Figure A2.2. RMB Loans and Dim Sum Bond Issuance in Hong Kong



Source: Bloomberg; CEIC; AMRO staff calculations

Structural Drivers of Hong Kong's Offshore RMB Business

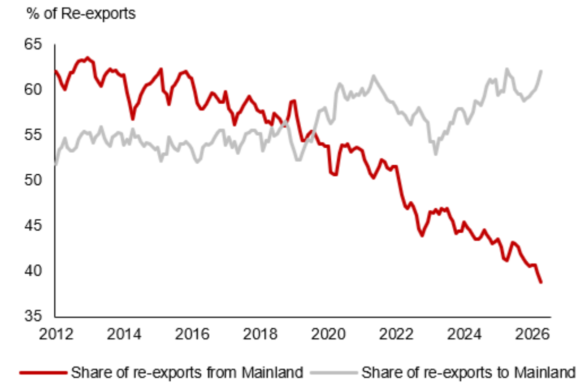
3. **Hong Kong's re-export structure is undergoing a notable shift toward Chinese Mainland-bound trade flows, reinforcing its position as the leading offshore RMB business hub**. As a traditional entrepôt, re-exports continued to account for around 99 percent of Hong Kong's total merchandise trade in 2025. However, recent trade data point to a significant change in the composition of re-export destinations and origins. Since 2020, the share of re-exports destined for the Chinese Mainland has exceeded the share originating from the Chinese Mainland (Figure A2.3), reversing the historical pattern in which Chinese Mainland-origin goods dominated Hong Kong's re-export trade. While Hong Kong has traditionally served as a gateway for Chinese Mainland exports to global markets, it is increasingly functioning as an intermediary platform for goods entering the Chinese Mainland,

[7] Prepared by Yanchen (Yannson) Wang, Economist.

underscoring its continued importance as a logistics, distribution, and trade-financing hub connecting external suppliers with Chinese Mainland demand.

4. **The increasing use of RMB in Chinese Mainland-related trade is creating new demand for offshore RMB financial services**. The evolving trade structure is likely to result in increased RMB use in cross-border transactions, as import-related trade is generally more conducive to RMB invoicing and settlement when Mainland entities are key counterparties.[8] Consistent with this trend, RMB settlement flows between Hong Kong and the Chinese Mainland have expanded in both directions in recent years, with payments from Hong Kong to the Mainland exceeding those in the reverse direction (Figure A2.4). This pattern suggests the growing use of offshore RMB to settle transactions with Chinese Mainland counterparties, which is expected to boost demand for offshore RMB-denominated financial services, including trade financing, lending, and hedging. The resulting deepening of RMB financial intermediation will further strengthen Hong Kong's position as the leading offshore RMB business center and support the broader use of RMB.

Figure A2.3. Composition of Hong Kong's Re-exports with the Chinese Mainland



Source: CEIC; AMRO staff calculations
Note: Data is presented as a 3-month moving average. The latest observation is April 2026.

Figure A2.4. RMB Trade Settlement Flows between Hong Kong and Chinese Mainland

Source: Hong Kong Monetary Authority (HKMA)
Note: Underlying data are derived from the HKMA Half-Yearly Monetary and Financial Stability Report.

5. **The growing integration of ASEAN+3 trade and financial networks is strengthening demand for RMB-denominated services and reinforcing Hong Kong's role as the leading offshore RMB center**. As regional supply chains become increasingly integrated and trade linkages deepen across ASEAN+3 economies, demand for RMB-based settlement, financing, and liquidity management services may continue to expand, creating a broader structural basis for RMB usage beyond transactions directly involving the Chinese Mainland.

6. **Located at the crossroads of ASEAN and the "Plus-3" economies, Hong Kong serves as a leading entrepôt hub for cargo consolidation, distribution, and re-export activities** (Figure A2.5). In the era of artificial intelligence (AI), this advantage is further reinforced by Hong Kong's world-class air cargo infrastructure,[9] which is particularly well suited to handling high-value, time-sensitive goods such as semiconductors and advanced electronics. As a key intermediary in regional trade and supply chains, Hong Kong sees substantial demand for trade finance, foreign exchange, and cross-border payment services.

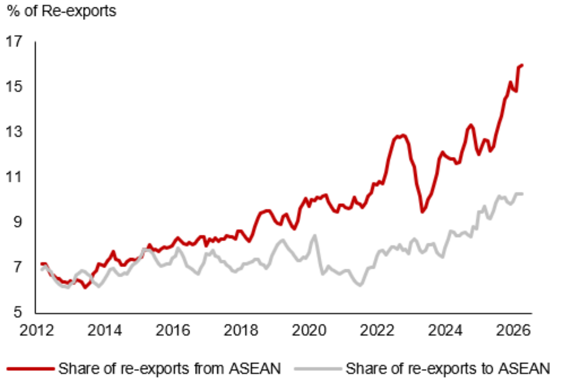
[8] Boz et al. (2025) estimate that the average share of RMB invoicing in goods imports across their sample economies was relatively low, at around 1.5 percent in 2023. According to the ECB (2026), the RMB's share as an invoicing currency for euro area trade with countries outside the EU remained modest, at around 2 percent in 2024.

[9] According to the latest World Bank data, Hong Kong ranked third in the ASEAN+3 region in terms of air freight volume in 2023, after the Chinese Mainland and South Korea, measured in metric tons times kilometers travelled.

Meanwhile, deeper economic integration within ASEAN+3 is contributing to a gradual diversification of trade settlement practices. Although the US dollar remains the dominant invoicing and settlement currency[10], RMB usage is expanding alongside growing trade and investment links with the Chinese Mainland. Consistent with this trend, the rapid growth of RMB over-the-counter (OTC) foreign exchange trading in recent years reflects the RMB's expanding role in regional trade and financial transactions (Figure A2.6). Building on its established financial infrastructure and network, Hong Kong could further enhance its capacity to channel RMB liquidity to ASEAN economies.

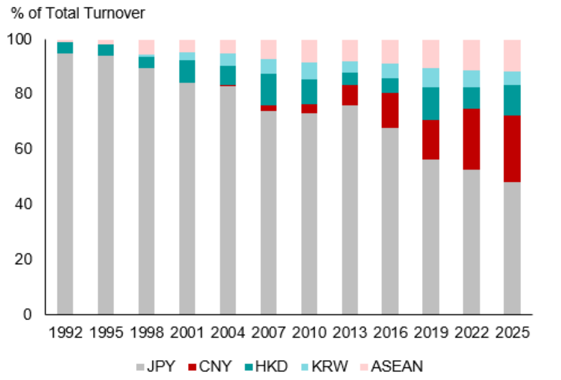
7. **Strong network effects reinforce Hong Kong's position as the leading offshore RMB center**. As the world's leading offshore RMB center, Hong Kong is well positioned to capture the growth in RMB usage across regional trade and financial transactions by providing a comprehensive range of RMB-denominated services, including trade financing, lending, liquidity management, foreign exchange trading, and risk-hedging solutions. The concentration of RMB liquidity, settlement activity, financial infrastructure, and market participants in Hong Kong also creates strong network effects. The resulting greater RMB usage attracts additional liquidity and market activity, further reinforcing Hong Kong's role as the leading offshore RMB center.

Figure A2.5. Composition of Hong Kong's Re-exports with ASEAN



Source: CEIC; AMRO staff calculations
Note: Data are presented as a 3-month moving average. The latest observation is April 2026.

Figure A2.6. Evolution of RMB Share in ASEAN+3 OTC Foreign Exchange Trading



Source: BIS's Triennial Survey; AMRO staff calculations
Note: ASEAN includes only IDR, MYR, PHP, SGD and THB due to data availability constraints.

