

# 'CareEdge AA/Stable' rating assigned to Hong Kong Special Administrative Region of People's Republic of China

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Issuer rating (Long-Term Foreign Currency)

CareEdge AA/Stable (Unsolicited)

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CareEdge Global has assigned a Long-Term Foreign Currency rating of **'CareEdge AA/Stable'** to **Hong Kong Special Administrative Region (HKSAR) of People's Republic of China**.

## Rationale

Hong Kong's rating is supported by its exceptionally strong external position, robust fiscal health, high per capita income, and a well-established institutional framework, though partly offset by risks arising from an ageing population over the medium term.

Hong Kong's external position is its key credit strength. The territory has consistently maintained significant current account surpluses, which averaged 11% of GDP over 2021-25; this trend is expected to continue. Its net international investment position (NIIP) is very strong, averaging 530% of GDP over 2020-24. This underscores Hong Kong's role as a global financial hub and provides substantial buffers against external shocks. However, reliance on mainland China for trade and foreign direct investment exposes Hong Kong to developments in the mainland economy.

Fiscal metrics back the credit quality. Gross general government debt is projected to remain low at under 20% of GDP over 2026-30. Additionally, sizeable fiscal reserves (~20% of GDP), albeit reduced in recent years, provide a meaningful buffer against economic shocks.

The Linked Exchange Rate System (LERS) limits monetary policy flexibility, though the Hong Kong Monetary Authority (HKMA) has maintained the peg effectively. Hong Kong also benefits from an actively traded currency, which supports international investment flows. The financial sector is highly leveraged, with private debt to GDP at 328% (2024), reflecting Hong Kong's role as an international financial centre. Though non-performing loans (NPL) have risen due to high interest rates and property market challenges, they remain low at ~2.0% (2025) and are supported by adequate capital buffers.

Hong Kong performs favourably across most governance indicators such as government effectiveness, regulatory quality, rule of law, and control of corruption. While the linkages between mainland China and Hong Kong could pose risks, Hong Kong's economic, financial and fiscal systems, as well as its institutions and governance continue to enjoy a high degree of autonomy under the "One Country, Two Systems" framework.

Key monitorables for Hong Kong's credit profile over the medium term include commercial property market developments, growth in mainland China, and global economic conditions given the territory's openness.

### **Outlook: Stable**

The stable outlook reflects expectations that Hong Kong will retain its strong external and fiscal buffers, maintain the credibility of the LERS, and preserve its role as a major international financial centre over the medium term.

### **Upside scenario**

The outlook could be revised to positive if economic conditions in mainland China are stronger than expected, providing greater support to Hong Kong's growth outlook given its close economic and financial linkages with the mainland. Another upside would be improvement in fiscal buffers alongside a sustained path of fiscal consolidation, resulting in stronger fiscal metrics and better fiscal health overall.

### **Downside scenario**

The outlook could be revised to negative if economic conditions in mainland China weaken more than expected, adversely affecting Hong Kong's growth prospects. A weaker-than-expected fiscal consolidation path, coupled with a meaningful erosion of fiscal buffers and subsequent deterioration in fiscal strength, could also weigh on the rating. Additionally, a deterioration in Hong Kong's institutional autonomy that affects governance standards and policy credibility would be a downside, as such developments typically undermine investor confidence and pressurise economic growth.

### **Key rating drivers**

#### **Economic structure & resilience**

Hong Kong is a highly open (trade/GDP of 360% in 2024) and services-driven economy (93.6% of GDP in 2024) and acts as a global financial hub. It is a high-income economy, with GDP per capita of USD 67,682 in 2025 (constant PPP terms).

Hong Kong has deep economic linkages with mainland China, which accounts for a dominant share of the territory's trade flows and financial activity. However, this also exposes the economy to fluctuations in the mainland's growth and financial conditions.

Investment levels are relatively low, with gross fixed capital formation averaging 16% of GDP over the past few years, well below that of most advanced economy peers. However, Hong Kong's gross fixed capital formation showed significant improvement in 2025, growing by 4.3% over 2024.

In 2025, real GDP growth exceeded expectations, with the economy growing 3.5%, supported by strong domestic demand, trade, and financial services. The growth momentum is expected

to continue in 2026. However, property market challenges persist as commercial real estate remains under pressure.

Hong Kong is demographically challenged like other advanced economies, having already entered a super-aged phase, with the 65-and-above population share projected to expand rapidly in the coming years. The government has implemented a series of talent attraction measures since end-2022 to stabilise the local labour force and support long-term economic resilience.

### **Fiscal strength**

Hong Kong's fiscal profile is strong, characterised by low gross general government debt, projected to average 14% of GDP over 2026-30. While the HKMA issues Exchange Fund Bills and Notes—central bank liabilities amounting to ~40% of GDP—these are distinct from government borrowings as they are backed by FX reserves and are primarily used to meet banks' demand for liquidity management.

The fiscal framework is anchored in maintaining a broad balance over the economic cycle, supported by prudent expenditure management and robust revenue generation during periods of economic expansion.

Historically, sustained budget surpluses have enabled the accumulation of substantial fiscal reserves, held in the Exchange Fund. However, recent drawdowns have reduced the reserves from ~40% of GDP in 2019 to ~20% more recently, according to IMF estimates.

Recent weakness in the property sector has weighed on government revenues. On the expenditure side, infrastructure investment remains a key priority and is expected to be financed through increased government bond issuances. Major projects include the Northern Metropolis, supported by synergies with the Greater Bay Area.

An ageing population is also expected to gradually increase fiscal spending pressure over the medium term.

Nonetheless, the territory's fiscal reserves and low government debt provide substantial policy space, enabling the authorities to absorb cyclical revenue fluctuations without materially weakening the sovereign balance sheet.

