

Economic performance and outlook

Overview

- Government philosophy:
 - Government not just a “regulator” but also “facilitator” and “promoter”
 - Making bold investments to break through development bottlenecks
 - Proactively promoting economic development by providing favourable conditions for emerging industries to thrive, while strengthening the competitiveness of pillar industries
- **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

- **Stock market: World No. 9** and **Asia No. 6** by market capitalisation among exchanges (end-October 2022)
- **IPO funds raised: World No. 4** for IPO funds raised among exchanges in 2021
- **GDP per capita at current prices: World No. 21** (US\$49,700) [IMF’s World Economic Outlook (October 2022)]

Credit ratings

- Moody’s: Aa3; 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
- Citing the impact of the COVID-19 pandemic as well as the social unrest in Hong Kong in 2019, Fitch downgraded the city’s credit rating to AA- on April 20, 2020. Moody’s downgraded Hong Kong’s credit rating to Aa3 on January 20, 2020. The HKSAR Government rebutted the assessments of the two credit rating agencies, pointing out that Hong Kong’s institutional strengths and core competitiveness are unscathed and that “one country, two systems” was being successfully implemented and safeguarded under the Basic Law of Hong Kong. Hong Kong has also made a quick and effective response to tackle the epidemic and its impact on the local 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

- The Hong Kong economy showed a widened year-on-year contraction in the third quarter of 2022. Real GDP fell by 4.5% in the third quarter from a year earlier, further to a 1.3% decline in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP decreased by 2.6%.
- The worsened external environment and continued disruptions to cross-boundary land cargo flows dealt a serious blow to Hong Kong’s exports in the third quarter. Total exports of goods plummeted by 15.6% year-on-year in real terms. Meanwhile, exports of services turned to a 3.8% decline in real terms.

- Domestically, private consumption expenditure was virtually unchanged from a year ago in the third quarter, but continued to increase on a seasonally adjusted quarter-to-quarter basis. Yet, overall investment expenditure saw a widened fall of 14.3% in real terms from a year earlier.
- The labour market continued to improve. The seasonally adjusted unemployment rate decreased from 3.8% in August-October 2022 to 3.7% in September-November 2022.
- The underlying composite consumer price inflation rate was 1.9% in the first 11 months of 2022. In November, the underlying consumer price inflation remained moderate. The year-on-year increase in food prices remained relatively fast, and prices of energy-related items as well as clothing and footwear continued to increase visibly. But price pressures on other major components remained broadly in check. Import price pressures will likely remain notable amid high inflation in many major economies, but the largely mild domestic cost pressures should help keep overall inflation moderate in the near term.
- A fiscal surplus of \$29.4 billion (about US\$3.77 billion) is recorded for 2021-22.
- Fiscal reserves stood at \$686.8 billion (about US\$88.1 billion) as at November 30, 2022.

Economic outlook

- Looking forward, the markedly deteriorating external environment will continue to pose immense pressure on Hong Kong's export performance. Elevated inflation and continued monetary policy tightening in major advanced economies will dampen global demand further. Heightened geopolitical tensions and the development of the pandemic will also add downside risks. Nonetheless, the relaxed testing and quarantine arrangements for incoming visitors should render some support to exports of services.
- Domestically, while improved labour market conditions and the Consumption Voucher Scheme will continue to support consumption demand in the near term, tightened financial conditions and the consequential weak asset prices will partly offset the positive effects. The weakened economic outlook and rising borrowing costs will dampen fixed asset investment. Nonetheless, as long as the epidemic situation remains under control and related restrictive measures are relaxed further, economic activities should gradually return to normal.
- Taking into account the actual outturn in the first three quarters of the year and the subdued short-term outlook, the real GDP growth forecast for 2022 as a whole is revised down to -3.2%, from -0.5%-0.5% as announced in the August round of review.
- On inflation, while import prices will continue to rise notably amid high inflation in many major economies, the largely mild domestic cost pressures should help keep overall inflation moderate in the near term. Given the actual outturn of 1.7% in the first three quarters, the forecast rate of underlying consumer price inflation for 2022 as a whole is revised down to 1.8%, from 2% as announced in the August round of review. The corresponding forecast rate of headline inflation is also revised down to 1.9% from 2.1%.
- The medium-term outlook for the Hong Kong economy is positive. The Eastward shift of global economic gravity will continue and Asia, in particular the Mainland, will be a major engine of global economic growth. Hong Kong, located strategically at the doorstep of the Mainland's huge and vibrant economy, is well-positioned to reap the enormous development opportunities brought about by this mega trend. The 14th Five-Year Plan also sets out a clear positioning and direction for Hong Kong's economic development and supports Hong Kong for the development of the eight centres and emerging industries. The Government is committed to further enhancing the resilience of the Hong Kong economy and enriching industrial development. In particular, the ecosystem of the innovation and technology (I&T) industry has become increasingly mature, enabling I&T to play a more prominent role in fostering economic growth and enhancing the competitiveness of the economy.

(Revision date: January 3, 2023)