

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. 8** and **Asia No. 5** by market capitalisation among exchanges (end-February 2024)
- **IPO funds raised: World No. 6** for IPO funds raised among exchanges in 2023
- **GDP per capita at current prices: World No. 20** (2021: US\$49,800) [IMF's World Economic Outlook (October 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
- Moody's downgraded credit outlook of Hong Kong to "negative" from "stable" on December 6, 2023, on the ground of tight linkage of credit profiles with the Mainland, and the potential spillovers from the developments in the Mainland (while affirming Hong Kong's long-term issuer rating at Aa3). The HKSAR Government rebutted the assessments of Moody's, pointing out that Hong Kong's deepening and expanding economic and financial ties with the Mainland are a source of strength for Hong Kong's long-term development. 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.

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 staged a recovery in 2023 in the aftermath of the pandemic. Real Gross Domestic Product (GDP) resumed growth of 3.2%.
- Exports of services reverted to visible growth of 21.2% in real terms in 2023, thanks to the revival in visitor arrivals after the resumption of normal travel. Private consumption expenditure rebounded by 7.3% after the removal of anti-epidemic measures, supported by rising household income and the Government's various initiatives. Overall investment expenditure turned to an increase of 10.8% alongside the economic recovery.
- However, total exports of goods fell further by 10.3% in 2023, dragged by the weak external demand for goods.
- The seasonally adjusted unemployment rate was still at a low level of 3.0% in January to March 2024, edging up by 0.1% from December 2023 to February 2024.

- In March 2024, underlying composite consumer price inflation was 1.0%, slightly larger than the average rate of increase in January and February 2024. The inflation was modest in March 2024, while prices of meals out and takeaway food continued to rise relatively fast, prices of basic food edged down from a year earlier. Prices of energy-related items fell further.
- A fiscal deficit of \$100.2 billion (about US\$12.84 billion) was recorded for 2023-24.
- Fiscal reserves stood at \$734.6 billion (about US\$94.1 billion) as at March 31, 2024.

Economic outlook

- Looking ahead, the external environment is rather complicated in 2024. On one hand, geopolitical tensions and the lagged effects of the sharp monetary tightening earlier will continue to affect global economic growth as well as international trade and investment flows. On the other hand, major central banks are expected to cut interest rates later in the year, thereby lending support to economic confidence and activities around the world, though the exact timing and magnitude of the cuts remain uncertain.
- Hong Kong's exports of goods will thus remain under pressure, but the situation may improve later in the year if the advanced economies cut interest rates as expected. Meanwhile, exports of services should improve further as visitor numbers continue to increase along with the further recovery of handling capacity. The Government's efforts to promote mega event economy should provide additional support.
- Domestically, economic confidence should gradually improve over the course of the year amid an expected easing of financial conditions. Rising household income and the Government's initiatives in creating a happy atmosphere and boosting sentiment should bode well for private consumption. Fixed asset investment should expand further on the back of continued economic growth and the Government's efforts in building infrastructure and increasing housing supply.
- Having regard to the above factors, the Hong Kong economy is expected to expand further by 2.5% - 3.5% in real terms in 2024.
- As regards inflation, domestic cost pressures are expected to increase alongside the economic recovery. External price pressures, however, should ease further, though persisting geopolitical tensions may pose upside risks. The underlying and headline inflation rates are forecast at 1.7% and 2.4% respectively.
- The medium-term outlook for the Hong Kong economy is bright. The external environment may see some improvements in the coming years, with Asia recording decent growth. Specifically, the Mainland will pursue high quality development through deepening reforms and further opening-up. As for the advanced economies, the expected interest rate cuts in the coming few years should support a gradual recovery of demand.
- To improve the longer-term growth momentum, the Government has been building capacity for economic development through pressing ahead with land development projects, developing infrastructure, attracting enterprises, and trawling for and retaining talents. The Government has also been strengthening traditional industries where Hong Kong has competitive edges, and promoting the development of emerging strategic areas where Hong Kong has potential with an industry-oriented approach. These initiatives will enable Hong Kong to withstand the keen competition from other economies and grasp the opportunities brought by the improving global demand.

(Revision date: May 3, 2024)

MAY 2024