

# 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. 7** and **Asia No. 4** by market capitalisation among exchanges (end January 2023)
- **IPO funds raised: World No. 4** for IPO funds raised among exchanges in 2022
- **GDP per capita at current prices: World No. 18** (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 weakened notably in 2022 after a visible expansion in 2021. Economic activities were first dampened by the fifth wave of the local epidemic and subsequently by the deteriorated external environment and tightened financial conditions. For 2022 as a whole, real Gross Domestic Product (GDP) contracted by 3.5%.
- Total exports of goods plunged by 13.9% in real terms in 2022 amid moderated global economic growth and disruptions to cross-boundary truck movements between Hong Kong and the Mainland. Total exports of services declined slightly by 0.9% for the year as a whole.

- Domestically, the outbreak of the fifth wave of the epidemic in early 2022 and tightened financial conditions weighed heavily on domestic demand. With the local epidemic situation stabilising and social distancing measures progressively relaxed, improvement has been seen since the second quarter. The improved labour market conditions and the disbursement of consumption vouchers have also provided support. For the year as a whole, private consumption expenditure recorded a mild decline of 1.0% in real terms. Dampened by the subdued economic outlook and rising borrowing costs, overall investment expenditure fell by 8.5%.
- The labour market continued to improve. The seasonally adjusted unemployment rate declined by 0.2% from December 2022 to February 2023 to 3.1% in January to March 2023.
- In the first quarter of 2023, the Composite Consumer Price Index rose by 1.9% over a year earlier, as basic food prices turned to a year-on-year decline against a high base of comparison caused by the epidemic-induced supply disruptions in 2022. Prices of energy-related items continued to soar year-on-year, and those of clothing and footwear as well as meals out and takeaway food rose visibly further. Price pressures on most other major components remained broadly in check.
- A fiscal surplus of \$29.3 billion (about US\$3.76 billion) is recorded for 2021-22.
- Fiscal reserves stood at \$896.5 billion (about US\$115.0 billion) as at February 28, 2023.

### **Economic outlook**

- Looking ahead, the Hong Kong economy is expected to stage a visible rebound of 3.5% to 5.5% in 2023. While demand from the advanced economies will likely weaken further and weigh on Hong Kong's exports of goods, the expected faster growth of the Mainland economy and the lifting of cross-boundary truck movement restrictions should alleviate part of the pressure. As for exports of services, with the removal of quarantine arrangements for inbound visitors and the resumption of normal travel between Hong Kong and the Mainland, visitor arrivals should stage a strong rebound and constitute a main driver of economic growth in 2023.
- Domestically, improvement in overall economic sentiment in tandem with economic activities returning to normalcy should render support to private consumption. The expected further improvement of the labour market will provide additional support. The better economic prospects, coupled with the Government's continued efforts in pursuing infrastructure development and increasing housing supply, will also be conducive to fixed asset investment, though tight financial conditions will remain a constraint.
- On inflation, domestic cost pressures may increase alongside the economic recovery. External price pressures will remain notable, though moderating somewhat. Overall inflation would thus face some upward pressure, but should remain moderate in the near term. The underlying inflation rate and the headline inflation rate are forecast to rise to 2.5% and 2.9% respectively this year.
- Hong Kong's economic outlook in the medium to long term is bright. Global economic gravity will continue to shift eastward, and Asia will continue to be a major engine of global economic growth and provide ample opportunities for Hong Kong. The Mainland will pursue high-quality development through deepening reforms and opening-up and maintain reasonable growth in the years to come. Other emerging Asian economies will also continue to register relatively fast growth. Meanwhile, advanced economies such as the US and the eurozone are expected to gradually return to their long term growth trends after the current challenges. With the strong support from the country and our unique institutional advantages under "one country, two systems", Hong Kong is well positioned to reap the unlimited development opportunities in the region.

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