

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 24 consecutive years (Heritage Foundation, USA)
- **Economic freedom:** World’s **No.1** since 1996 (Fraser Institute, Canada)
- **Competitiveness:** World’s **No.2** (International Institute for Management Development (IMD) World Competitiveness Yearbook 2018)
- **Easiest place to do business:** World’s **No.4** (World Bank Doing Business Report published in October 2018) (updated in November 2018)
- **Global Financial Centres Index:** World’s **No.3** behind London and New York, Asia’s **No.1** (March 2018)
- **Asset management:** Asia’s **No.1**, with \$12,824 billion under management (end-2016)
- **Stock market:** World’s **No. 6** and Asia’s **No.3** by market capitalisation (end-August 2018) (updated in November 2018)
- **IPO funds raised:** World’s **No.1** for IPO funds raised in Jan – August 2018 (HK ranked first for five out of the past nine years since 2009 in terms of IPO funds raised (2009 to 2011, 2015 and 2016) (updated in November 2018)

Credit ratings

- Moody: Aa2 (May 2017); S&P: AA+ (Sept 2017); Fitch: AA+ since 2010
- **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
 - flexible economy

The HKSAR Government strongly rejected regrading of Hong Kong’s long-term credit rating by Moody’s from Aa1 to Aa2 in May 2017 and by S&P from AAA to AA+ in September 2017 because the downgrades, by simply linking Hong Kong’s rating with that of Mainland China, did not reflect Hong Kong’s economic

strength and sizable buffers built over the years. Hong Kong banks and regulatory authorities have also been effectively managing risks related to loans to Mainland companies.

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 robustly** by 4.7% year-on-year in the first quarter of 2018 in real terms, the fastest since the second quarter of 2011. This also marked the sixth consecutive quarter of growth above the trend growth of 2.7% per annum in the past ten years (2008 – 2017).
- Total exports of goods grew strongly by 5.2% year-on-year in the first quarter of 2018 in real terms (compiled under the GDP framework), and exports of services likewise accelerated to show broad-based growth of 7.5% year-on-year in real terms.
- Domestic demand continued to strengthen. Private consumption expenditure grew notably by 8.6% year-on-year in real terms in the first quarter of 2018, reflecting optimistic consumer sentiment on the back of favourable job and income and asset market conditions.
- Labour market remained tight. The seasonally adjusted **unemployment rate stayed at 20-year low** of 2.9% in the first quarter of 2018.
- **Inflation pressures** have generally been **moderate**. Underlying consumer price inflation rate was 2.4% in the first quarter of 2018.
- Fiscal reserves reached \$1,102.9 billion by 31 March 2018 (US\$141.4 billion).

Economic outlook

- **The broad-based momentum in the global economy is likely to continue in 2018**, and should render growth impetus to Hong Kong’s exports. Locally, domestic demand should remain resilient.
- **Real GDP growth forecast for 2018 as a whole is 3-4%**, another year of above-trend growth if realised.
- Underlying inflation should remain moderate, though it should go somewhat higher in 2018 amid the improvements in global and local economic conditions. It is forecast at 2.5% for 2018 as a whole, somewhat higher than the 1.7% in 2017.