Key Constraints on Offshore RMB Circulation and Hong Kong's Role

8. **Realizing the full benefits of recent structural trends requires addressing key constraints facing offshore RMB market development**. While the structural drivers discussed above have created favorable conditions for the expansion of offshore RMB activities, they do not necessarily translate into broader international use of the RMB. Continued growth in Chinese Mainland-related trade and deeper economic integration among ASEAN+3 economies have strengthened demand for RMB-denominated services and reinforced Hong Kong's position as the leading offshore RMB hub. Nevertheless, the development of a deeper, more diversified, and self-sustaining offshore RMB ecosystem is constrained by three key structural challenges: (i) limited market confidence stemming from the RMB's partial convertibility under a gradually liberalizing capital account; (ii) a relatively narrow range of investable RMB-denominated assets; and (iii) the concentration of RMB usage in transactions closely linked to the Chinese Mainland.

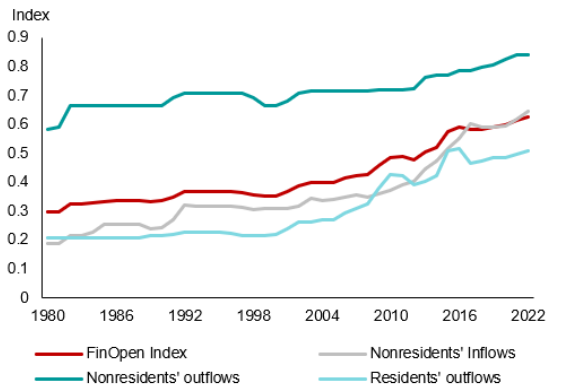
[10] Using a composite measure covering reserve holdings, foreign exchange trading, international debt issuance, and cross-border banking activity, Von Beschwitz (2024) finds that the RMB's international role remains substantially smaller than that of the major reserve currencies.

9. **Hong Kong is uniquely positioned to facilitate the next phase of RMB internationalization despite these constraints**. These challenges suggest an increasingly important role for Hong Kong in facilitating RMB internationalization. In particular, Hong Kong provides a market-based platform that helps mitigate some of the challenges relating to Chinese Mainland's still-evolving capital-account framework, while allowing offshore RMB activities to expand in a controlled manner.

10. **Stable offshore RMB liquidity can help sustain market confidence despite the incomplete liberalization of China's capital account**. As the primary offshore RMB market, Hong Kong plays a unique intermediary role by providing liquidity, price discovery, and risk-management functions that complement the gradual evolution of Chinese Mainland's capital-account regime. While capital account opening is expected to remain gradual and restrictions on cross-border capital flows are likely to persist in the foreseeable future (Figure A2.7), strengthening offshore RMB liquidity arrangements can alleviate concerns over liquidity shortages and market segmentation, particularly during periods of financial stress (Bahaj and Reis, 2024).

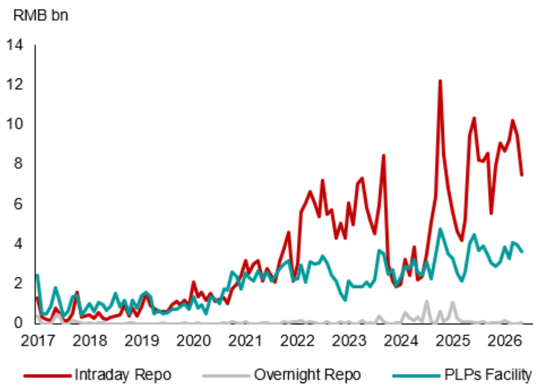
11. **Hong Kong's liquidity infrastructure boosts confidence in the usability of the RMB for international transactions**. Hong Kong's RMB liquidity facilities (Figure A2.8)[11], together with the continued development of offshore and cross-border repo markets, can help narrow excessive divergences between onshore and offshore RMB markets, support more stable CNH funding conditions, and reinforce confidence in the RMB's usability for international trade and financial transactions (Perez-Saiz and Zhang, 2023). In addition, expanding local currency transaction frameworks and direct quotation mechanisms between the offshore RMB and regional currencies can help deepen regional RMB liquidity networks, thereby supporting RMB internationalization.[12]

Figure A2.7. Capital Account Openness Indicators



Source: Li (2026); AMRO staff compilation
Note: The index measures the degree of capital account openness on a scale from 0 to 1, with higher values indicating greater financial openness.

Figure A2.8. Usage of RMB Liquidity Facility



Source: HKMA via Haver; AMRO staff calculations
Note: Usage of the RMB liquidity facility is calculated as the monthly average of daily facility utilization. The latest observation is May 2026.

12. **Hong Kong is evolving from a gateway for Chinese Mainland-related RMB transactions into a central hub within the global offshore RMB ecosystem**. This transition can be understood through a "hub-and-spoke" framework promoted by the HKMA under its

[11] The evolution of Hong Kong's RMB liquidity framework is summarized in Appendix Table A1.1.

[12] In June 2026, the People's Bank of China, the HKMA, and Bank Indonesia signed a Memorandum of Understanding to facilitate the direct exchange and settlement of IDR and CNH in cross-border trade and investment activities amongst corporates and institutions in Indonesia and Hong Kong. The initiative is expected to strengthen regional RMB liquidity networks, reduce reliance on third currencies in bilateral transactions, and reinforce Hong Kong's role as the leading offshore RMB hub connecting regional economies with offshore RMB markets.

RMB Business Facility (RBF) initiative,[13] in which Hong Kong functions as the central offshore RMB liquidity and infrastructure hub connecting the Chinese Mainland with a broader network of overseas RMB markets. Under this framework, Hong Kong facilitates the distribution of RMB liquidity, settlement services, and financial products across jurisdictions, helping to expand the reach of offshore RMB activities while maintaining close linkages with onshore markets. By strengthening RMB circulation beyond the Chinese Mainland and supporting RMB business in overseas markets, this framework has the potential to promote a deeper and more interconnected offshore RMB ecosystem.

Deepening Offshore RMB Markets: Priorities for the Next Phase

13. **Further development of offshore RMB markets will require both a broader supply of investable RMB-denominated assets and the wider use of RMB beyond Chinese Mainland-related activities**. The limited supply of investable RMB-denominated assets is a key structural constraint on the development of offshore RMB markets (Figure A2.9). Compared with major reserve currencies, the offshore RMB market offers a relatively narrow range of liquid assets and remains concentrated in Chinese Mainland-related exposures.

14. **The offshore RMB ecosystem also remains less developed than those of major international currencies**. Market development continues to be constrained by relatively limited liquidity, shallow secondary markets, insufficient hedging instruments (Figure A2.10). Offshore RMB usage is concentrated in Chinese Mainland-related trade, investment, and financial activities, with a significant share of offshore liquidity ultimately returning onshore, leaving demand closely tied to developments in Chinese Mainland's economy and exchange-rate expectations.

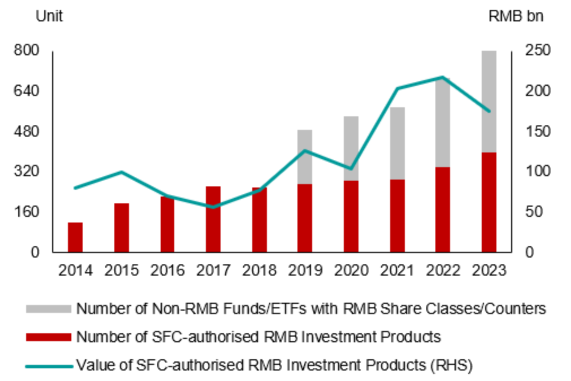
15. **Broadening the range of RMB assets and expanding RMB use beyond Chinese Mainland-related transactions will support a more self-sustaining offshore RMB ecosystem**. Expanding the supply of offshore RMB assets—including RMB-denominated bonds issued by foreign sovereigns, multilateral institutions, and international corporates—would broaden the investable universe and diversify credit exposures. Hong Kong should develop a wider range of RMB-denominated investment products, including index funds (or ETFs) tracking major global equity benchmarks (e.g., the S&P 500 and the FTSE All-World indices) as well as country- and regional-focused funds investing in markets such as Japan, Korea, and ASEAN. This would enable Chinese Mainland households and firms to diversify their overseas portfolios through channels such as QDII and Southbound Connect while avoiding foreign exchange risk. At the same time, the greater use of the RMB in regional trade, financing, and investment activities[14] between third parties will foster more autonomous offshore RMB demand and deepen RMB circulation outside the Chinese Mainland.

