

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 May 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 improved visibly in the first quarter of 2023, led by the strong recovery of inbound tourism and domestic demand. Real GDP resumed year-on-year growth of 2.7%, having contracted by 4.1% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP surged by 5.3%.
- Total exports of goods plummeted further by 18.7% year-on-year in real terms in the first quarter amid the challenging external environment, though the lifting of restrictions on cross boundary truck movements between Hong Kong and the Mainland provided some relief. Exports of services expanded visibly by 16.5%.

- Domestically, private consumption expenditure surged by 13.0% year-on-year in real terms in the first quarter, as consumption sentiment improved sharply along with the removal of anti-epidemic measures in both Hong Kong and the Mainland. Overall investment expenditure reverted to 5.8% growth amid an improved economic outlook.
- The labour market continued to improve along with the economic recovery. The seasonally adjusted unemployment rate stayed at 3.0% from March to May 2023, same as that in February to April 2023.
- In the first five months of 2023, the Composite Consumer Price Index rose by 2.0% over a year earlier, as prices of energy-related items continued to increase sharply year-on-year, and those of clothing and footwear as well as meals out and takeaway food rose visibly. Price pressures on other major components remained broadly in check.
- A fiscal deficit of \$122.3 billion (about US\$15.68 billion) is recorded for 2022-23.
- Fiscal reserves stood at \$779.5 billion (about US\$99.9billion) as at June 30, 2023.

Economic outlook

- Looking ahead, inbound tourism and domestic demand will remain the major drivers of economic growth this year. Visitor arrivals should recover further as transportation and handling capacity continue to catch up.
- Domestically, the improving economic situation and prospects should boost domestic demand, though tight financial conditions will remain a constraint. The continued improvement of the labour market, the disbursement of consumption vouchers, and a series of "Happy Hong Kong" events will provide additional support to private consumption.
- On inflation, while external price pressures should see some moderation, they are expected to remain notable for some time. Domestic cost pressures may increase alongside the economic recovery. Overall inflation will likely pick up in the rest of 2023, though remaining largely moderate. The forecast rates of underlying and headline consumer price inflation for 2023 are maintained at 2.5% and 2.9% respectively.
- 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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