### **External position & linkages**

Hong Kong's external position is a key credit strength. The economy has consistently recorded large current account surpluses (averaging 11% of GDP over 2021-25), supported by strong services exports and significant investment income from external assets.

High external debt (averaging 494% of GDP over 2020-24) reflects Hong Kong's role as an international financial centre, while strong NIIP (averaging ~530% of GDP over 2020-24)

provides substantial external buffers.

Hong Kong's financial markets are benefitting from global investor diversification, supporting inflows and market activity. However, the economy remains exposed to risks emanating from mainland China, which accounts for a significant share of its trade and FDI.

### **Monetary & financial stability**

Hong Kong's monetary framework is anchored by the LERS, under which the Hong Kong dollar is pegged to the US dollar through a currency board arrangement, which limits monetary policy flexibility.

However, the framework has demonstrated resilience across multiple episodes of financial stress, with the HKMA maintaining the peg effectively. The credibility of this arrangement underpins confidence in Hong Kong's monetary and financial stability, supported by the Exchange Fund's backing assets, at ~110% of monetary base as of December 2025.

Inflation is well managed, averaging 1.8% over 2021-25.

Hong Kong's private debt, at 328% of GDP in 2024, is one of the highest globally. As an international financial centre, a significant portion of corporate debt in Hong Kong is used for overseas purposes and is, therefore, not linked to the leverage of the domestic private sector.

The NPL ratio rose due to high interest rates and property market challenges but remains low at ~2.0% in 2025. The banking system is well capitalised and highly liquid, supported by strong regulatory oversight.

Exposure to mainland China is meaningful, at around 12% of total banking assets. The mainland-related NPLs increased from ~0.7% in 2021 to 2.8% in 2024, before moderating to ~1.9% in 2025.

### **Institutions & quality of governance**

Hong Kong operates under the "One Country, Two Systems" framework, with the Basic Law defining divisions of power between Hong Kong and mainland China. Within this arrangement, Hong Kong retains control over its legal system, monetary policy, trade, immigration, and most aspects of day-to-day governance, along with full autonomy over fiscal matters such as budgeting, taxation, and public finances, while mainland China has authority over defence, foreign affairs, and overall sovereignty.

Hong Kong has historically benefited from a strong institutional foundation, performing well across key governance indicators such as government effectiveness, regulatory quality, rule of law, and control of corruption. These institutional strengths underpin its role as an international financial centre.

Recent changes in the political and governance framework, including the introduction of the National Security Law and electoral reforms, have raised concerns. Nevertheless, Hong Kong maintains high standards of administrative efficiency, regulatory transparency, and financial regulation. While there is some perception of closer institutional alignment with mainland China, core institutions are effective and the territory continues to function as a leading global financial centre.

Hong Kong - Select indicators									
	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
<b>Economic indicators</b>									
Nominal GDP	USD billion	345	369	359	381	407	428	447	466
GDP per capita (constant-PPP)	USD	61,777	65,988	62,953	64,505	66,361	67,682	68,782	69,792
Real GDP growth	%	-6.5	6.5	-3.7	3.2	2.5	3.5	2.1	2.0
GFCF/GDP	%	17.0	16.8	16.1	16.9	16.3	-	-	-
Gross domestic savings/GDP	%	20.9	22.3	19.3	16.7	19.9	-	-	-
Exports (G&S)/GDP	%	176	204	194	177	182	-	-	-
Working age (15-64) population (% share in total)	%	69.9	69.2	68.4	67.7	66.8	66.0	65.3	64.6
Old age (65+) population (% share in total)	%	18.8	19.8	20.7	21.6	22.7	23.7	24.7	25.8
<b>Fiscal indicators – general government</b>									
Fiscal balance/GDP	%	-9.2	0.0	-6.6	-5.7	-5.8	-3.0	-3.2	-1.5
Revenue/GDP	%	20.7	25.4	21.7	18.1	17.4	20.7	19.4	20.1
Expenditure/GDP	%	29.9	25.4	28.3	23.7	23.3	23.7	22.6	21.7
GG gross debt/GDP	%	1.0	1.9	4.3	6.3	9.2	11.7	14.0	14.1
GG external debt (by creditor)/GG gross debt	%	72.1	117.5	38.2	61.3	39.9	-	-	-
Interest/revenue	%	0.0	0.1	0.2	0.7	1.1	-	-	-
<b>External indicators</b>									
Current account balance/GDP	%	7.0	11.8	10.2	8.5	13.0	12.5	12.2	11.9
FDI, net inflows/GDP	%	39.1	38.0	30.6	32.3	33.9	-	-	-
Outstanding FII liabilities/GDP	%	162	142	140	126	126	-	-	-
NIIP/GDP	%	615	572	493	462	495	-	-	-
Foreign exchange reserves	USD billion	492	497	424	426	422	428	-	-
Import cover	Months	9.8	8.1	7.5	7.6	7.0	-	-	-
External debt/GDP	%	519	507	497	485	464	-	-	-
<b>Monetary and financial indicators</b>									
CPI inflation	%	0.3	1.6	1.9	2.1	1.7	1.4	2.1	2.3
Exchange rate (average)	LC per USD	7.8	7.8	7.8	7.8	7.8	7.8	-	-
Non-performing loans/total gross loans	%	0.9	0.9	1.4	1.6	2.0	2.0	-	-
Private debt, loans and debt securities/GDP	%	384	368	373	363	328	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2025

### Solicitation Status

The rating is unsolicited, but with limited interaction with relevant authorities of the Hong Kong Monetary Authority.

### Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency	CareEdge AA/Stable	March 27, 2026

### Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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