16. **Hong Kong is well positioned to facilitate the next stage of offshore RMB market development**. Together, these developments would support a more self-sustaining offshore RMB ecosystem and further strengthen Hong Kong's position as the leading offshore RMB hub for financing, investment, and global asset allocation.

[13] The "hub-and-spoke" model refers to the framework initiated by the HKMA under which Hong Kong serves as the central offshore RMB liquidity and infrastructure hub, linking the Chinese Mainland with other overseas financial centers that function as distribution spokes for RMB business.

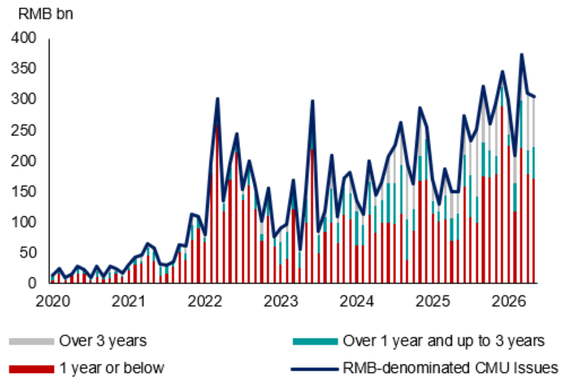
[14] Rather than focusing primarily on Mainland corporates, HKEX could broaden its outreach to international companies with RMB financing needs, encouraging them to list in Hong Kong and adopt the HKD-RMB dual counter model as a channel for RMB-denominated fundraising and trading.

Figure A2.9. RMB-denominated Investment Products in Hong Kong



Source: Securities & Futures Commission (SFC)
Note: Underlying data are derived from the SFC Asset and Wealth Management Activities Survey. Figures are as of 31 March each year. The coverage was expanded in the period from 2019 to 2023 to include the value and number of non-RMB-denominated unlisted funds with RMB share classes, as well as the number of non-RMB-denominated ETFs with RMB trading counters.

Figure A2.10. Secondary Market Turnover of RMB-denominated CMU Debt Securities



Source: HKMA via Haver; AMRO staff calculations
Note: RMB-denominated CMU issues consist of both fixed-rate and floating-rate instruments, with only a negligible share issued at floating rates. The latest observation is May 2026.

17. **Enhanced financial connectivity can strengthen Hong Kong's role as the central hub in the offshore RMB ecosystem**. As RMB internationalization advances, Hong Kong should continue to deepen connectivity between international and Chinese Mainland financial infrastructures. This includes deepening Hong Kong banks' participation in the Cross-border Interbank Payment System (CIPS) to support more efficient and resilient global RMB settlement, strengthening bond market linkages through the Central Moneymarkets Unit (CMU) OmniClear platform with international and regional Central Securities Depositories, and leveraging HKEX and related Connect schemes to facilitate cross-border capital flows and RMB financing activities. These initiatives will reinforce Hong Kong's position as the principal platform linking onshore RMB liquidity with a broader network of offshore RMB markets.

18. **Digital innovation will improve the efficiency and reach of offshore RMB circulation**. HKMA's participation in Project mBridge[15] and related cross-border payment initiatives has demonstrated the potential of distributed-ledger-based and multi-CBDC arrangements to enhance cross-border payments and settlement. Building on its experience with tokenized bond issuance[16] and the development of Project Ensemble[17], Hong Kong could further expand the market for tokenized RMB-denominated assets—including bonds and money market instruments—by leveraging tokenized deposits and programmable settlement infrastructure. This would support innovation in RMB capital markets, improve issuance and settlement efficiency, and broaden the range of investable offshore RMB products. Together, these developments can expand access to RMB-denominated assets and strengthen the offshore RMB ecosystem.

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[15] Project mBridge is a multi-CBDC platform involving the People's Bank of China, the HKMA, the Bank of Thailand, the Central Bank of the United Arab Emirates and the Saudi Central Bank, designed to enable instant cross-border payments and settlement using distributed ledger technology.

[16] See the Roadmap for the Development of Fixed Income and Currency Markets, jointly issued by the SFC and the HKMA.

[17] Project Ensemble is a HKMA initiative that aims to foster the development of the tokenisation ecosystem in Hong Kong, seeks to explore innovative Financial Market Infrastructure to facilitate seamless interbank settlement of tokenised money. The SFC is part of the Architecture Community of Project Ensemble and co-leads tokenization initiatives for the asset management industry covering money market instruments and bonds, to promote wider adoption. In November 2025, the HKMA announced the launch of Ensemble[TX], representing a significant advancement in enabling real-value transactions involving tokenised deposits and digital assets within a controlled pilot environment.

19. **The continued development of conventional and digital financial infrastructure will support the next phase of RMB internationalization.**[18] While the RMB is not likely to challenge the US dollar's dominant global role in the foreseeable future, its role as a regional currency for trade, investment, and financial transactions will likely grow. In this context, Hong Kong, supported by its established conventional financial infrastructure and ongoing digital financial innovation, is well positioned to serve as the principal offshore platform supporting the RMB's internationalization.

Appendix A2.1: The Evolution of Hong Kong's RMB Liquidity Arrangements

Date	Development	Key Features
Jun 2012	Launch of RMB Liquidity Facility	Facility introduced to address potential short-term liquidity tightness in the offshore RMB market.
Nov 2014	Launch of Primary Liquidity Providers (PLP) scheme	The PLP scheme launched to support offshore RMB market liquidity; dedicated RMB repo facility provided to designated banks.
Oct 2024	Expansion of PLP scheme	HKMA designated 11 banks as PLPs and increased the dedicated PLP repo facility from RMB18 billion to RMB20 billion.
Jan 2025	Launch of RMB Trade Financing Liquidity Facility	Facility launched to provide banks with 1-, 3-, and 6-month RMB funds with a total size of RMB100 billion to support trade financing.
Feb 2025	Launch of Offshore RMB Repo Business	Introduced a channel for Northbound Bond Connect participants to conduct offshore RMB repo transactions in Hong Kong using eligible onshore bonds as collateral.
Aug 2025	Enhancement of Offshore RMB Repo Business	Expanded the offshore RMB repo framework to support collateral rehypothecation during the repo period and cross-currency repo transactions.
Sep 2025	Launch of Cross-boundary Repo Business	Introduced a new channel for overseas institutional investors to obtain RMB liquidity through the onshore repo market using eligible onshore bonds as collateral, with the proceeds available for offshore use.
Oct 2025	Enhancement of RMB Liquidity Facility	Reallocation of intraday funding to RMB30 billion and overnight funding to RMB10 billion (total of RMB40 billion unchanged).
Oct 2025	Launch of RBF (*Phase 1*)	Facility replaced the earlier Trade Financing Liquidity Facility, channeling onshore liquidity into the offshore market with a broader range of tenors and use cases.
Dec 2025	Enhancement of RBF (*Phase 2*)	HKMA broadened the scope of eligible financing activities to cover RMB capital expenditure and working-capital term loans.
Jan 2026	Expansion of RBF (*Phase 3*)	HKMA doubled the RBF from RMB100 billion to RMB200 billion. Under a "hub-and-spoke" model, the facility now has 40 participating banks and extends support to overseas entities.
Jul 2026	Further Expansion of RBF (*Phase 4*)	HKMA increased the RBF to RMB 500 billion and extended available funding tenors to up to three years, further strengthening the offshore RMB liquidity backstop.

Source: This AMRO staff summary is based on press releases issued by the HKMA.

[18] Robbert et al. (2026) suggests that financial linkages with China, particularly cross-border banking relationships and policy-supported financial channels, have become more important drivers of RMB internationalization than trade linkages, highlighting the growing importance of offshore financial centers in supporting RMB usage.

