

### Economic recovery underway in HK: IMF

The International Monetary Fund (IMF) said on Thursday that economic recovery is underway in Hong Kong, fueling by economic growth of the Chinese mainland, supportive government policies and accommodative monetary conditions imported from the United States.

The IMF also recognized the efforts of Hong Kong Special Administrative Region (HKSAR) government to aid economic recovery, suggesting it further modernize the current budgetary management system.

#### PRUDENTIAL MEASURES

In its staff report on Hong Kong released Thursday, the IMF said the economy should steadily strengthen and unemployment should decline in the coming months. Consumer price inflation is projected to be close to zero by the end of 2010.

Noting Hong Kong's financial system has withstood the downturn well. The Fund said banks in Hong Kong should be readily able to absorb a decline in profits that is likely to result from higher provisioning and tighter interest margins in the coming months.

To mitigate the risk of a credit-asset price cycle, the Fund suggests introducing measures in addition to the continued strict enforcement of the existing regulatory regime in maintaining financial stability.

The Fund also agreed with the increase of the deposit protection limit and commended the steps taken to co-ordinate with Singapore and Malaysia on the exit from the blanket deposit guarantee.

#### FISCAL OUTLOOK

Expecting the fiscal outturn for this year could involve a much smaller deficit than planned, the Fund said the risks to the global economy argue for a supportive fiscal stance to be maintained in the 2010-11 Budget. It also supported the contribution of private financing sources to a larger share of health care spending.

Maintaining its long-standing support of the linked exchange rate system, the IMF said that maintaining a high degree of flexibility in the economy, particularly in the labor market, will be essential for the real exchange rate to adjust to external shocks.

Expecting the accommodative monetary conditions will remain in place for an extended period, the Fund said the recent extraordinary expansion in the aggregate balance will be unwound at some future point, leading to capital outflows. Communicating the authorities' policy actions during this period will be critical to avoid any disruptive market movements.

#### ECONOMIC UNCERTAINTIES

Welcoming the report, Financial Secretary of the HKSAR government John Tsang said that the global economic outlook remains subject to considerable uncertainties. "We are mindful of the prevailing risks in the external environment and will continue to adopt necessary measures to sustain economic growth," Tsang said.

Hong Kong Monetary Authority Chief Executive Norman Chan welcomed the fund's continued support of the linked exchange rate system. "We remain firmly committed to the link, which has served Hong Kong extremely well since 1983 as the anchor for monetary and financial stability," Chan said.

*Source: Xinhua*