

Transmission of the shocks of the global financial crisis via macro-financial linkages across regions- Hong Kong's experience and lessons learnt

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Executive Summary

Hong Kong's macro-financial linkages with the rest of Asia have risen substantially over the years, thanks to China's increasing integration with the Asian region after its accession to WTO and also as part of the key production chain in globalisation. The increasing trade and financial linkages have propelled financial deepening in Hong Kong, with the massive expansion in "scale" being matched by substantial improvement in "quality".

Hong Kong's macro-financial linkages with Asia will mean that the contagion effects can spread very fast through the trade, investment and financial channels. Indeed, in the initial phase of the 2008 Global financial crisis, Hong Kong, as with many Asian economies, suffered an immediate and severe economic downturn caused by sharp plunge in intra-regional trade and also falling asset markets. But despite the austere external environment in 2009, the Hong Kong economy only suffered a brief and mild recession. The speedy recovery this time was supported by sound macroeconomic fundamentals and robust financial architecture, though the quick turnaround in the Mainland economy was also instrumental. Quite unlike the advanced economies, Hong Kong's banks are well capitalized with high CAR and liquidity ratio, and credit squeeze, if any, was merely short-lived. The economy is not highly leveraged, with high savings ratio and huge external assets. The robust fiscal position has also allowed the Government to act promptly. All these factors have been instrumental to the relative stability of the domestic economy at a time when external trade was severely battered by the global recession. And when the external environment finally turned around, economic recovery in Hong Kong quickly broadened to a full-fledged rebound, with the ready support from internal finance and the return of FDI.

As a forerunner and beneficiary of globalization, Hong Kong will continue to embrace the challenges and the dark sides from globalization. On this, Hong Kong will need to ensure robust financial regulatory framework and strong market institutions, so that the financial system remains resilient to withstand shocks from elsewhere. These rules, we believe, are the universal golden rules in maintaining macroeconomic stability in an increasingly globalised era.