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Annex 3. Estimating Hong Kong's Potential Growth: Is Hong Kong's Financial Competitiveness Strengthening its Growth Potential?[19]

1. **Estimating potential growth is important in assessing an economy's sustainable growth capacity.** It provides a benchmark for how fast an economy can expand without generating inflationary or financial imbalances, thereby informing medium-term fiscal planning, structural reform priorities, and the calibration of macroprudential policies. Over the medium term, potential growth reflects the economy's productive capacity through its key components—labor, capital, and total factor productivity. In this regard, trends in potential growth can provide important guidance on whether structural reforms are needed and, if so, what areas should be prioritized. In Hong Kong, there has been limited follow-up research on potential growth since the Hong Kong Monetary Authority (HKMA) published its study in 2011. Given rapidly evolving global economic conditions, it is important to reassess recent trends in Hong Kong's potential growth.

2. **This Selected Issue aims to provide a fresh estimate of Hong Kong's potential growth and to assess the extent to which its status as a global financial hub contributes to that potential.** The key questions addressed are how Hong Kong's potential growth has evolved in recent years and what factors have been driving these changes. By focusing on Hong Kong's unique role as a global financial center, this Selected Issue seeks to offer new insights into these issues, representing a novel approach relative to existing studies on potential growth.

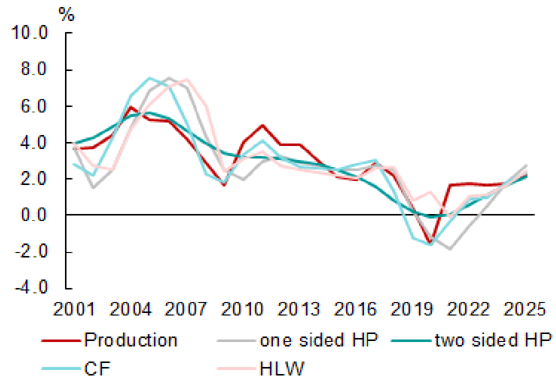
3. **Hong Kong's potential growth is estimated using multiple approaches, recognizing that results may vary depending on the methodology applied.** To ensure robustness, five models are employed: one-sided Hodrick–Prescott (HP) filtering, two-sided HP filtering, Christiano-Fitzgerald (CF) filtering, a production function approach, and the semi-structural model proposed by Holston, Laubach, and Williams (HLW, 2023). The sample period spans from 2000 to 2025. The HP and CF filtering methods estimate potential growth directly from the historical time-series dynamics of the data. In contrast, the production function approach provides additional insights by decomposing potential growth into contributions from capital, labor, and total factor productivity. Finally, the HLW model estimates potential growth as an unobserved variable within a semi-structural framework—comprising elements such as the IS curve and the Phillips curve—using a Kalman filter approach.

4. **Next, the note assesses the extent to which Hong Kong's characteristics as a financial hub contribute to total factor productivity (TFP), as estimated under the production function approach.** To this end, a principal component analysis (PCA) is first conducted using a set of indicators that capture Hong Kong's role as a financial center. These include growth in assets under management (AUM), total fundraising, cross-border banking assets and liabilities reported by the BIS, and exports of financial services. The extracted principal component (PC1) is then used as a proxy for Hong Kong's competitiveness as a financial hub. Subsequently, the contribution of this financial hub factor to Hong Kong's TFP is analyzed using a state-space model, following Kim and Nelson (1999), in which TFP is specified as the dependent variable and the financial hub proxy as the explanatory variable. An advantage of this approach is that, unlike linear models with fixed parameters, it allows the impact of the explanatory variable to vary over time, thereby capturing potential structural changes in the relationship. The analytical framework discussed above can be summarized in three steps, as presented in Appendix A3.1.

[19] Prepared by Jungsung Kim, Senior Economist.

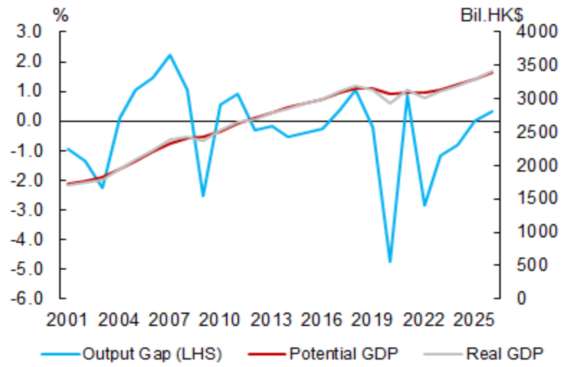
5. **Hong Kong's potential growth is estimated to lie in the range of 2.2–2.7 percent and averaging 2.5 percent.** Having reached around 8 percent in the early 2000s, potential growth has gradually declined over time and is now assessed to be between 2.2 percent and 2.7 percent, depending on the estimation methodology (Figure A3.1). This trend is consistent with patterns observed in advanced economies, where potential growth tends to moderate as economies mature. As in other regional economies, Hong Kong's potential growth was temporarily affected by the pandemic but has since recovered. Accordingly, the output gap is estimated to have turned positive at around 0.2 percent in 2025 (Figure A3.2). Historically, negative output gaps were observed during the Global Financial Crisis and the pandemic, in line with experiences in other economies.

Figure A3.1. Hong Kong's Estimated Potential Growth



Source: AMRO staff estimates
Note: Production = Production Function approach; HP = Hodrick–Prescott filtering; CF = Christiano-Fitzgerald filtering; HLW = Holston, Laubach, and Williams approach.

Figure A3.2. Hong Kong's Potential Growth and Output Gap



Source: AMRO staff estimates
Note: Potential GDP is the average of five different approaches.

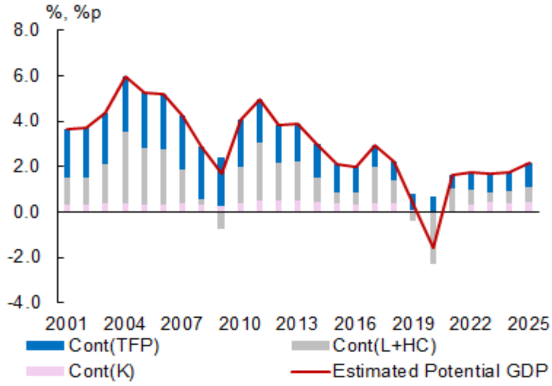
6. **A key finding of this Selected Issue is that the contribution of TFP to Hong Kong's potential growth has been increasing.** Based on the production function approach, which decomposes potential growth into contributions from labor, capital, and TFP, the results indicate that TFP has been the main driver of Hong Kong's potential growth (Figure A3.3). While there is some variation over time, TFP accounted for around 45 percent of potential growth on average during 2000–2019. In the 2020s, excluding the pandemic period, its contribution has remained elevated at around 48 percent. These findings highlight two distinguishing features of Hong Kong's growth dynamics. First, TFP has consistently played a dominant role in driving potential growth. Second, the post-pandemic recovery in growth has been largely led by TFP. In contrast, the contribution of labor input has shown a declining trend, reflecting the impact of population aging.

7. **The analysis finds that Hong Kong's strengths as a global financial hub are key drivers of its TFP.** To quantify this relationship, a principal component capturing Hong Kong's financial hub characteristics (PC1) is constructed and its explanatory power for TFP is estimated. The results indicate that PC1 explains, on average, around 55 percent of Hong Kong's TFP during the period 2000–2019 (Figure A3.4). In the 2020s, excluding the pandemic period, its contribution remains broadly stable at around 53 percent. Furthermore, incorporating recent developments in the fintech sector, an alternative principal component (PC2[20]) is constructed to better capture the evolving nature of Hong Kong's financial hub identity. Estimation results show that, since the start of the 2020s, this enhanced financial hub

[20] PC2 is constructed by augmenting the dataset used for PC1 with the fintech index published by The University of Hong Kong, thereby capturing a broader representation of Hong Kong's financial hub characteristics. For the period after 2022, the fintech index is extended by incorporating changes in the number of fintech firms in Hong Kong.

