

Economic performance and outlook

Overview

- Government philosophy:
 - Government not just a “regulator” but also “facilitator” and “promoter”.
 - Making bold investments to break through the development bottlenecks.
 - Proactively promoting economic development by providing favourable conditions for emerging industries to thrive on the one hand, and strengthening the competitiveness of existing pillar industries on the other.
- **Sound fundamentals** include: robust regulatory regime; resilient banking system; strong fiscal position; trusted common law system and independent judiciary; low and simple tax regime; and a level playing field for business.

World rankings

- **Freest economy**: World’s **No.1** for 25 consecutive years (Heritage Foundation, USA)
- **Economic freedom**: World’s **No.1** since 1996 (Fraser Institute, Canada)
- **Economic openness**: World’s **No.1** (Legatum Institute: Global Index of Economic Openness 2019)
- **Business-friendly taxes**: World’s **No.1** most business-friendly tax system (PricewaterhouseCoopers LLP and the World Bank Group: Paying Taxes 2019)
- **Competitiveness**: World’s **No.2** (International Institute for Management Development (IMD) World Competitiveness Ranking 2019)
- **Financial system**: World’s **No.2** (World Economic Forum’s Global Competitiveness Report 2018)
- **Global Financial Centres Index**: World’s **No.3** behind New York and London, Asia’s **No.1**
- **Stock market**: World’s **No. 6** and Asia’s **No.3** by market capitalisation (end-May 2019)
- **IPO funds raised**: World’s **No.1** for IPO funds raised in 2018 (HK ranked first for six out of the past 10 years since 2009 in terms of IPO funds raised)
- **Easiest place to do business**: World’s **No.4** (World Bank Doing Business Report 2019)

Credit ratings

- Moody: Aa2; S&P: AA+; Fitch: AA+
- **Superior credit ratings** because:
 - Prudent fiscal policy
 - sizable fiscal reserves and external asset position
 - sound regulatory framework
 - market confident in the credit quality of corporate bond issuers ; and
 - flexible economy

Key advantages

- Under “one country, two systems”, Hong Kong will benefit from deepening reform in the Mainland towards a consumption and services-oriented economy, and opportunities related to the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area, while maintaining a unique economic and legal system different from the Mainland of China.

Economic performance

- **Hong Kong's GDP grew 3.0% in 2018** in real terms, marking the second year of above-trend growth. Growth remained strong in the first half of the year. Yet, alongside moderating global economic growth and increasing external uncertainties, particularly those stemming from the US-Mainland trade conflict and US interest rate hikes, the pace of growth decelerated in the second half of the year.
- The weaker performance of the global economy, as evident in the latter part of last year, continued in the first quarter of 2019. Other external headwinds, including the uncertainties stemming from the US trade policy, also persisted. Coupled with the high base of comparison in the same quarter of last year when the economy grew strongly, the **Hong Kong economy expanded modestly by 0.6%** in the first quarter of 2019 over a year earlier.
- The uncertainties stemming from US-Mainland trade tensions and other external developments continued to dampen production and trading activities in Asia. **Total exports of goods** (compiled under the GDP accounting framework) **declined 4.1%** year-on-year in real terms in the first quarter of 2019, similar to the situations in many Asian economies. **Exports of services recorded year-on-year growth of 1.1%** in real terms in the first quarter of 2019, yet sustained expansion of inbound tourism continued to provide support. Domestic demand also lacked momentum in the first quarter of 2019 amid a challenging external environment.
- Labour market remained tight. The seasonally adjusted **unemployment rate remained at 2.8%** in February – April 2019, its lowest level in more than 20 years.
- Inflation pressure remained largely moderate, with the underlying consumer price **inflation rate down slightly to an average of 2.7%** in the first four months this year, lower than 2.9% in the fourth quarter of 2018.
- The **fiscal reserves stood at HK\$1,170.9 billion** as at March 31, 2019 (US\$149.24 billion).

Economic outlook

- The global economy had a weak start in 2019 due to US-Mainland trade tensions and other headwinds. US-Mainland trade tensions have escalated again in May, and the future developments could be bumpy. On the other hand, there have been some positive developments in the external environment so far this year, including the resilient performance of the Mainland economy and the solid performance of the emerging market economies in Asia. Yet, apart from US-Mainland trade tensions, other external uncertainties such as Brexit, geopolitical tensions and domestic politics in some advanced economies also warrant attention.
- With the global economy facing various challenges, the performance of the Hong Kong economy in the first quarter of 2019 was within expectations. As such, the **forecast economic growth of 2-3% for 2019** as announced in the Budget was maintained in the May round of review. The near-term economic outlook is subject to a high level of uncertainty, and to a large extent, depend on how US-Mainland trade tensions will evolve.
- Inflation will likely stay moderate in the near term. The **forecast rates of underlying and headline consumer price inflation for 2019 are both at 2.5%**.