

# Economic performance and outlook

## Overview

- The Hong Kong Special Administrative Region, with its ideal location in fast-growing Asia and riding on the opportunities brought by the Mainland economy, has developed into an international business, trade and financial hub, as well as a renowned tourist city, providing high value-added and knowledge-intensive services to the globalised world.
- Hong Kong also serves as the gateway to the Mainland for overseas investors as well as a platform for Mainland enterprises to go global.
- Being a small open economy, Hong Kong has many areas of strength - level playing field for businesses, simple and low tax regime, free flow of capital and information, highly efficient markets, world-class infrastructure, a fine tradition of the rule of law, etc., all being the cornerstones of Hong Kong's economic success. Meanwhile, our unique position under "one country, two systems" will continue to create enormous development potential for the Hong Kong economy.

## World rankings

- **Stock market: World No. 7** and **Asia No. 4** by market capitalisation among exchanges (end June 2023)
- **IPO funds raised: World No. 4** for IPO funds raised among exchanges in 2022
- **GDP per capita at current prices: World No. 20** (US\$49,800) [IMF's World Economic Outlook (April 2023)]

## 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

- Led by inbound tourism and private consumption, the Hong Kong economy continued to recover in the second quarter of 2023. Real Gross Domestic Product (GDP) grew by 1.5% year-on-year, having increased by 2.9% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell by 1.3%.

- Total exports of goods plunged further by 15.2% year-on-year in real terms in the second quarter amid weak external demand for goods. However, exports of services continued to grow markedly by 22.9%.
- Domestically, private consumption expenditure rose notably further by 8.2% year-on-year in real terms in the second quarter alongside the continued economic recovery. Overall investment expenditure reverted to a mild decline of 0.9% amid tightened financial conditions.
- The labour market continued to improve. The seasonally adjusted unemployment rate stayed low at 2.8% in June to August 2023, same as the level in May to July 2023.
- Consumer price inflation remained moderate. In July, the headline Composite Consumer Price Index (Composite CPI) rose by 1.8% over a year earlier while the underlying Composite CPI (reflecting the situation after netting out the effects of the Government's relevant one-off relief measures) increased by 1.6%. Prices of electricity surged further year-on-year, but the pace had moderated notably from early this year. Prices of clothing and footwear as well as meals out and takeaway food continued to register visible increases. 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 \$737.7 billion (about US\$94.5 billion) as at July 31, 2023.

### **Economic outlook**

- Looking ahead, inbound tourism and private consumption will remain the major drivers of economic growth for the rest of the year. As transportation and handling capacity continue to recover, visitor arrivals should increase further.
- The improving economic situation and prospects should bode well for domestic demand, though tight financial conditions may impose constraints. Improved labour market conditions and the Government's various measures that boost the momentum of the recovery will provide additional support to private consumption. Yet, the difficult global economic environment will continue to weigh on Hong Kong's exports of goods.
- Taking into account the actual outturn in the first half of 2023 and the factors mentioned above, the real GDP growth forecast for 2023 as a whole is revised to 4.0% to 5.0%, from 3.5% to 5.5% in the May round of review.
- On the inflation outlook, overall inflation should stay moderate in the near term. External price pressures should recede further. While domestic business cost might face some upward pressures alongside the economic recovery, it should remain largely moderate in the near term. Taking into account the inflation situation in the first half of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 2.0% and 2.4% respectively, from 2.5% and 2.9% in the May round of review.
- 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. With the strong support from the country and our unique institutional advantages under "one country, two systems", Hong Kong will continue to perform the role of an important node in the international circulation of our country while participating in the domestic circulation of the national economy through the Greater Bay Area, and is well positioned to reap the unlimited development opportunities in the region.

(Revision date: September 20, 2023)