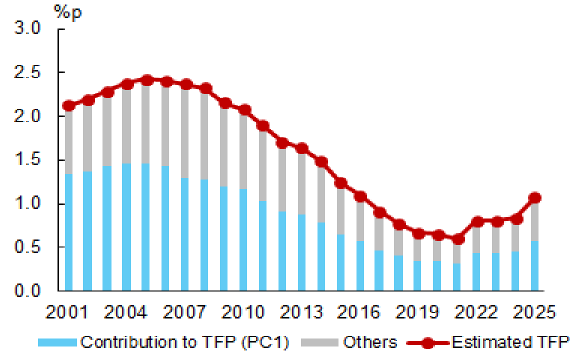
factor explains around 62 percent of TFP. Taken together, these findings suggest that Hong Kong's identity as a financial hub constitutes a critical pillar of its economic performance.

Figure A3.3. Decomposition of Hong Kong's Potential Growth



Source: AMRO staff estimates
Note: Potential GDP growth is based on the production function approach; L and HC represent labor input and human capital respectively.

Figure A3.4. Contribution of Financial Hub Status to Hong Kong's TFP



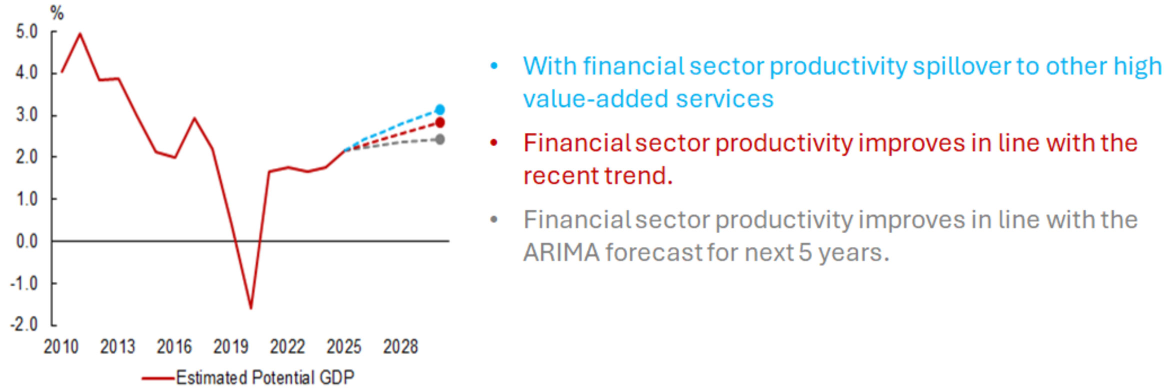
Source: AMRO staff estimates
Note: PC1 captures Hong Kong's role as a financial canter.

8. **Hong Kong's sustainable development rests on reinforcing its strengths as a global financial hub and enhancing the competitiveness of other high value-added service sectors.** The findings of this Selected Issue suggest that Hong Kong's economy over the past two decades can be characterized by TFP-led growth in potential output. More importantly, variations in TFP have been largely driven by Hong Kong's role as a financial hub—an important distinguishing feature relative to other ASEAN+3 economies. It is therefore essential to ensure that the financial services sector continues to serve as a key engine of growth, while also facilitating spillovers to other high value-added services. To this end, the authorities could consider the following measures:

- **Identifying new growth drivers:** The analysis suggests that while the financial sector remains a key contributor to Hong Kong's potential growth, other sectors also play a meaningful role. This implies that if the competitiveness of the financial sector can generate spillovers to other high value-added services, potential growth could rise further. Scenario analysis of future TFP paths indicates that outcomes will depend on whether Hong Kong can sustain its position as a financial hub while developing new engines of growth in other high value-added services (Figure A3.5). If financial sector innovation slows and past trends persist, Hong Kong's potential growth is likely to stagnate. In contrast, if innovation—particularly in areas such as fintech—accelerates and the financial sector maintains its recent strong growth momentum, potential growth could increase. Moreover, if gains in the financial sector diffuse to other high value-added services, the increase in potential growth could be even more pronounced.[21]

[21] When financial and professional services become more competitive and efficient—reducing the cost and improving the quality of services they supply as intermediate inputs—downstream sectors benefit from lower production costs and higher aggregate productivity. The amplification effect is substantial because services are pervasive inputs used across virtually all other economic activities. (Fernández Corugedo, E. and Pérez Ruiz, E., 2014. "The EU Services Directive: Gains from Further Liberalization." IMF Working Paper No. 14/113. International Monetary Fund.)

Figure A3.5. Scenario Analysis for Future Potential GDP Path in Hong Kong



Source: AMRO staff estimates
Note: Potential GDP is the average of estimation from five different models.

- **Serving as an incubator for global financial innovation**: Advancing into new areas requires a willingness to take risks. For instance, while discussions on stablecoins have been active across many economies, tangible progress has remained limited. To capture first-mover advantages, Hong Kong needs to embrace financial innovation while demonstrating its ability to effectively manage associated risks. Establishing itself as a trusted testing ground for emerging financial technologies will further strengthen its position as a leading international financial center.

- **Bridging the Chinese Mainland and the rest of the world:** Hong Kong's identity as a financial hub is reinforced by its role as a gateway for global firms seeking access to the Chinese Mainland, as well as for Chinese Mainland enterprises expanding into international markets. This bridging function is likely to become even more prominent in an increasingly fragmented global environment. In this context, further efforts to promote RMB internationalization and to deepen Chinese Mainland-related markets—such as the dim sum bond market—will be important in sustaining and strengthening Hong Kong's competitive edge.

Appendix A3.1: Estimate Potential GDP using Muti-Model approach

<Step 1>

<1. Production Function>

$$\boldsymbol{Y_t = A_t K_t^{\alpha} (h_t L_t)^{1-\alpha}},$$
$$\boldsymbol{\Delta lnY_t \approx \alpha \Delta lnK_t + (1-\alpha)[\Delta lnL_t + \Delta lnh_t] + \Delta lnA_t}$$

where, Y_t , A_t, K_t , L_t, h_t, and α are potential GDP, Total Factor Productivity, Capital input, Labor input, Human capital, and output elasticity of capital respectively.

<2. Semi-Structure Model>

(IS equation): $\boldsymbol{\widehat{Y_t} = a_{y,1}\widehat{Y}_{t-1} + a_{y,2}\widehat{Y}_{t-2} + \frac{a_r}{2}\sum_{j=1}^{2}(r_{t-j} - r^*_{t-j}) + \varepsilon_{\hat{y},t}}$

(Phillips curve): $\boldsymbol{\pi_t = b_\pi \pi_{t-1} + (1-b_\pi)\sum_{k=2}^{4}\frac{\pi_{t-k}}{3} + b_Y\widehat{Y}_{t-1} + \varepsilon_{\pi,t}}$

(NRI): $\boldsymbol{r^*_t = c * g_t + z_t}$

(Potential Output): $\boldsymbol{Y^*_t = Y^*_{t-1} + g_{t-1} + \varepsilon_{Y^*,t}}$

where, Y_t denote the output, Y^*_t is the potential output, $\widehat{Y}_t$ is the output gap, and r_t and r^*_t are the actua

<3~5. One-sided and Two-sided HP filtering, CF filtering>

The HP filter applies a quarterly smoothing parameter of 1,600, while the CF filter utilizes full-sample data with trend components. For further details, refer to Hodrick and Prescott (1997) and Christiano and Fitzgerald (2003).

<Step 2> ***Principal Component Analysis capturing financial hub factors***

(Covariance matrix): $\sum = \boldsymbol{\frac{1}{n-1}X^T X}$

(Eigen decomposition): $\sum \boldsymbol{v = \lambda v}$

(Project data onto principal components): $\boldsymbol{Z = XV}$

$where$, X denote the data matrix with n rows. V is matix of eigenvector (principal component)

<Step 3> ***Analysis estimating the contribution of financial hub factors to TFP***

From equation 1 and 2, A (TFP) and financial hub factor (V) are estimated. Then space state model to drive time-varying coefficients can be set up as follows.

(Measurement equation): $\boldsymbol{A_t = [V_t \ \dots \ x_{kt}] \begin{bmatrix} \beta_{1t} \\ \cdot \\ \cdot \\ \beta_{kt} \end{bmatrix} + e_t}$

(Transition equation): $\boldsymbol{\begin{bmatrix} \beta_{1t} \\ \cdot \\ \cdot \\ \beta_{kt} \end{bmatrix} = \begin{bmatrix} \delta_1 \\ \cdot \\ \cdot \\ \delta_1 \end{bmatrix} + \begin{bmatrix} \phi_1 & 0 & .. & 0 \\ 0 & \phi_2 & .. & 0 \\ .... & & \ddots & ... \\ 0 & ... & .... & \phi_k \end{bmatrix} \begin{bmatrix} \beta_{1,t-1} \\ \cdot \\ \cdot \\ \beta_{k,t-1} \end{bmatrix} + \begin{bmatrix} v_{1,t} \\ \cdot \\ \cdot \\ v_{k,t} \end{bmatrix}}$

$where$, β denotes coefficients and e, v are representing shocks of each equation.

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https://www.brookings.edu/articles/what-is-potential-gdp-and-why-is-it-so-controversial-right-now/

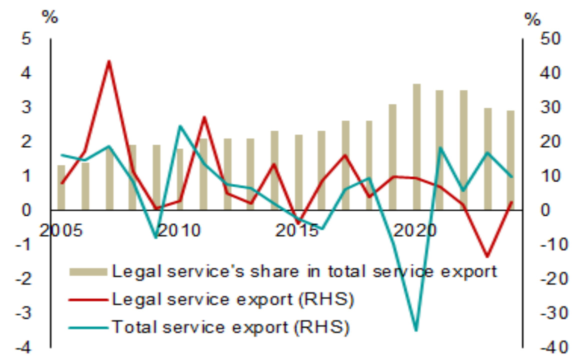
Annex 4. Navigating Further Development: Legal and Healthcare Services in Hong Kong[22]

1. **Hong Kong remains a service-driven economy and export of advanced services other than finance remains critical to its longer-term potential growth.** In recent years, the export of higher education services has become a bright spot in Hong Kong's economy,[23] but several other sectors, including healthcare and legal services, have room for further development. Although the legal services industry has demonstrated competitiveness in capital market transactions and Chinese Mainland-related cross-border legal work, supported by deeper integration following the signing of the Closer Economic Partnership Arrangement (CEPA) in 2003, its international presence remains relatively subdued compared with peer economies such as Singapore. Separately, the healthcare sector presents significant growth opportunities as well. Hong Kong possesses strong healthcare research and development capabilities and could further strengthen the industry through greater linkages with related service sectors, including tourism. In particular, strategic planning is needed to capitalize on major structural trends such as population aging and the resulting increase in healthcare expenditure.[24]

Legal Services

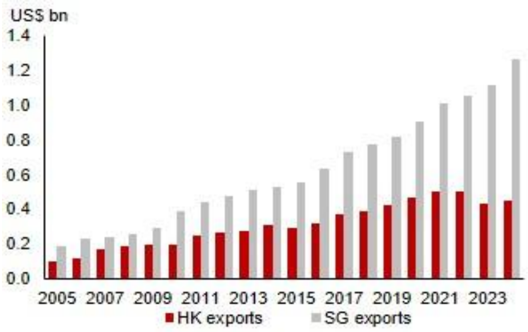
2. **Legal services exports have underperformed since 2020, diverging from a broader recovery in total services exports (Figure A4.1).** This weakness largely reflects the sector's heavy orientation toward Chinese Mainland-related work—capital flows, disputes, and cross-border structuring—much of which slowed down between 2020 and 2024. For example, IPO fundraising in Hong Kong, much of it by Chinese firms, declined from HKD400 billion in 2020 to HKD88 billion in 2024, a decline of 78 percent. The legal work tied to these listings fell with the decline in fundraising. Compared with Singapore, which also operates under a common-law system, Hong Kong's exports of legal services appear to show weaker comparative advantage (Figure A4.2).

Figure A4.1. Hong Kong Legal Service Exports



Source: C&SD; AMRO staff compilation

Figure A4.2. Legal Service Exports: Singapore and Hong Kong



Source: C&SD; SingStat; AMRO staff compilation
Note: HK = Hong Kong and SG = Singapore.

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[22] Prepared by Jungsung Kim, Senior Economist, and Wee Yang NG, Research Analyst.

[23] Non-local students pursuing locally accredited full-time post-secondary programmes in Hong Kong rose from 54,500 in the 2022/23 academic year (AY) to 79,300 in the 2024/25 AY. Within this total, non-local students enrolled in University Grants Committee (UGC) -funded programmes increased from 23,100 in the 2023/24 AY to 26,600 in 2024/25 AY, an increase of around 15 percent, with students from around 100 countries and regions. Self-financing post-secondary institutions also recorded strong growth, with the six self-financing institutions increasing their enrolment from 4,600 in the 2022/23 AY to about 8,300 in the 2024/25 AY (Legislative Council Panel on Education, Latest Developments of Building Hong Kong into an International Post-secondary Education Hub, 2025).

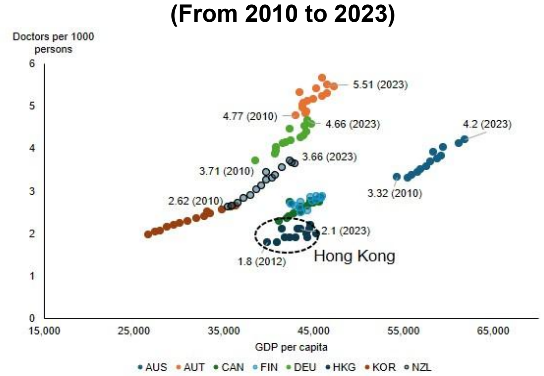
[24] Health expenditure as a percentage of GDP has been increased steadily, with the percentage rising from 6.1 percent in 2012-13 to 10.0 percent in 2022-23.

3. Singapore's competitive edge in legal services exports stems from the diversification of its offering rather than concentration in any single practice area or jurisdictional niche. While Hong Kong retains a distinct advantage through the PRC–Hong Kong Interim Measures Arrangement, which allows parties in Hong Kong-seated arbitrations to seek asset or evidence preservation orders in Chinese Mainland courts, Singapore's stronger overall performance rests on its ability to serve a wider range of international clients across diverse practice areas and governing laws—making it a more general-purpose legal services export hub in the region. The Singapore International Arbitration Centre reported parties from 72 jurisdictions in its 2024 caseload, for instance, underscoring its broad appeal across common-law systems. This contrasts with Hong Kong International Arbitration Centre, whose user base remains more geographically concentrated, with Chinese Mainland parties accounting for approximately 40 percent of all arbitration filings in 2024.

Healthcare Services

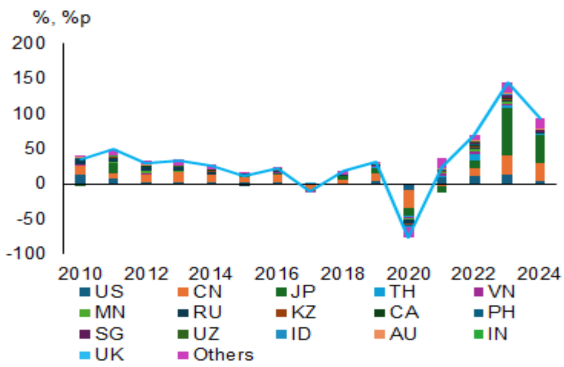
4. Healthcare expenditure by Hong Kong residents has recorded robust growth since 2010, increasing at an average annual rate of around 8 percent. However, Hong Kong faces a pronounced shortage of doctors compared with other advanced economies (Figure A4.3). Such manpower constraints may pose structural limitations on the sector's growth.[25] Within the region, Korea has emerged as a leading destination for medical tourism and cross-border healthcare services. The sharp increase in the number of foreign patients has supported not only the medical industry, but also tourism, retail, and other consumption-related activities. By nationality, the top five source countries of visitors traveling to Korea for medical purposes in 2024 are Japan (441,000 patients), Chinese Mainland (260,000), the US (102,000), Thailand (38,000), and Singapore (27,000). Collectively, patients from ASEAN+3 economies accounted for about 68 percent of total foreign patients in 2024 (Figure A4.4). In 2024, foreign patients spent approximately USD2.6 billion using credit cards, of which around 62 percent was attributed to non-medical expenditures. This indicates that the economic impact of medical tourism is not confined to healthcare services but generates substantial spillovers across the broader domestic economy (Figure A4.5).

Figure A4.3. Number of Doctors per 1,000 persons (From 2010 to 2023)



Source: OECD, C&SD; AMRO staff compilation
Note: AUS= Australia, AUT= Austria, CAN=Canada, FIN=Finland, DEU= Germany, HKG=Hong Kong, KOR=Korea, and NZL= New Zealand.

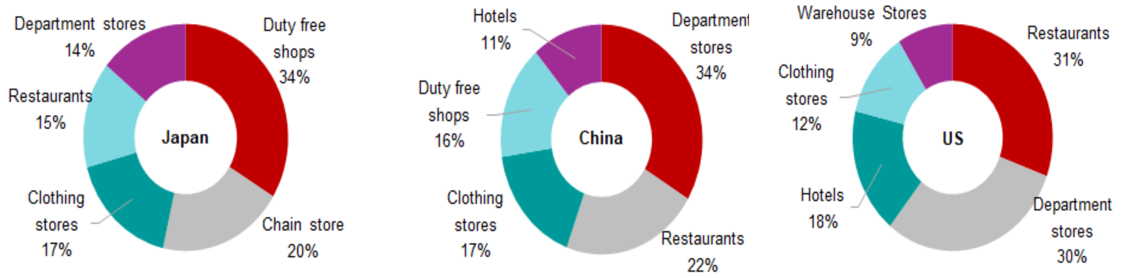
Figure A4.4. Foreign Patients Inflows into Korea by Nationality



Source: Korea Health Industry Development Institute; AMRO staff compilation
Note: US = United States; CN= Chinese Mainland; JP = Japan; TH = Thailand; VN= Vietnam; MN= Mongolia; RU=Russia; KZ=Kazakhstan; CA=Canada; PH= the Philippines; SG=Singapore; UZ= Uzbekistan; ID= Indonesia; AU=Australia; IN= India; UK=United Kingdom; and Others includes France, UAE, etc.

[25] Another barrier is that while tourists from the Chinese Mainland are a major source of local medical tourism, their medical insurance policies usually do not cover Hong Kong, making them pay full out-of-pocket costs. This creates a financial barrier for seeking complex treatments and surgeries, limiting growth in demand for Hong Kong's healthcare services (Research Office of the Legislative Council Secretariat, Promoting medical tourism in Singapore and Malaysia, 2025).

Figure A4.5. Non-medical Expenditures of Foreign Patients Visiting Korea



Source: Korea Health Industry Development Institute; AMRO staff compilation
Note: The shares reported above are based on the top five spending categories by share of expenditure.

5. **The steady increase in foreign patient inflows into Korea has been supported by several factors.** They include a high standard of medical technology and skilled healthcare professionals, strong price competitiveness, proactive government efforts to attract foreign patients, and an efficient treatment system. In terms of service utilization, demand is heavily skewed toward dermatology (37 percent as of 2024) and plastic surgery (18 percent), followed by internal medicine (14 percent), health checkup services (8 percent), and traditional oriental medicine (3 percent). This distribution reflects both Korea's established strengths in aesthetic medicine and the growing appeal of preventive and wellness-oriented healthcare services among foreign patients.

Navigating Further Development

6. **Sustaining the growth of these high value-added service sectors in Hong Kong will require addressing structural and competition-restricting constraints, while exploring and diversifying into new markets.**

Legal Services

7. **To revitalize Hong Kong's legal services sector, it is important not only to develop new business opportunities related to the Chinese Mainland market, but also to broaden the client base and scope of services—an important lesson from Singapore's experience.** Legal services could benefit from the continued development of the offshore RMB market, deeper financial integration with the Chinese Mainland, and rising demand from foreign firms seeking entry into the Chinese Mainland market. At the same time, policy efforts should aim to attract more international disputes, legal mandates, and professional firms associated with ASEAN, the Middle East, and global infrastructure and project finance.

8. **To enhance competition in Hong Kong's legal services sector, assessing whether regulatory restrictions are excessive is important.** Restrictions that limit foreign lawyers to practicing only the law of their home or third jurisdictions are widely regarded as a constraint on competition.[26] Hong Kong could promote greater professional mobility through appropriate mutual recognition arrangements for legal qualifications and licenses, thereby lowering entry barriers and easing manpower shortages.

[26] The Law Society of Hong Kong: Information for Registration as a Foreign Law Firm, 2025.

Healthcare Services

9. **With demographic aging accelerating across Chinese Mainland, expanding Hong Kong's medical services market through cross-border hospital establishment represents a strategically important avenue for long-term growth.** Realising this opportunity, however, will require addressing structural barriers including the lack of mutual recognition of medical qualifications. Further enhancing cross-border arrangements will be essential to translating the region's demographic imperative into a durable expansion of Hong Kong's medical services footprint.

10. **Understanding evolving demand trends in medical services is important for the development of the healthcare industry.** Leveraging Hong Kong's strong global competitiveness in biotechnology and healthcare R&D,[27] the authorities could further support the development of more specialized and customized medical services tailored to emerging consumer demand. In addition, Korea's experience shows that strategically linking medical services with Hong Kong's traditional growth pillars—such as tourism and retail consumption—is also important.

11. **Stringent manpower supply regulations have contributed to persistent mismatches between demand and supply.** A key policy bottleneck lies in the historically narrow pathway for overseas-trained doctors to enter practice. While the authorities have introduced measures such as a special registration pathway to attract non-locally trained physicians, further reforms may be needed to address persistent workforce shortages.[28] These shortages extend beyond physicians to nurses and other healthcare professionals, reflecting licensing barriers, retention challenges, and demanding working conditions.

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[27] Hong Kong is also well positioned in terms of its world-class healthcare R&D infrastructure. The Hong Kong Science and Technology Parks (HKSTP), one of the city's flagship innovation platforms, provides a comprehensive range of facilities and support services for healthcare and biotechnology research and development, including the Biomedical Technology Support Centre, the Healthcare Devices Innovation Hub, the Chemical Co-Working Centre, as well as biobanking and Good Manufacturing Practice facilities.

[28] Hong Kong's special registration pathway allows eligible non-locally trained doctors with recognized qualifications to practice in designated public healthcare institutions; after meeting service, specialist qualification, assessment and other requirements, they may obtain full registration. Non-locally trained graduates without overseas internships may first take the Medical Council of Hong Kong (MCHK) Licensing Examination before applying under the same pathway. The Hong Kong government has acknowledged that even those reforms were not fully sufficient. In February 2026, it stated that the special registration pathway was "not particularly attractive" to non-locally trained doctors who were non-Hong Kong permanent residents and proposed widening access further in light of continued shortages and stronger international competition for healthcare talent. (Hong Kong Government, Legislative amendment proposals and related measures for healthcare manpower, February 2026)

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Endnotes

[1] Hong Kong resident departures increased from a monthly average of 8.7 million in 2024 to 9.8 million in 2025. During January–May 2026, departures remained elevated at a monthly average of 10.4 million.
[2] The output gap is estimated to be around 0.2 percent based on AMRO staff's assessment.
[3] During the recent economic recovery (2024–2025), the computer and information sector, asset management, and financing expanded rapidly, recording average growth of 73.2 percent, 40.5 percent, and 22.4 percent, respectively. In contrast, growth in film entertainment, professional, scientific and technical services, and information and communications was more modest at 5.1 percent, 3.4 percent, and 2.8 percent, respectively. (Quarterly Business Receipts Indices for Service Industries, C&SD)
[4] In the financing and insurance sector, where employment has remained robust, the unemployment rate stayed at a relatively low level of 2.5 percent in February-April 2026. Similarly, the human health and social work activities sector has maintained a consistently low unemployment rate, at 2.4 percent as of February-April 2026. In contrast, sectors such as accommodation and food services and retail continue to exhibit relatively higher unemployment rates, at 5.7 percent and 4.5 percent, respectively, in February-April 2026.
[5] Demographic trends are likely to create significant opportunities in elderly care, wellness, and wealth management. Specifically, demand will be supported by demographics-driven increases in service volume and healthcare costs, growing retirement income needs, and the rising spending power of healthy elderly cohorts. The expansion of these sectors could contribute to Hong Kong's economy through higher employment, stronger exports of financial and professional services, and growth in assets under management (AUM).
[6] The five major areas are boosting silver consumption, developing the silver industry, promoting the quality assurance of silver products, enhancing silver financial and security arrangements, and unleashing silver productivity
[7] Southbound Stock Connect continued its gradual expansion in eligible stocks and ETFs, while trading through the Connect became increasingly influential in Hong Kong's financial markets, with average daily turnover reaching a record HKD 121.1 billion in 2025, compared with HKD 48.2 billion in 2024.
[8] The total outstanding amount of RMB customer deposits and certificates of deposit (CDs) increased by 10.4 percent to RMB 1,147.0 billion and meanwhile the outstanding aggregate amount of RMB loans expanded by 15.3 percent to RMB 967.7 billion between end-July 2025 and end-January 2026.
[9] The measures include the cancellation of all demand-side management measures for residential properties, and reduced stamp duty for lower-value properties.
[10] The Northern Metropolis is a long-term development strategy for Hong Kong's northern New Territories, within which major innovation clusters are being built to support housing, economic transformation, and cross-boundary integration. Both the Hetao Hong Kong Park and the San Tin Technopole are flagship innovation-and-technology projects under this Northern Metropolis blueprint, with Hetao focusing on cross-boundary R&D and San Tin providing larger-scale space for pilot production and advanced manufacturing.
[11] The results are derived from a model-averaging approach incorporating the Bayesian VAR model (AMRO, 2025), the Global VAR model, and the error-correction model of Oxford Economics.
[12] Report on the 2023 Manpower Projection (The Labor and Welfare Bureau, November 2024)
[13] Primary expenditure is total expenditure excluding interest expense.
[14] The HKMA and the banking sector introduced "9+5" SME support measures in 2024 (nine measures in March 2024 and another five measures in October 2024) to support SMEs' access to bank financing and their upgrade and transformation. Sector-specific measures were introduced in April 2025 to support various sectors affected by global trade tension (including the import and export, manufacturing, construction, and transport sectors), and a new round of measures was launched in April 2026 to assist SMEs in navigating the fast-changing market environment arising from the Middle East conflict.
[15] In addition, the Commerce and Economic Development Bureau set up a cross-bureau, cross-departmental and cross-agency Task Force on Supporting Mainland Enterprises in Going Global (GoGlobal Task Force) in October 2025, assisting Chinese Mainland enterprises to establish businesses in overseas markets (including ASEAN) through Hong Kong by providing them with one-stop customised support and professional services such as legal, accounting, financial services, testing and certification, etc. This new initiative will facilitate outbound direct investment into overseas markets, creating a win-win for the Mainland, Hong Kong and the global economy.
[16] To attract more high value-added industries and high-potential enterprises to set up in Hong Kong (including the Northern Metropolis), the Financial Secretary has set up the cross-bureaux Steering Committee on Preferential Policies for Attracting Industries and Investment and formulated a preliminary framework of preferential policy packages. A series of factors will be taken into consideration under the framework, including enterprise's industry sector and its technology level, as well as the potential economic contributions and employment opportunities that it can bring to Hong Kong. Policy tools include land grant arrangements, financial subsidies, and tax incentives.
[17] In recent years, the Competition Commission has highlighted competition concerns in several service sectors, including regulation limiting entry by ride-hailing services in point-to-point transport and restrictive membership or admission rules in trade and professional associations. By contrast, the medical sector provides a useful example of easing unnecessary restrictions, with recent reforms expanding pathways for qualified non-locally trained doctors, dentists, and allied health professionals while preserving professional standards.
[18] Hong Kong government has made some encouraging progress in this area, including through the RAISe+ scheme to support commercialization of university R&D, and the TSSSU/TSSSU+ schemes to help university-affiliated start-ups bring research outcomes to market.
[19] Organization for Economic Co-operation and Development. 2024. "Competition and Regulation in Professions and Occupations." OECD Roundtables on Competition Policy Papers.
[20] Singapore's legal services exports reached nearly USD 1.3 billion in 2024, compared with USD 447.9 million for Hong Kong. Its legal service exports are also consistently higher than Hong Kong; the growth rate of its legal service exports outpacing Hong Kong in recent years, Singapore's legal service exports grew at an average annual rate of 5.6 percent while Hong Kong's legal service exports fell at an average annual rate of 2.7 percent from 2021 to 2024. Singapore International Arbitration Centre (SIAC)'s 2025 annual reporting shows 886 new cases in 2025, compared with HKIAC's 388 arbitration filing in 2025. (SIAC, Annual Report 2025)

[21] Initiatives such as setting up of CMU OmniClear Limited by HKMA in 2024 is a significant development towards developing the CMU into a major central securities depository (CSD) for debt securities in Asia, connecting Chinese Mainland and global bond markets within one seamless network. (CMU OmniClear, March 2026)
[22] The accrual-based accounts disclose the Government's assets and liabilities. They consolidate the Exchange Fund and government business enterprises on an equity basis, while consolidating the following entities on a line-by-line basis: (a) the General Revenue Account (GRA); (b) funds established under section 29 of the Public Finance Ordinance; (c) other funds established for specific purposes that are mainly financed by the Government and for which the Government is responsible; (d) the Hong Kong Housing Authority (HKHA); and (e) Hong Kong Sukuk 2017 Limited.
[23] IPSBS consolidates the assets (both financial and nonfinancial) and liabilities of the entire public sector on a line-by-line basis. It also incorporates the future impacts of current fiscal policies by calculating the net present value of future revenues and expenditures and integrating them with the static public sector balance sheet.
[24] Composite Waiting Time for Subsidized Rental Housing is moving towards the targeted 4.5 years in 2026/27.
[25] The latest update maintains a public-to-private new housing supply ratio of 70:30 for the ten-year period from 2026–27 to 2035–36, targeting a total supply of 420,000 units, of which 294,000 units are earmarked for public housing. (Housing Bureau, Long Term Housing Strategy Annual Progress Report 2025)
[26] The minimum standards of living conditions for subdivided units under the Basic Housing Unit regime include a floor area of no less than 8 square metres, provision of a separate toilet, and an openable window, as well as adequate fire safety installations, etc.
[27] The Labour Department is conducting a mid-term review of the REA Scheme, along with EPEM, to explore appropriate measures to encourage the employment of older and middle-aged persons.
[28] In relation to Hong Kong's talent attraction policies, concerns have been raised that incoming talent may face difficulties in securing employment and have limited access to welfare benefits that are primarily available to local residents. (Research Office Legislative Council Secretariat, February 2025)
[29] The number is from "The 2026-27 Budget" speech.
[30] Phase 2A of the Hong Kong Taxonomy for Sustainable Finance was introduced in Jan 2026. Key changes include adding two new sectors, such as Manufacturing and Information Communications and Technology (ICT). Additionally, Phase 2A broadened the scope of the Energy, Transportation, and Construction sectors by adding new activities. Phase 2A also introduced transition elements and a new environmental objective on climate change adaptation.

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